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ECONOMY

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YEARLY COMPILATION

#4

The Definitive CURRENT AFFAIRS Master-key *for* UPSC Prelims

Comprehensive Coverage of Last 2 Yrs. of Current Affairs

Thematic Arrangement of Topics

Static & Current Interlinking

PYQs to help you understand UPSC's Demand

Preface

In the challenging and dynamic landscape of UPSC Civil Services Examination preparation, staying abreast of current affairs is indispensable. With this imperative in mind, we present "Yearly Compilation of thematic Current Affairs for Prelims." This annual compilation of Current Affairs spanning the last 1-2 years encapsulates over 800 topics, intelligently categorized into Subjects and themes to aid aspirants in their quest for success in the UPSC Preliminary Examination.

- **Comprehensive Coverage:** Encompassing the latest 1 to 2 years it offers a comprehensive overview of current affairs crucial for the Prelims Examination of 2025.
- **Thematic Arrangement:** To facilitate structured learning, our compilation adopts a thematic arrangement. Topics are intelligently categorized into subjects and themes, allowing aspirants to navigate through the vast sea of information with ease.
- **Static and current interlining:** This comprehensive compilation incorporates recent developments and nuanced concepts. The objective is to establish a cohesive interlinking between core concepts and current affairs, thereby yielding a more desirable outcome
- **Holistic Preparation:** Beyond recent developments, this resource integrates Previous Year Questions (PYQs), offering a comprehensive understanding of subjects.

As aspirants gearing up for the Prelims 2025, may this compilation serve as a guiding light, illuminating the path to success.

All the Best!!

Contents

CHAPTER 01

BASIC CONCEPTS OF ECONOMY

BASICS

Economy

- An economy is the system for deciding how scarce resources are used so that goods and services can be produced and consumed.
- Economics is the study of given ends and scarce means. Economics is the study of given ends and scarce means.
- **Branches of Economics**
    - **Microeconomics**: It is a branch of economics that studies the behavior of individuals and firms in making decisions regarding the allocation of scarce resources and the interactions among these individuals and firms.
    - **Macroeconomics:** It is a branch of economics that studies how an overall economy—the market or other systems that operate on a large scale—behaves. Macroeconomics studies economy-wide phenomena such as **inflation, price levels, rate of economic growth, national income, gross domestic product (GDP), and changes in unemployment.**

National Income

- National income refers to the total value of all the final services and goods produced in an economy during a specific period of time.
- **Concepts of National Income**
- **Gross Domestic Product (GDP):** Gross Domestic Product (GDP) is the total market value of all final goods and services currently produced within the domestic territory of a country in a year.
- **Gross National Product (GNP):** Gross National Product is the total market value of all final goods and services produced in a year. GNP includes net factor income from abroad whereas GDP does not. Therefore,
    - GNP = GDP + Net factor income from abroad.
- **Net factor income from abroad** = factor income received by Indian nationals from abroad – factor income paid to foreign nationals working in India.
- **Net National Product (NNP) at Market Price:** NNP is the market value of all final goods and services after providing for depreciation. That is, when charges for depreciation are deducted from the GNP we get NNP at market price. Therefore'
    - NNP = GNP – Depreciation
- **Depreciation: It i**s the consumption of fixed capital or fall in the value of fixed capital due to wear and tear.

- **Net National Product (NNP) at Factor Cost (National Income):** NNP at factor cost or National Income is the sum of wages, rent, interest and profits paid to factors for their contribution to the production of goods and services in a year. It may be noted that:
  - **NNP at Factor Cost** = NNP at Market Price – Indirect Taxes + Subsidies.

Poverty

- Poverty can be defined as a condition in which an individual or household lacks the financial resources to afford a basic minimum standard of living.
- The **World Bank** defines poverty using the **International Poverty Line**, which designates extreme poverty at $2.15 per person per day, while $3.65 falls under the lower-middle income category, and $6.85 is classified as upper-middle income.
- **Types of Poverty:**
  - **Absolute Poverty:** Lack of basic necessities like food, shelter, and healthcare, threatening survival.
  - **Relative Poverty:** Deprivation in comparison to the broader society, despite meeting basic needs.
  - **Urban Poverty:** Concentrated in urban areas, characterized by slums, unemployment, and inadequate living conditions.
  - **Rural Poverty:** Predominant in rural regions, often linked to agricultural challenges, low income, and limited access to services.
  - **Cyclical Poverty:** Temporary state due to economic fluctuations or personal circumstances.
  - **Chronic Poverty:** Persistent, long-term deprivation often linked to systemic issues and lack of opportunities.
  - **Income Poverty:** Lack of sufficient income to meet basic needs.
  - **Multidimensional Poverty:** Deprivation in various aspects, including education, health, and living standards.

Other Important Concepts

- **Fiscal deficit**: It refers to the difference between the government's total expenditure and its total revenue.
- **Other Deficits**
  - **Budget deficit:** Total expenditure as reduced by total receipts
  - **Revenue deficit**: Revenue expenditure as reduced by revenue receipts.
  - **Primary Deficit**: Fiscal deficit as reduced by interest payments.
  - **Effective Revenue Deficit**: Revenue deficit as reduced by grants for the creation of capital assets.
- **Inflation:** Inflation is the sustained increase in the general price level of goods and services in an economy over time. It erodes the purchasing power of a currency, reducing the amount of goods and services that can be bought with the same amount of money.
- **Deflation:** It is a general decline in prices for goods and services, typically associated with a contraction in the supply of money and credit in the economy.

1 INDIA'S ECONOMIC SLOWDOWN

Context: India's economic growth appears to be losing momentum. After achieving 8.2% growth in 2023-24, the economy grew by only 5.4% in the second quarter of 2024, marking the slowest pace in six quarters. While a growth rate above 6% is seen as aspirational for most economies, for India, this rate is insufficient to meet the ambitious goal of becoming a developed nation by 2047.

What is Economic Slowdown?

- An economic slowdown is a period of **slower economic growth**, typically characterised by a decrease in the rate of growth of real **gross domestic product (GDP).**
- It means the production and earnings of these economies are not growing at the same pace as, say, last year.
- **Causing factors:** Declining consumer and business confidence, rising unemployment, and slowing global trade.

- **Weak Demand Side**
- **Declining Private Investment**
- **Wage Squeeze and Inflation**
- **Labour Market Issues**

2 INDIA'S REAL GROWTH RATE

Context: The First Advance Estimates (FAE) of National Accounts for 2024-25 have been released, showing a real GDP growth of 6.4% and a nominal GDP growth of 9.7%. These figures are lower than the Reserve Bank of India's revised expectations, reflecting a slowdown in the economy compared to earlier projections.

What is GDP growth?

- The **annual average rate of change** of the **gross domestic product (GDP)** at market prices based on constant **local currency**, for a given national economy, during a specified period of time.
- **Measurement:** GDP average annual growth rates are those estimated by the **World Bank** from the corresponding data in the **United Nations's Systems of National Accounts** expressed in **1995 US dollars** constant prices, using the least-squares method.
  - The least-squares growth rate is estimated by fitting a **linear regression trend line** to the logarithmic annual values of the variable in the relevant period.
  - The calculated growth rate is an average rate that is representative of the available observations over the entire period.
  - It does not necessarily match the **actual growth rate** between any two periods.

FACT BOX

Calculating GDP

GDP is computed using the formula: **Y = C + I + G + (X – M)**

- **Y** represents the **Gross Domestic Product.**
- **C** represents consumption (spending on services, non-durable goods, and durable goods).
- **G** represents government expenditure (salaries of employees, construction of roads, railways, airports, schools, and military expenses)
- **I** denotes investment (spending on housing and equipment)
- **X-M** denotes the difference between total exports and imports **(net exports)**

What is nominal GDP?

- Nominal GDP is the **total value of all goods and services** produced in a given time period less the value of those made during the production process.
- GDP is the monetary value of all the goods and services produced in a country.
- Nominal **GDP** is one way to measure how well the economy is doing.
- It differs from real GDP in that the first one doesn't include the changes in prices due to inflation.

Nominal GDP = C + I + G + (X-M)

- Consumer Spending (C)
- Business Investment (I)
- Government Spending (G)
- **Total Net Exports (X-M): T**his figure is derived by subtracting import expenditures from the total value gained from a country's exports.

Economic Growth	Economic Development
⦿ Economic growth is a broad term that describes the process of increasing a country's **real gross domestic product (GDP).** ⦿ **Measurement:** The growth can be measured as an expansion of **real GDP or gross national product (GNP)** over a given period.	⦿ Economic development implies changes in **income, savings and investment** along with **progressive changes** in socio- economic structure of country (institutional and technological changes). ⦿ **Measurement:** There are several different measures of economic development, such as the Human development index (HDI)

PYQ

1. **Increase in absolute and per capita real GNP do not connote a higher level of economic development, if (2018)**
   (a) Industrial output fails to keep pace with agricultural output.
   (b) Agricultural output fails to keep pace with industrial output.
   (c) Poverty and unemployment increase
   (d) Imports grow faster than exports.
   Answer- C

3 INDIA'S ECONOMIC GROWTH ACCELERATES IN 2023-24: NSO

Context: India's economy witnessed a significant upswing in the fiscal year 2023-24, with a robust GDP growth of 8.2%, surpassing the 7% growth recorded in the previous fiscal year, according to data released by the National Statistical Office (NSO). This growth marks the fastest pace since 2016-17, excluding the rebound from the COVID-19 lockdown in 2021-22.

Key-highlights:

- **Industrial Sector:** The manufacturing sector led the charge with a remarkable growth of 9.9% in 2023-24, a notable improvement from the 2.2% contraction in the previous year. However, growth in the fourth quarter slowed compared to earlier quarters. The construction sector also thrived, expanding by 9.9%, building upon a strong base from the preceding year.
  - Manufacturing exports have registered highest ever annual exports of US$ 447.46 billion with 6.03% growth during FY23.
  - **Factors responsible for growth:** Competitive advantage of a skilled workforce, lower cost of labour, increased inflow of capex.
  - **Government's support:** Production Linked Incentive (PLI) scheme, Make in India, Investment Clearance Cell (ICC), One District One Product (ODOP), Setting up Special Economic Zones (SEZs)
- **Agriculture:** In contrast, the agriculture sector experienced a notable slowdown, growing at only 2.1% in 2023-24, likely due to erratic monsoon patterns. This marks a significant deceleration from the 4.4% growth recorded in the prior fiscal year.
  - **Largest producer of:** milk, coconuts, black tea, ginger, and turmeric; and the 2nd largest producer of cashew nuts, and tea in the world
  - **2nd largest producer of:** fruits and vegetables, rice, wheat, groundnuts, cashew, and tea globally; and accounts for 10% of the world's fruit production with first rank in the production of mango, bananas, sapota, and acid lime
  - **Factor responsible for slowdown**: climate change, reduced water levels, saturation of employment, poverty.
  - **Impact of slowdown**: food inflation, threatened food security
  - **Government support**: Growing institutional credit, Increasing MSP, Paramparagat Krishi Vikas Yojana, Pradhanmantri Gram, Sinchai Yojana, and Sansad Adarsh Gram Yojana, Inception of Agri Infrastructure Fund, e-NAM, promotion of agricultural mechanization and subsidy for machines and supports drones.
- **Tertiary Sector**: The tertiary sector, comprising services, exhibited a sturdy growth of 7.6% in 2023-24, albeit slower than the previous year's 10% growth. Notably, the financial, real estate, and professional services segment led the growth, although at a slightly reduced pace compared to the previous year.
  - In September 2023, India retains to 40th rank in the Global Innovation Index (GII), d
  - **Government support**: Start-up India, Stand-up India, Digital India and Skill India.
- **Household Consumption and Capital Formation**: Contribution of household consumption to the economy decreased further, with private final consumption expenditure accounting for 55.8% of GDP in 2023-24, down from 58% in the previous fiscal year. Conversely, the contribution of capital formation remained stable at 33.5% of GDP.

4 INDIA'S RECORD REMITTANCES IN 2024

Context: In 2024, India set a new global record by receiving an estimated USD 129.1 billion in remittances, the highest amount ever for any country in a single year. This accounts for 14.3% of global remittances, marking the highest share India has had in global remittances since the year 2000. This data was highlighted in a blog article by the World Bank published recently.

What Are Remittances?

- **Remittances** refer to the money sent by individuals working abroad to support their families back home.

- For many developing countries, remittances are a **critical source of income** for households and have a **major impact on the economy**.
- **Key Insights from 2024 Remittance Data**
  - **India**'s remittances accounted for **3.3%** of its GDP in 2024.
  - **Top Recipients of Remittances in 2024**:
    - **India** received the highest remittances, followed by **Mexico** and **China**.

5 INDIA'S BOOMING CONCERT ECONOMY

Context: Recently, Prime Minister Narendra Modi highlighted the growing importance of the concert economy in India, especially following the record attendance at Coldplay's concerts in Mumbai and Ahmedabad.

What is the 'Concert Economy'?

- The 'concert economy' refers to the significant economic impact of live music events on various sectors, including hospitality, transportation, food & beverages, merchandise sales, and event management.
- It emphasizes how concerts go beyond being an entertainment experience, turning into an economic powerhouse that stimulates local economies.
- **India's Growing Concert Economy:** India's concert economy is growing rapidly. As per a report, the number of large concerts (those with over 5,000 attendees) is expected to reach **300 by 2025**, marking a **50% increase** from 2018.
- The revenue from concerts in India is predicted to reach **Rs 1,000 crore** by 2025, a **25% increase** from current levels.
- In terms of global revenue from live events, India ranks **7th** worldwide, ahead of countries like **South Korea, France, and Australia.**

FACT BOX

Case Study: 'Swiftonomics'

- The term "Swiftonomics" was coined to describe the economic effect of Taylor Swift's world tour, which showed how a single artist's tour could stimulate an entire economy.
  - **For example**, Swift's Eras Tour generated **over $4.6 billion** in North America alone and nearly $1 billion in the UK. Her concerts brought in revenue not just from ticket sales but from increased spending across hotels, restaurants, transportation, and retail.
- In Singapore, her exclusive concert deal sparked controversy when neighboring countries complained that Singapore's financial incentives prevented them from benefiting from the tourism revenue. This demonstrates how large concerts can shape national economies, often leading to negotiations for exclusive performance deals.

6 PURPLE ECONOMY

Context: The Purple Economy aims to overcome the fragility of the care economy at the national and international levels and address the multiple and intersecting inequalities created by the disproportionate reliance on women's unpaid and underpaid labour, and under-investment in the care sector.

About

- The Purple Economy, also sometimes referred to as the **care economy**, obtains its name from the color adopted by many feminist movements.
- It represents a new vision of economics that recognizes the importance of care work, empowerment and autonomy of women to the functioning of the economies, wellbeing of societies and life sustainability.
- Care work consists of two overlapping activities and can be paid or unpaid:
  - **Direct, personal, and relational care activities**, such as feeding a baby or nursing an ill partner
  - **Indirect care activities or domestic work**, such as cooking and cleaning

FACT BOX

What is Sustainable Development?

- Development which meets the needs of the present without compromising the ability of future generations to meet their own needs'.
- This most widely accepted definition of Sustainable Development was given by the **Brundtland Commission** in its report ***Our Common Future (1987).***

7 BOOSTING CONSUMPTION

Context: In order to revive India's slowing economic growth, the focus should be on boosting consumption. As per reports, private investments (capex) have not picked up as expected, and government spending (capex) has also declined.

What is Consumption?

- **Consumption** refers to the **use** or **purchase** of goods and services by individuals or households. When people buy food, clothing, electronics, or even pay for services like healthcare or education, they are engaging in consumption.
- It is the **end-point** of economic activity, as it involves the final use of products and services.
- **Significance:**
  - **Consumption** is a key driver of **economic growth**. In any economy, the more people consume, the more businesses produce and sell, which leads to **higher demand** and **increased production**.
  - A strong level of consumption signals that the economy is **healthy**, as people are confident enough to spend money on goods and services.

8 PRODUCER PRICE INDEX

Context: The Indian government has formed a Working Group to revise the base year of the Wholesale Price Index (WPI) and update its commodity basket, alongside the Producer Price Index (PPI). This comes at a time when inflation trends are under scrutiny, and the role of different inflation measures, such as WPI and PPI, is gaining prominence in economic policy discussions.

What is the Producer Price Index (PPI)?

- The Producer Price Index (PPI) measures the average change in prices received by producers for their goods and services over time.
- Unlike WPI, which tracks the prices of goods at the wholesale level, and CPI, which measures inflation at the retail level, PPI focuses on the production stage—specifically what producers (like farmers, manufacturers, and energy producers) receive for their output before goods are sold to wholesalers or consumers.
- **Key Features of PPI:**
  - **Focus on Producers:** PPI tracks price changes at the point where goods and services are produced, either at the factory gate or farm gate, before they reach wholesalers or consumers.
  - **Broader Coverage:** It includes a wide range of sectors such as manufacturing, agriculture, mining, and electricity, giving it a broader scope compared to WPI, which primarily covers goods.
  - **Excludes Taxes:** Unlike CPI, which includes indirect taxes, PPI excludes them to give a true reflection of what producers are paid, without the impact of tax

9 HOUSEHOLD CONSUMPTION EXPENDITURE SURVEY (HCES): 2023-24

Context: The Household Consumption Expenditure Survey (HCES) 2023-24 has been recently released by the Ministry of Statistics and Programme Implementation (MoSPI).

What is the Household Consumption Expenditure Survey (HCES)?

- The **Household Consumption Expenditure Survey (HCES)** is conducted by the **Ministry of Statistics and Programme Implementation (MoSPI)**.
- The survey collects data on what households in India spend on goods and services.
- This data helps in understanding trends in **economic well-being**, updating the **Consumer Price Index (CPI)**, and measuring **poverty**, **inequality**, and **social exclusion**.
- The survey also helps update the **basket of goods and services** used for calculating the CPI and tracks changes in the standard of living.
- **HCES 2023-24**: Ongoing from **August 2023 to July 2024**. The **summary results** for this year have been released in the form of a **factsheet**.

Key Findings of HCES: 2023-24

Average Monthly Per Capita Consumption Expenditure (MPCE)

- **Without imputed values for free items**:
  - **Rural MPCE**: Rs 4,122
  - **Urban MPCE**: Rs 6,996
- **With imputed values for free items** (like government benefits):
  - **Rural MPCE**: Rs 4,247
  - **Urban MPCE**: Rs 7,078

10 INDIA TO REVISE BASE YEAR

Context: The Government of India will revise the base year for calculating Gross Domestic Product (GDP) from 2011-12 to 2022-23, marking the first update in over a decade.

What is base year?

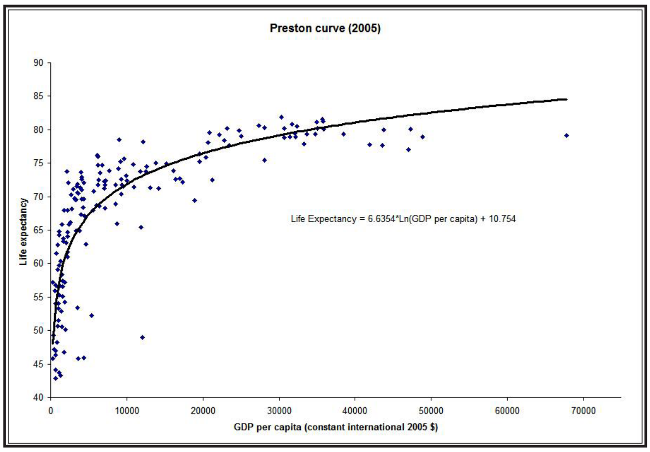
- The base year is a benchmark for calculating GDP by eliminating the effects of inflation, allowing for a comparison of economic growth over time.
- Updating the base year is crucial because it ensures that GDP data reflects the latest economic activities, consumption patterns, and industry contributions.
- The shift from **2011-12 to 2022-23** is particularly relevant because the Indian economy has undergone substantial transformations over the past decade.
    - New sectors have emerged
    - Digitalisation has accelerated
    - Economy has adapted to post-pandemic realities
- This change aims to better reflect the structural shifts in India's economy and provide a more accurate foundation for economic policymaking.
- A **26-member Advisory Committee on National Accounts Statistics (ACNAS),** chaired by economist **Biswanath Goldar**, will oversee the transition.
- The GDP base year of 2011-12 was fixed in January 2015 when **the Central Statistics Office (CSO),** now part of the **Ministry of Statistics and Programme Implementation (MoSPI),** revised the base year for calculating national accounts.
- This extends beyond GDP to include updates for the **Consumer Price Index (CPI), Index of Industrial Production (IIP), Wholesale Price Index (WPI), and Producer Price Index (PPI).**
    - The new GDP series is scheduled for rollout in February FY26 and will encompass key estimates, including the FY26 Q3 estimate, FY26 second advance estimate, FY25 first revised estimate, and FY24 second revised estimate.
    - Similarly, a revised CPI series for inflation will be introduced in February FY26, followed by an updated IIP series in March FY26. These revisions aim to provide a more accurate reflection of the economy's structural and sectoral shifts.

11 PRESTON CURVE

Context: The Preston Curve illuminates a crucial relationship between life expectancy and per capita income in countries worldwide. Preston's groundbreaking research revealed a pattern where wealthier nations generally enjoy longer life spans compared to their less affluent counterparts. This connection underscores the profound influence of economic prosperity on public health outcomes.

About the Preston Curve:

- **Proposed by:** American sociologist Samuel H. Preston in 1975
- The essence of the Preston Curve lies in its observation that as a **country's per capita income increases**, so does its **average life expectancy**.
- This correlation is attributed to various factors associated with higher income levels, including
    - improved access to healthcare
    - better education
    - cleaner environments
    - enhanced nutrition



- For instance, India's journey from an average per capita income of Rs 9,000 in 1947 to approximately Rs 55,000 in 2011 corresponded with a remarkable increase in life expectancy from a mere 32 years to over 66 years.
- **Patterns in Development Indicators:** The Preston Curve extends beyond life expectancy, encompassing a range of development indicators such as **infant and maternal mortality rates, education, and healthcare access.** These indicators tend to improve alongside rising per capita income, reflecting broader societal advancements facilitated by economic growth.

PYQ

1. **Increase in absolute and per capita real GNP do not connote a higher level of economic development, if (2018)**
    (a) Industrial output fails to keep pace with agricultural output
    (b) Agricultural output fails to keep pace with industrial output
    (c) Poverty and unemployment increase
    (d) Imports grow faster than exports

Solution: (c)

12 GOVERNMENT EXPENDITURE

Context: Governments don't have their own money; it's the taxpayers' money. Every penny the government spends comes from citizens either through taxes or borrowing. So, it's important to know how the government is using that money.

What is Government Expenditure?

Expenditure incurred by the Government are broadly divided into two categories:

Revenue Expenditure

- These are that expenditure incurred for purposes of day to day expenses rather than the creation of physical or financial assets of the central government. It relates to:
    - Expenses incurred for the normal functioning of the government departments and various services;
    - Interest payments on debt incurred by the government; and
    - Grants given to state governments and other parties.
- Both Capital and Revenue expenditure are also categorized as plan **and non-plan** in the budget documents.
    - **Plan expenditure**-relates to Expenditure on Central Plans (the Five-Year Plans) and Central Assistance for State and Union Territory plans.
    - **Non-plan expenditure**-covers a vast range of general, economic and social services of the government. The main items of non-plan expenditure are:
        - Interest payments
        - Defence services
        - Subsidies
        - Salaries
        - Pensions

Capital Expenditure

- These are those government expenditures which result in the creation of physical or financial assets or reduction in financial liabilities. These include:
    - expenditure on the acquisition of land, building, machinery, equipment, investment in shares, and
    - Loans and advances by the central government to State and Union Territory governments, PSUs and other parties.

13 RETAIL INFLATION

Context: India's retail inflation, a key indicator of price changes in the economy, slowed to a five-month low in January 2025. It was recorded at 4.31%, lower than the expected 4.6% and significantly lower than the 5.22% observed in December 2024.

Key Points:

- **Food Price Inflation**: Food inflation, a major component of overall inflation, eased from **39%** in December 2024 to **6.02%** in January 2025. This reduction was driven by **lower vegetable and pulses prices**, which saw significant price drops compared to the previous month.
- **Vegetable Prices**: The prices of vegetables increased by **35%** in January 2025, but this was much lower than the **26.60%** rise in December 2024, thanks to **better winter harvests**.
- **Cereal and Pulses**: Cereal prices rose by **24%**, and pulses saw an increase of **2.59%** year-on-year in January 2025, both slightly lower than the previous month's rise.

FACT BOX

What is Retail Inflation?

- Retail Inflation is measured by tracking the price movements of several commodities being sold across India.
- **CPI (Consumer Price Index)** is a measure used to calculate retail inflation.
- It tracks the price changes of a basket of goods and services that households typically buy for everyday living. The CPI helps determine how much the cost of living has changed over a specific period.
- **The CPI Formula is: (Price of basket in current period / Price of basket in base period) x 100**
    - This formula shows how much prices have increased or decreased compared to a reference period, which is called the base period.
    - If CPI rises, it indicates inflation (prices have gone up). If CPI falls, it indicates deflation (prices have gone down).

PYQ

1. **Consider the following statements: (2020)**
    1. The weightage of food in Consumer Price Index (CPI) is higher than that in Wholesale Price Index (WPI).

2. The WPI does not capture changes in the prices of services, which CPI does.
3. Reserve Bank of India has now adopted WPI as its key measure of inflation and to decide on changing the key policy rates.

Which of the statements given above is/are correct?

(a) 1 and 2 only (b) 2 only

(c) 3 only (d) 1, 2 and 3

Solution: (a)

14 BIFLATION

Context: Inflation is on rise around the globe and so is 'biflation'.

What is biflation?

- Biflation is the simultaneous occurrence of **inflation and deflation** in an economy.
- Biflation is a **neologism** for a type of **Cantillon effect** which occurs when expansionary monetary policy is applied to alleviate a recession.
- It is a specific type of Cantillon effect.
- It happens when during a period of debt deflation (and resulting recession) the central bank pumps money into the economy in an attempt to re-inflate asset prices.

PYQ

1. **Which among the following steps is most likely to be taken at the time of an economic recession? (2021)**

(a) Cut in tax rates accompanied by increase in interest rate

(b) Increase in expenditure on public projects

(c) Increase in tax rates accompanied by reduction of interest rate

(d) Reduction of expenditure on public projects

Solution: (b)

15 GREEDFLATION

Context: During a recent surge in inflation, the prices of tomatoes have experienced a significant increase within a month, affecting multiple cities in India the most. Although there is a reasonable explanation for this price surge, some speculate that it could be attributed to a phenomenon known as 'greedflation'.

What is Greedflation?

- **Greedflation** is currently on the rise in the United States and is one of the primary reasons why prices are being driven up in the country.
- In basic terms, is the inflation and hike in prices not driven by economic flow, but by corporate greed.
- It is termed as the inflation in prices of basic commodities which is driven by the companies to increase their profit margins.
- Greedflation simply means big corporations squeezing out money from customers by jacking up the prices of their products, only to increase their profit margins.

FACT BOX

'Shrinkflation'

- It refers to a **reduction in the quantity or quality of a product while the price remains the same**.
- Production costs increase to a lesser extent while e-commerce businesses maintain the same retail price.
- The main advantage is that **users generally don't spot these changes.**
- However, they do notice that prices remain unchanged despite inflation. This strategy is less likely to damage the brand or retailer's corporate image.

16 PANEL TO REVISE WPI AND DEVELOP PPI

Context: The Government of India announced the formation of an expert panel tasked with revising the country's Wholesale Price Index (WPI), in light of the structural changes in the economy that have occurred between the current base year of 2011-12 and the proposed new base year of 2022-23. Additionally, the panel will focus on developing the Producers' Price Index (PPI), a key price gauge that has been approved by the Technical Advisory Panel on Statistics of Prices and Cost of Living.

Key Objectives of the Expert Panel

- The panel will be led by **Ramesh Chand**, Member of **NITI Aayog**.
- **Revising the WPI**: The WPI, which reflects the price changes at the wholesale level, will be updated to better reflect the economic changes over the past decade. This revision will ensure the index remains relevant in tracking price trends in India's evolving economy.

- **Developing the PPI**: A new **Producers' Price Index (PPI)** will be formulated to measure the average change in the prices that domestic producers receive for their goods and services. The panel will also evaluate the methodology and composition for compiling this index.

FACT BOX

Wholesale Price Index (WPI)

- The WPI is a **crucial economic indicator** that measures the average change in the prices of goods traded between businesses at the wholesale level, before they reach the retail market.
  - It is an important tool for assessing inflationary trends at the producer level, helping to understand price changes in the economy from the perspective of producers rather than consumers.
  - The WPI is calculated by the **Office of the Economic Adviser (OEA)**, which is part of the **Ministry of Commerce and Industry**.
  - It is released on a regular basis to provide insights into inflation trends and the cost of production in the economy.
- **Composition of WPI:** The index is divided into three major categories:
  - **Primary Articles**: This category includes agricultural products such as food, vegetables, fruits, and raw materials.
  - **Fuel and Power**: This category includes energy-related products like crude oil, natural gas, coal, and electricity.
  - **Manufactured Products**: This category covers goods that are produced in factories, such as machinery, chemicals, and textiles.
- The weightage of each category is determined based on its relative importance to the economy.
- **Comparison with CPI:**
  - While the **Consumer Price Index (CPI)** tracks price changes experienced by **consumers** at the retail level, the WPI focuses on the **producer side** of the economy.
  - WPI is more relevant for tracking the cost of goods at the **wholesale** level, whereas CPI reflects how price changes affect consumers directly through the prices they pay at stores.

17 WHOLESCALE PRICE INFLATION

Context: India's wholesale price inflation quickened to a three-month high of 0.53% in March, from 0.2% in February, with the food index rising 4.65%.

How does it indicate Inflation? (WPI vs. CPI)

- A wholesale price index (WPI) is a measure of inflation based on the prices of goods before they reach consumers.
- It includes price rise in food, fuel and all other commodities. The inflation rate expressed in Wholesale Price Index (WPI) usually denotes the 'headline inflation'.
- Though Consumer Price Index (CPI) values are often higher, WPI values traditionally make headlines.
- WPI tracks inflation at the producer level and CPI captures changes in prices levels at the consumer level. WPI does not capture changes in the prices of services, which CPI does.
- The WPI is dominated by the prices of manufactured goods while the CPI is dominated by the prices of food articles.
- As such, broadly speaking, if food prices go up sharply, it will bump up the retail inflation rate far more than it would spike the wholesale inflation rate. The reverse will happen when prices of manufactured products (such as TVs and cars) rise sharply.

FACT BOX

- **Imported Inflation**
  - Imported inflation is a general and sustainable **price increase** due to an **increase in costs of imported products.**
- **Bearish expectations**
  - A **negative outlook** on business activity for a future period of time.
  - A bearish market points to an **expectation that the prices will go down**.

18 MANUFACTURING PURCHASING MANAGERS' INDEX OR PMI

Context: Despite having elevated inflationary pressures, India's manufacturing activity in June witnessed a rebound, thanks to strong demand leading to the fastest rate of hiring in more than 19 years. The seasonally adjusted HSBC India Manufacturing Purchasing Managers' Index or PMI increased from 57.5 in May to 58.3 in June, indicating a sharper improvement in business conditions. In PMI parlance,

- Print above 50 means expansion
- While, a score below 50 denotes contraction

What is manufacturing PMI?

- Manufacturing PMI, or Purchasing Managers' Index, is an economic gauge derived from monthly surveys of companies.
- It assesses business conditions in manufacturing and services sectors.
- **Types of PMI:**
  - Manufacturing PMI
  - Services PMI
- PMI helps determine if conditions are expanding, contracting, or stable, offering insights into current and future economic health.
- **Variables:** For manufacturing PMI, surveys are sent to manufacturing firms with factual questions about key areas: new orders (30%), output (25%), employment (20%), suppliers' delivery times (15%), and stock levels (10%).
  - A PMI number above 50 indicates growth, below 50 signals contraction.
- Started in 1948 by the Institute for Supply Management, PMI is produced globally.
- It's a leading indicator, often released before GDP data, providing early signals about economic trends. Investors and businesses use PMI to gauge economic conditions and make informed decisions.

19 INDIA'S CONSUMER PRICE INFLATION

Context: The recent report on India's consumer price inflation for May 2024 has garnered attention due to its implications for the country's economic landscape. Consumer price inflation is a crucial indicator of the cost of living for citizens and plays a significant role in shaping monetary policy decisions by the Reserve Bank of India (RBI).

About Consumer Price Inflation (CPI)

- CPI refers to an increase in the price level of a selected basket of goods and services over a select period of time.
- It measures retail inflation by collecting data on the prices of goods and services that are consumed by the retail population of the country.
- **CPI is used as a:**
  - macroeconomic indicator of inflation
  - tool by the central bank and government for inflation targeting and for inspecting price stability
  - deflator in the national accounts.
- **Main component:** food and beverages, followed by cereals and pulses, and milk and products.
- **CPI formula:** (Price of basket in current period / Price of basket in base period) x 100

20 DRIP PRICING

Context: The Department of Consumer Affairs issued a warning about 'drip pricing,' where only part of the price is shown upfront, and additional charges are added later.

About Drip Pricing

- Drip pricing means showing **only a fraction of an item's cost at first**, and revealing the full amount during purchase.
- These added charges might include taxes or booking fees, or omitting necessary extras like internet access, which may be needed for the product or service.
- In December 2023, the **Central Consumer Protection Authority (CCPA) released 'Guidelines for Prevention and Regulation of Dark Patterns, 2023'** to tackle practices like d**rip pricing, bait and switch, disguised advertising, and false urgency**.
- Such practices are considered 'unfair trade practices' under the **Consumer Protection Act, 2019.**

FACT BOX

Consumer Protection Act, 2019

- **The Consumer Protection Act, 2019** was passed by the Indian government to address issues related to violations of consumer rights, unfair trade practices, and misleading advertisements.
- The Act aims to protect consumers' rights and interests by setting up **Consumer Protection Councils** to resolve disputes and provide compensation if consumers' rights are violated.
- There are **six rights of consumers** outlined in **Section 2(9) of the Act.**
  - Protection from hazardous goods and services.
  - Protection against unfair trade practices, ensuring awareness of quality, quantity, price, etc.
  - Access to a variety of goods and services at competitive prices.
  - Right to seek redressal against unfair trade practices.
  - Right to receive adequate compensation if wronged by the seller.
  - Right to consumer education.

21 'MERA YUVA BHARAT (MY BHARAT)' PLATFORM

Context: The Prime Minister has launched 'Mera Yuva Bharat (MY Bharat)' platform for youth of the country on October 31st, on the National Unity Day.

About the Platform:

- Mera Yuva Bharat (MY Bharat) is 'Phygital **Platform' (physical + digital**) comprising physical activity along with an opportunity to connect digitally.
- The platform is envisioned as a pivotal, **technology-driven facilitator for youth** development and youth-led development, with the overarching goal of providing equitable opportunities to empower the youth in realizing their aspirations and contributing to the creation of a "**Viksit Bharat" (developed India),** across the entire spectrum of the Government.
- It envisions a framework where the youth of our country can seamlessly connect with **programs, mentors, and their local communities.**
- This engagement is designed to deepen their understanding of local issues and empower them to contribute to constructive solutions.

22 MANMOHAN SINGH, ARCHITECT OF ECONOMIC REFORMS

Context: Manmohan Singh, former Prime Minister and Finance Minister of India, passed away on December 26, 2023, at the age of 92. He will always be remembered for playing a pivotal role in saving India's economy during the 1991 economic crisis.

Brief background

- During the 1991 economic crisis, India was on the verge of a **sovereign default (unable to pay off its debts),** with extremely low foreign exchange reserves. The government even had to pledge its gold reserves to raise money.
- This crisis was caused by years of poor economic management, where the government was spending more than it earned, leading to high levels of debt.
- India's economy was also heavily controlled by the government through the **License-Quota Raj,** which restricted business growth and hindered private enterprise.
- In 1991, when Singh took over as Finance Minister in P**.V. Narasimha Rao's government,** he introduced a **series of economic reforms** that transformed India's economic landscape:
- **Deregulation:** Industries that were previously tightly controlled by the government were opened up for private sector participation.
- **Trade liberalization:** The government reduced import tariffs (taxes on imports) and removed restrictions on exports.
- **Devaluation of the rupee:** The Indian currency was made weaker to make Indian products cheaper abroad, boosting exports.

Key Achievements of the Reforms

- **India's Growth in the Global Economy:** The 1991 reforms played a crucial role in increasing India's presence in the global economy.
  - According to **World Bank data,** India's share in global GDP (the total economic output of the world) had been declining since the 1960s. However, after the reforms, India's economic growth accelerated, and its share in global GDP began to rise. Today, India is on track to become the **third-largest economy in the world.**
- **Poverty Reduction and Welfare Programs:** Another major achievement of the reforms was a **significant reduction in extreme poverty.** As the economy grew, the government was able to generate more revenue, which it could then use to fund welfare programs aimed at helping the poor.
  - Although poverty is still a problem in India, especially in rural areas, the economic growth resulting from the reforms has helped lift millions out of extreme poverty. The reforms also created a cycle of wealth generation, which improved the government's ability to address poverty.
- **Rise of Private Businesses and the Stock Market:** The reforms helped unleash the power of private enterprise. By deregulating industries, businesses were no longer restricted by government controls, allowing them to grow, create jobs, and compete globally.
  - The stock market also grew rapidly after the reforms. In the early 1990s, companies like Infosys were able to list their shares on the stock market, which sparked the development of an equity culture in India.
- **Increased Foreign Investment:** Following the reforms, India became a more attractive destination for foreign investors. The liberalization of markets and the opening up of sectors to private businesses helped bring in foreign direct investment (FDI). This investment provided stability to India's economy, even as imports increased.

- The inflow of foreign capital also helped stabilize the Indian rupee and supported the growth of India's stock market.

23 CHALLENGES FOR THE NEW RBI GOVERNOR

Context: Sanjay Malhotra has recently taken over as the 26th Governor of the Reserve Bank of India (RBI), succeeding Shaktikanta Das, who served as the Governor during a challenging period. Sanjay Malhotra steps into a challenging role with significant expectations, inheriting a legacy that sets a high bar. As the new RBI Governor, he will contend with seven critical priorities.

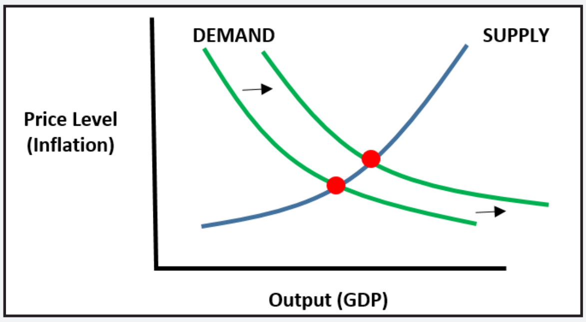
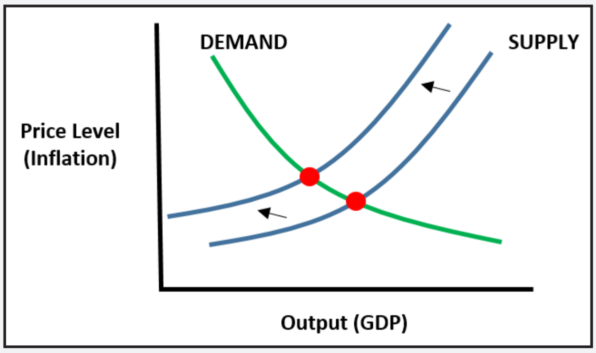
Critical Priorities in front of RBI's Governor

- **Taming Inflation Without Hurting Growth**: Inflation has been volatile, mainly due to **supply-side issues** in sectors like food and energy. Malhotra must find ways to control inflation without **negatively affecting economic growth.** Traditional methods like **raising interest rates** may not work well because inflation is driven by factors like global supply shocks, not just domestic demand. A balance is needed to ensure liquidity in the market and support sectors in need of credit, while **managing inflation.**
- **Global Monetary Policy Differences**: Global monetary policy divergence is at its peak, with the **US Federal Reserve** maintaining **restrictive monetary policies** to **combat inflation** while several emerging markets are exploring rate cuts to support growth.
    - India's interconnectedness with global capital flows and trade necessitates a calibrated approach to avoid capital flight and rupee depreciation.
    - RBI must employ nuanced tools, including targeted liquidity operations and foreign exchange market interventions, to preserve external sector stability without undermining domestic growth prospects.
- **Reassessing the Inflation Targeting Framework (FIT)**: The RBI follows a framework that targets keeping inflation at around 4% (with a margin of 2% above or below). However, **rising global uncertainties** and **supply-side challenges** (like climate change and geopolitical issues) make this framework less effective. Malhotra may need to revise this framework, potentially allowing for more flexibility and considering both inflation control and economic growth.
    - In particular, the persistence of **supply-side shocks** has flattened the **Phillips Curve**, weakened monetary transmission channels, and complicated the extraction of accurate signals from headline inflation. The reduced efficacy of standard policy levers against predominantly cost-push shocks, coupled with shifts in consumption patterns and digitalisation-induced pricing anomalies, highlights the technical challenges of maintaining rigid, point-based targets in a changing economic landscape.
- **Managing Currency Volatility**: The Indian rupee has been fluctuating due to global financial instability and other factors. The RBI has tried to stabilize the rupee, but it's a challenge. Malhotra may need to use strategies like diversifying reserves, promoting trade in currencies other than the dollar, and working with other central banks. While a weaker rupee could help exports by making Indian products cheaper, it also poses risks like higher import costs and pressure on companies with foreign debt.
- **Enhancing Financial Inclusion**: India has made significant progress in financial inclusion, with over 500 million accounts opened under the **Pradhan Mantri Jan Dhan Yojana (PMJDY).** However, there are still challenges in ensuring these accounts are used effectively, providing better access to credit, and bridging the digital divide. Malhotra will need to support digital banking and ensure that people are well-equipped to use financial services.
- **Addressing Climate Risks and Green Finance**: Climate change poses risks to the financial system. Malhotra will need to address these risks by promoting **"green finance"** and encouraging investments in sustainable projects. This might involve offering incentives for green investments, requiring companies to disclose their climate-related risks, and working with other countries on climate stress testing.
- **Maintaining Financial Stability**: The financial system must be stable to support economic growth. This includes ensuring that **non-banking financial companies (NBFCs)** are well-regulated, addressing risks related to the growing fintech sector, and preventing any gaps in regulations. Malhotra will need to strengthen the oversight of these institutions and ensure that they don't pose risks to the broader financial system.

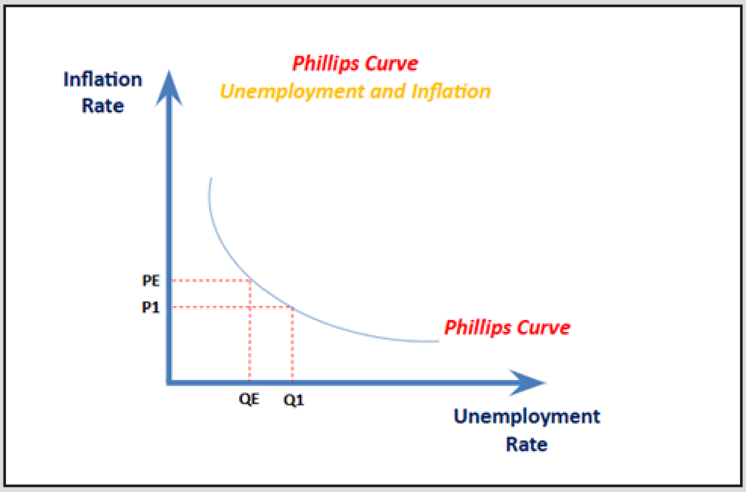
FACT BOX

Key-Concepts

- **Inflation:** Inflation refers to the general increase in the prices of goods and services over time, reducing the purchasing power of money.
- There are different methods for measuring inflation such as
    - Consumer Price Index (CPI)
    - Wholesale Price Index (WPI)
    - GDP deflator
    - Producer Price Index (PPI)
    - Wage inflation

'Demand-pull inflation'	'Cost-push inflation'
⦿ Demand-pull inflation arises when the total demand for goods and services (i.e. 'aggregate demand') increases to exceed the supply of goods and services (i.e. 'aggregate supply') that can be sustainably produced.  	⦿ Cost-push inflation occurs when the total supply of goods and services in the economy which can be produced (aggregate supply) falls. ⦿ A fall in aggregate supply is often caused by an increase in the cost of production. 

- **Phillips Curve:** The **inverse relationship** between unemployment rate and inflation when graphically charted is called the **Phillips curve**. The theory states that the higher the rate of inflation, the lower the unemployment and vice-vers Thus, high levels of employment can be achieved only at high levels of inflation.
- The policies to induce growth in an economy, increase in employment and sustained development are heavily dependent on the findings of the Phillips curve.
- **Currency Volatility:** Currency volatility refers to the fluctuations in the exchange rate of a country's currency relative to others.
- **Inflation Targeting Framework (FIT):** The Inflation Targeting Framework (FIT) is a monetary policy strategy where the central bank sets an explicit target for inflation (in India, around 4% with a tolerance band of 2% above or below).
- **Supply-Side Shocks:** Supply-side shocks are disruptions that affect the supply of goods and services, leading to price increases. These include factors like natural disasters, geopolitical tensions, and climate change. These shocks often lead to inflation without an increase in demand, complicating traditional monetary policy tools, such as interest rate hikes, which are typically aimed at managing demand-driven inflation.



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CHAPTER 02

MONEY AND BANKING

1 URBAN COOPERATIVE BANKS (UCBS) IN INDIA

Context: The urban cooperative banking (UCB) sector in India has had a troubled history, with multiple instances of financial mismanagement, fraud, and regulatory lapses over the years. The recent Rs 122-crore scam at New India Cooperative Bank (NICB) in Mumbai is another blow to the sector, raising concerns over governance, regulatory oversight, and depositor safety.

Urban Co-operative Banks (UCBs) in India

- Urban Co-operative Banks (UCBs) are **primary cooperative banks** that operate in **urban and semi-urban areas**, primarily catering to **small borrowers and businesses**.
- They were initially regulated by **State Governments** under the **Co-operative Societies Act**, but since **1966**, they have been brought under **RBI's supervision** for better regulation.
- **Origins:** The cooperative banking movement in India began in the **late 19th century**, inspired by Britain and Germany's cooperative credit models.
- Initially, UCBs could only provide **non-agricultural loans**, but their role has expanded significantly.
- The **Varde Committee (1963)** introduced the **minimum capital requirement** and recommended setting up UCBs in urban centers with a population of **1 lakh or more**.

PYQ

1. **With reference to 'Urban Cooperative Banks' in India, consider the following statements:**
   1. They are supervised and regulated by local boards set up by the State Governments.
   2. They can issue equity shares and preference shares.
   3. They were brought under the purview of the Banking Regulation Act, 1949 through an Amendment in 1966.

   Which of the statements given above is/are correct?

   (a) 1 only (b) 2 and 3 only
   (c) 1 and 3 only (d) 1, 2 and 3

   Solution: (b)

2 IMF'S WARNING ON NBFC EXPOSURE

Context: The International Monetary Fund (IMF), in its Financial Sector Assessment Programme (FSAP) for India, has warned that Non-Banking Financial Companies (NBFCs), especially large state-owned infrastructure financing firms, have significantly increased their exposure to the power and infrastructure sectors.

What Are NBFCs?

- NBFCs are financial institutions that **provide banking-like services** but **do not hold a banking license**. They are regulated by the **Reserve Bank of India (RBI)** and operate under the **Companies Act, 2013**.
- **Key Features of NBFCs:**
  - **Cannot accept demand deposits** (like savings accounts).
  - **Offer loans and credit facilities**, including **vehicle loans, housing finance, SME lending, and microfinance**.
  - **Engage in investments**, leasing, hire purchase, and asset management.

- **Do not provide payment services** such as issuing cheques like banks.

- NBFCs are regulated primarily by the **RBI**, but other regulators like **SEBI, IRDAI, and NHB** oversee sector-specific NBFCs.
- **Classification of NBFCs:** NBFCs are categorized based on **activities and size**:
  - **Based on Activity**
    - **Asset Finance Companies (AFCs)** – Provide loans for asset purchases like vehicles, machinery, etc.
    - **Loan Companies** – Offer direct lending to individuals and businesses.
    - **Investment Companies** – Invest in securities like stocks and bonds.
    - **Infrastructure Finance Companies (IFCs)** – Finance infrastructure projects (roads, power, etc.).
    - **Housing Finance Companies (HFCs)** – Provide home loans.
    - **Microfinance Institutions (MFIs)** – Offer small loans to low-income individuals.
  - **Based on Size and Regulation**
    - **Systemically Important NBFCs (NBFC-ND-SI)** – NBFCs with **assets above Rs 500 crore**, requiring stricter regulation due to potential systemic impact.
    - **Deposit-taking NBFCs (NBFC-D)** – Allowed to accept term deposits (subject to RBI approval).
    - **Non-Deposit Taking NBFCs (NBFC-ND)** – Cannot accept public deposits.

3 RESILIENCE OF INDIA'S NBFC SECTOR

Context: The non-banking financial companies (NBFC) sector in India continues to show strong performance under the scale-based regulations (SBR) framework, demonstrating improved asset quality and diversified funding sources, according to recent insights from the Reserve Bank of India (RBI).

Key Highlights from RBI's Review

- **Credit Growth and Asset Quality**: As of December 2023, the NBFC sector has maintained double-digit credit growth, with a low delinquency ratio.
  - The gross non-performing asset (GNPA) ratio has significantly improved, dropping from **4%** for government NBFCs and **10.6%** for non-government NBFCs in December 2021 to **2.4%** and **6.3%**, respectively, by December 2023.
- **Profitability Metrics**: The sector has seen a consistent rise in profitability, reflected in improved return on assets (RoA) and return on equity (RoE).
- **Prompt Corrective Action (PCA) Framework**: The extension of PCA norms to government-owned NBFCs, effective from October 1, 2024, aims to enhance financial discipline. Key areas of focus will be capital adequacy and asset quality.
- **Diversification of Funding**: With increasing risk weights on bank lending, NBFCs are diversifying their funding sources to lessen reliance on bank borrowings. This strategy is vital for maintaining financial stability.
- **Growth in Retail Credit**: There has been robust growth in secured retail credit, particularly in areas such as gold loans, vehicle loans, and housing loans, alongside expansion in the industrial and service sectors.

4 STANDING DEPOSIT FACILITY (SDF)

Context: The Reserve Bank of India (RBI), in its recent monetary policy announcement, expressed concern over banks preferring to park their excess funds in the Standing Deposit Facility (SDF) rather than lending them in the uncollateralized call money market.

What is the Standing Deposit Facility (SDF)?

- The **SDF** is a tool introduced by the RBI in **April 2022** to manage liquidity in the banking system.
- It absorbs excess liquidity (deposits) from commercial banks without requiring the banks to provide government securities as collateral.
  - **Purpose**: The SDF serves as a floor for the **Liquidity Adjustment Facility (LAF)** corridor, replacing the reverse repo rate mechanism.
  - **How it works**: Banks can park their excess funds with the RBI in exchange for interest, but without needing to provide any collateral in return.
- The SDF was introduced when there was a **liquidity surplus** in the market, meaning there was more money in the banking system than needed.
- Unlike the reverse repo, which requires the RBI to provide government securities to banks, the SDF does not involve any collateral, making it a simpler tool for liquidity absorption.

5 PAYMENT AGGREGATOR (PA)

Context: The Reserve Bank of India has granted payment aggregator (PA) licences to numerous payment providers and big merchant organizations in recent months.

What is Payment Aggregator?

- A payment aggregator is a **third-party service provider** that enables customers to make and businesses to accept payments online.
- **Key-examples:** Amazon Pay, PayPal, Stripe, others.
- PAs enable their clients to accept various payment methods such as **UPI, debit cards, credit cards, cardless EMIs, bank transfers, e-wallets.**
- After receiving payments from clients, PAs combine them and send them to the retailers.
- **Requirement:** A company that submitted an application for a PA license had to have had a net value of Rs. 15 crore as of March 31, 2021, and Rs. 25 crore as of March 31, 2023.
- **Features:**
  - Seamless Onboarding, Integration and Sub-Merchant Account
  - Secure Payment Processing
  - Fraud Detection and Prevention
  - Multiple Payment Options
  - Fast Settlements and Customer Support

6 INDIA'S UPI AND RUPAY CARD SERVICES GO GLOBAL

Context: Prime Minister Narendra Modi along with President of Sri Lanka and Prime Minister of Mauritius jointly inaugurated the Unified Payments Interface (UPI) services in Sri Lanka and Mauritius.

What is UPI?

- Unified Payment Interface (UPI) is an advanced version of the Immediate Payment Service (IMPS). It facilitates real-time, round-the-clock funds transfer between bank accounts.
- UPI merges multiple bank accounts into a single mobile application, allowing users to seamlessly transact across participating banks.
- Its simplicity, security, and interoperability have made it a game-changer in the digital payments ecosystem.

7 UPI-BASED CASH DEPOSIT FACILITY

Context: The Reserve Bank of India announced a proposal for a new UPI-based cash deposit facility.

About

- UPI has primarily been used for peer-to-peer transactions, bill payments, merchant transactions and other digital payments.
- Now, with the latest announcement, cash deposit at **Cash Deposit Machines (CDMs)** using UPI instead of needing an ATM/debit card will be possible.

FACT BOX

UPI

- Unified Payments Interface is a real-time payment system developed by the **National Payments Corporation of India (NPCI).**
- It facilitates instant fund transfers between two bank accounts on a mobile platform, without requiring details of the beneficiary's bank account.

8 BANKING LAWS (AMENDMENT) BILL, 2024

Context: The Banking Laws (Amendment) Bill, 2024 was passed in the Lok Sabha on December 3, 2024, marking the first bill to be approved after the end of the week-long parliamentary logjam. The bill, which was introduced by Finance Minister Nirmala Sitharaman, aims to strengthen governance in the banking sector and improve customer convenience.

Key Provisions of the Bill:

- The **Banking Laws (Amendment) Bill 2024** aims to improve banking governance and enhance investors' protection.
- The amended law would strengthen governance in the banking sector and enhance customer convenience.
- Amendments are proposed in the:
  - Reserve Bank of India Act, 1934
  - Banking Regulation Act, 1949
  - State Bank of India Act, 1955
  - Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970
  - Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980

- **Nomination Facility**: The bill allows **bank account holders** to have **up to four nominees** for their accounts, providing more flexibility in case of the account holder's demise. **Locker holders** will have **successive nominations**, meaning that only one nominee can be appointed at a time, but it can be updated as needed.
- **Redefining 'Substantial Interest' for Directorships**: The bill proposes increasing the cap for **'substantial interest'** for directorships from Rs 5 lakh to Rs 2 crore, a threshold that had remained unchanged for nearly **six decades**.
- **Tenure of Directors in Cooperative Banks**: The tenure for directors (excluding the chairman and whole-time directors) in cooperative banks will be extended from **8 years to 10 years**, bringing it in line with the **Constitution (Ninety-Seventh Amendment) Act, 2011**.
    - Additionally, directors of **Central Cooperative Banks** will now be allowed to serve on the board of **State Cooperative Banks**, which could improve the coordination and management of cooperative banks.
- **Freedom in Remuneration of Statutory Auditors**: The amendment seeks to give greater flexibility to banks regarding the **remuneration of statutory auditors**, allowing them to set the pay structure as per their needs.
- **Changes to Reporting Dates**: The bill proposes to change the **reporting dates** for banks for **regulatory compliance** to the **15th and last day** of each month, instead of the previous system of the second and fourth Fridays.
- **Enhancing Investor and Customer Protection**: The amendments would **strengthen banking governance** and enhance **investor protection**, particularly through improved nomination processes for depositors and safer banking practices.

9 FIXED DEPOSITS

Context: The Reserve Bank of India (RBI) recently announced that it will keep the repo rate unchanged for the tenth consecutive time, which is a significant indicator in the context of India's monetary policy. This decision is interpreted as a sign that the RBI may be nearing the peak of its interest rate cycle, which directly affects the returns on various financial instruments, including fixed deposits (FDs).

What Are Fixed Deposits?

- Fixed deposits are a type of investment offered by banks and financial institutions where an individual deposits a lump sum amount for a fixed tenure at a predetermined interest rate.
- They are considered one of the **safest investment options** due to their fixed returns and are popular among conservative investors.
- **Key Features of Fixed Deposits:**
    - **Safety:** FDs are low-risk investments, often insured up to a certain limit by the Deposit Insurance and Credit Guarantee Corporation (DICGC).
    - **Fixed Returns:** The interest rate is agreed upon at the time of deposit and remains constant throughout the tenure.
    - **Tenure Flexibility:** Investors can choose tenures ranging from a few months to several years.
    - **Liquidity:** While FDs are generally less liquid than savings accounts, premature withdrawal is possible, though it may incur penalties.
    - **Taxation:** Interest earned on FDs is subject to tax as per the investor's income tax slab.

FACT BOX

Important Financial Instruments

- **Equities (Stocks)** are shares of publicly listed companies that represent ownership in the company. Investors can buy and sell these shares on stock exchanges like the **Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).**
    - **Risk Level:** High risk, as stock prices can be highly volatile.
    - **Investment Horizon**: Long-term, as equities generally yield higher returns over extended periods.
- **Mutual Funds are i**nvestment vehicles that pool money from multiple investors to invest in a diversified portfolio of stocks, bonds, or other securities. Managed by professional fund managers.
    - **Risk Level**: Varies by type (equity, debt, hybrid), but typically moderate.
    - **Investment Horizon**: Short to long-term, depending on the fund's objective.
- **Public Provident Fund (PPF)** is a government-backed savings scheme offering tax benefits and a fixed interest rate. The investment is locked in for 15 years, with partial withdrawals allowed after a certain period.
    - **Risk Level:** Low risk, as it is backed by the government.
    - **Investment Horizon**: 15 years, with the possibility of extension.
- **National Pension System (NPS)** is a retirement savings scheme that allows individuals to invest in a pension fund managed by professional fund managers. It includes various investment options, including equity and fixed income.

- **Risk Level:** Varies based on the chosen asset allocation.
- **Investment Horizon**: Long-term, until retirement.

- **Fixed Deposit (FD)** is savings account offered by banks where money is deposited for a fixed tenure at a predetermined interest rate. FDs provide guaranteed returns.
  - **Risk Level:** Low risk, as they are insured up to a certain limit by the Deposit Insurance and Credit Guarantee Corporation (DICGC).
  - **Investment Horizon**: Short to long-term, typically from 7 days to 10 years.
- **Recurring Deposit (RD) is** savings scheme where individuals deposit a fixed amount monthly for a specified tenure. It encourages regular saving habits.
  - **Risk Level**: Low risk, similar to fixed deposits.
  - **Investment Horizon**: Varies based on the chosen tenure, typically from 6 months to 10 years.
- **Bonds:** Debt securities issued by corporations, municipalities, or the government to raise funds. Investors receive periodic interest payments and the principal amount at maturity.
  - **Risk Level:** Generally lower than stocks, but depends on the issuer's creditworthiness.
  - **Investment Horizon**: Medium to long-term, depending on the bond's maturity.
- **Exchange-Traded Funds (ETFs):** Investment funds that track a specific index and trade on stock exchanges like individual stocks. They offer diversification and lower expense ratios compared to mutual funds.
  - **Risk Level**: Varies based on underlying assets; generally moderate.
  - **Investment Horizon:** Short to long-term.

10 RBI'S SHIFT IN MONETARY POLICY STANCE

Context: After nearly 29 months of a tight monetary policy marked by a significant increase in interest rates, the Reserve Bank of India's (RBI) Monetary Policy Committee (MPC) has made a notable change. Following its October meeting, the MPC shifted its policy stance from "withdrawal of accommodation" to "neutral." This adjustment signals a potential easing of interest rates, with analysts predicting a possible rate cut in December.

Key Highlights

- **Current Policy Rate**: The policy rate stands at 6.5%, following a cumulative increase of 250 basis points from May 2022 to February 2023.
- **Change in Stance**: The MPC's shift to a neutral stance is the first since June 2022 and indicates that inflation concerns are being addressed.
- **Inflation Control**: India's benchmark inflation rate has recently stabilized within the RBI's target range of 2%-6% after exceeding it for five consecutive quarters from March 2022 to March 2023.
- **Future Projections**: GDP growth is projected at 7.2% for 2024-25, while inflation is expected to average 4.5%.
- **Expert Consensus**: Economists widely expect a 25 basis point rate cut in the December meeting, followed by another cut in February 2025.

What do stances of the RBI mean?

RBI's Monetary Policy Stances	
'Neutral' stance	• A neutral stance indicates that the RBI maintains flexibility in adjusting policy rates based on prevailing economic conditions. • This means that the central bank is open to either increasing or decreasing interest rates, depending on data related to inflation and economic growth. • This policy is aimed at tightening the monetary policy to reduce liquidity in the economy. • It prioritises keeping inflation within the target levels and indicates a shift away from policies that encourage borrowing and spending.
'Accommodative' stance	• An accommodative stance refers to a monetary policy approach where the central bank is inclined to increase the money supply to stimulate economic growth. • This typically involves reducing interest rates, with no prospect of a rate increase.

'Hawkish' stance	⦿ A hawkish stance reflects the central bank's focus on controlling inflation. ⦿ During such periods, the central bank is likely to raise interest rates to limit the money supply and dampen demand. This signals a tight monetary policy approach.
'Calibrated tightening'	'Calibrated tightening' indicates that while rate cuts are not being considered in the current policy cycle, any rate increases will be gradual and measured. The central bank might not opt for a rate hike in every policy meeting, but its stance leans towards tightening. Rate adjustments can also occur outside scheduled policy meetings if necessary.

11 RBI'S INTEREST RATES AND IMPACT ON INFLATION

Context: India's Commerce Minister has called for the Reserve Bank of India (RBI) to reduce interest rates to boost economic growth.

What is Monetary Policy?

- **Monetary Policy** refers to the actions taken by a country's central bank (in India, the RBI) to control the money supply, manage inflation, and stabilize the economy.
- It influences economic activity by adjusting interest rates and regulating the supply of money.
- There are two main types of monetary policy:
  - **Expansionary Monetary Policy (Loose Policy)**:
    - It is aimed at **stimulating the economy**.
    - It is used when the economy is slowing down or facing a recession.
    - The central bank **lowers interest rates** to make borrowing cheaper, which encourages businesses to invest and consumers to spend.
    - It **increases the money supply**, making it easier for people to borrow money and spend it.
    - **Example:** If the RBI lowers the repo rate, it makes loans cheaper and encourages investment and spending, boosting the economy.
  - **Contractionary Monetary Policy (Tight Policy)**:
    - It is aimed at **controlling inflation** or an overheating economy.
    - It is used when the economy is growing too quickly, and prices are rising too fast (inflation).
    - The central bank **raises interest rates** to make borrowing more expensive and to reduce the money supply in the economy.
    - It aims to **reduce inflation** by discouraging excessive borrowing and spending.
    - **Example:** If the RBI raises the repo rate, loans become more expensive, and people borrow less, which helps slow down inflation.

PYQ

1. With reference to the Indian economy, consider the following (2015)

1. Bank rate
2. Open market operations
3. Public debt
4. Public revenue

Which of the above is/are component/ components of Monetary Policy?

(a) 1 only (b) 2, 3 and 4

(c) 1 and 2 (d) 1, 3 and 4

Solution: (c)

12 UNIFIED LENDING INTERFACE (ULI)

Context: The Reserve Bank of India is set to launch the Unified Lending Interface (ULI) to further transform the lending landscape, drawing parallels with the revolutionary impact of the Unified Payments Interface (UPI) on retail payments.

What is Unified Lending Interface (ULI)?

- The Unified Lending Interface (ULI) is a new platform to streamline and enhance the lending process in India.
- It aims to facilitate a seamless and efficient flow of information between various stakeholders involved in **credit delivery.**
- **Purpose**: ULI is designed to address the challenges associated with accessing and aggregating data from disparate sources.
- It will enable a **more streamlined, consent-based flow of information from data service providers to lenders**, thereby improving the efficiency of credit appraisal and disbursement.

13 RBI'S NEW GUIDELINES ON WILFUL AND LARGE DEFAULTERS

Context: The Reserve Bank of India (RBI) has introduced a Master Direction focusing on the treatment of wilful defaulters and large defaulters. This move aims to enhance the scrutiny and reporting mechanisms for non-performing asset (NPA) accounts.

Key Highlights

- **Examination Requirement**: Banks and Non-Banking Financial Companies (NBFCs) are mandated to examine the 'wilful default' aspect in all NPA accounts with outstanding amounts of Rs 25 lakh and above.
- **Reporting and Dissemination:** Provisions regarding reporting and dissemination of credit information for large defaulters apply to all entities regulated by the RBI, even if they do not meet the definition of 'lender' in the guidelines.
- All RBI-regulated entities must submit information to all credit information companies (CICs) on a monthly basis. This includes:
  - A list of suit-filed accounts of large defaulters.
  - A list of non-suit filed accounts of large defaulters classified as doubtful or loss.
- **Threshold Calculations**
  - For calculating the Rs 1 crore threshold, any unapplied interest should be included.
  - In the case of suit-filed accounts, the threshold pertains to the amount for which suits have been filed.

FACT BOX

- **Wilful Defaulter:** A borrower or guarantor who has committed wilful default, with an outstanding amount of Rs 25 lakh and above.
- **Large Defaulter:** A defaulter with an outstanding amount of Rs 1 crore and above, where a suit has been filed, or the account is classified as doubtful or loss.

14 RBI'S FINANCIAL INCLUSION (FI) INDEX

Context: The Reserve Bank of India's (RBI) Financial Inclusion (FI) Index rose to 64.2 in March 2024 (compared to 60.1 in March 2023), showing growth across all parameters.

About the Index

- The RBI's FI Index measures the level of financial inclusion in India, scoring between 0 (complete exclusion) and 100 (full inclusion).
- **Parameters:** The FI Index comprises:
  - **Access (35%):** Measures the ease of accessing financial services.
  - **Usage (45%):** Evaluates the extent to which financial services are utilized by the population.
  - **Quality (20%):** Assesses the standard and reliability of financial services provided.
- **Implications**: The increase in the FI Index suggests improvements in access, usage, and service quality of financial services across India. This growth reflects efforts to enhance financial inclusion, enabling more people to benefit from banking services.

FACT BOX

Government Schemes for Financial Inclusion

- **Pradhan Mantri Jan Dhan Yojana (PMJDY):** It is a national mission for financial inclusion to ensure access to financial services
- **Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY):** It is an insurance scheme offering life insurance cover for death due to any reason.
- **Pradhan Mantri Suraksha Bima Yojana (PMSBY):** The scheme is available to people in the age group 18 to 70 years with a bank account. It is an Accident Insurance Scheme offering accidental death and disability.
- **Atal Pension Yojana (APY):** It aims to create a universal social security system for all Indians, especially the poor, the under-privileged and the workers in the unorganised sector. APY is administered by Pension Fund Regulatory and Development Authority (PFRDA).
- **Pradhan Mantri Mudra Yojana (PMMY):** Under the scheme a loan of upto ?50,000 is given under sub-scheme 'Shishu'; between ?50,000 to ?5.0 Lakhs under sub-scheme 'Kishore'; and between ?5.0 Lakhs to ?10.0 Lakhs under sub-scheme 'Tarun'.
- **Stand-Up India Scheme:** The scheme facilitates bank loans between ?10 lakh and ?1 crore to at least one Scheduled Caste (SC)/ Scheduled Tribe (ST) borrower and at least one woman borrower per bank branch for setting up greenfield enterprises.

PYQ

1. **With reference to India, consider the following: (2010)**
   1. Nationalization of Banks
   2. Formation of Regional Rural Banks
   3. Adoption of villages by Bank Branches

   Which of the above can be considered as steps taken to achieve the "financial inclusion" in India?

   (a) 1 and 2 only (b) 2 and 3 only
   (c) 3 only (d) 1, 2 and 3

   Solution: (d)

15 E-RUPEE

Context: A recent report highlighted that there has been a significant decline in usage of e-rupee, India's digital currency, dropping to just one-tenth of its peak in December.

What is e-rupee?

- In 2022, the Reserve Bank of India (RBI) had launched the Central Bank Digital Currency (CBDC) — digital rupee or e-rupee.
- A CBDC is the legal tender issued by a central bank in a digital form. It is the same as a fiatcurrency and is exchangeable one-to-one with the fiat currency. Only its form is different.
- E-rupee is a digital form of currency issued by the RBI, akin to digital currency notes. It is regulated and backed by the RBI, ensuring it has intrinsic value and is recognized as legal tender.
- **Types of CBDCs:**
  - **Retail CBDCs:** These are designed for general public use in everyday transactions, akin to the way physical cash is used currently.
  - **Wholesale CBDCs:** These are intended for use by financial institutions for interbank settlements and other wholesale transactions, enhancing efficiency and security in large-scale financial operations.

16 MEMECOIN

Context: The rise of memecoins, especially with figures like Donald Trump launching his own, has sparked a lot of discussion about their legitimacy, risks, and potential impact on the broader cryptocurrency market.

What is a Memecoin?

- Memecoin is a type of **cryptocurrency** often created as a joke or to capitalize on viral internet memes.
- Unlike more established cryptocurrencies like Bitcoin or **Ethereum, memecoins** typically don't have inherent value or strong use cases, but their worth often comes from community hype, influencer backing, and speculative trading.
- Memecoins are easy to create, and platforms like Pump. fun allow anyone to launch their own coin with little to no technical expertise.
- **Why Are Memecoins Risky?** While some memecoins, like Dogecoin, have achieved massive success, their value is largely dependent on public interest and speculative buying, making them incredibly risky.
  - Memecoins are also prime targets for frauds like **"pump-and-dump" schemes** and **"rug pulls"**—fraudulent activities where creators suddenly withdraw liquidity, rendering investors' holdings worthless.

FACT BOX

Cryptocurrency

- Cryptocurrency refers to a form of **digital or virtual currency** that uses cryptography for security.
  - **Examples:** Bitcoin, Ethereum, Lite Coin
- Unlike traditional currencies, cryptocurrencies don't rely on a central authority, such as a government or bank, for issuance or regulation.
- Instead, they operate on decentralized networks using blockchain technology to record transactions and manage the creation of new units.
- **The First Cryptocurrency – Bitcoin** The first and most well-known cryptocurrency is **Bitcoin**, which was created in 2009 by an anonymous entity known as **Satoshi Nakamoto**.

17 MULE BANK ACCOUNTS

Context: The Reserve Bank of India (RBI) has developed an AI-powered model called MuleHunter.AI to combat the rising problem of mule bank accounts used for financial fraud. This initiative is part of RBI's broader efforts to reduce digital fraud and enhance security in the banking sector.

What is a Mule Bank Account?

- A **mule bank account** refers to a bank account that is used by criminals for illegal activities, including **money laundering**.
- Criminals typically take over these accounts, which are often owned by **victims**—individuals who may be from **lower-income groups** or lack technical literacy.

- These individuals, known as **money mules**, unknowingly become part of illegal schemes when their accounts are used to launder stolen or illicit funds.
- Unfortunately, when fraud is detected, the money mules are often the ones investigated, while the actual criminals remain hidden.
- **RBI's Initiative (MuleHunter.AI):** To address this issue, the **Reserve Bank Innovation Hub (RBIH)** has developed **AI**, a model that leverages **artificial intelligence (AI)** to detect mule bank accounts more efficiently.

18 DIGITAL PAYMENTS INTELLIGENCE PLATFORM

Context: The Reserve Bank of India plans to set up a centralised digital payments intelligence platform for sharing data on a real-time basis across digital payment ecosystem aimed at detecting fraud.

What is Digital payments intelligence platform?

- A Digital Payments Intelligence Platform is a sophisticated technology solution that leverages **big data analytics, artificial intelligence (AI), and machine learning (ML)** to provide insights into digital payment transactions.
- It's designed to analyze vast amounts of transaction data in real-time, identify patterns, detect anomalies, and predict future trends.
- **AI and ML** help in fraud detection by identifying unusual patterns or anomalies in transactions that could indicate fraudulent activity.
- To advance this initiative, the RBI has formed a committee chaired by **Shri A.P. Hota, former MD & CEO of NPCI.**
  - According to the annual report released by the RBI, there was a significant surge in the number of financial frauds reported by banks, increasing by 166% year-on-year in the financial year 2023-24.
  - This starkly contrasts with the 13,564 cases reported in the previous fiscal year.

20 RBI'S INCOME AND EXPENDITURE

Context: The Reserve Bank of India (RBI) announced a record surplus transfer to the government for the fiscal year 2024 (FY24), amounting to Rs 2,10,874 crore. This represents a significant increase compared to the previous year's surplus transfer.

Balance Sheet Highlights

- **Asset Growth**: The RBI's balance sheet grew due to increases in foreign investments, gold reserves, and loans and advances.
- **Increase in Gold Reserves**: The RBI's gold reserves grew, with significant additions during the year. The gold is held as backing for notes issued and as an asset of the **Banking Department (BD).**
- **Available Realised Equity**: The RBI's realised equity, which includes **capital, reserve funds, the Contingency Fund, and the Asset Development Fund**, increased as a percentage of the balance sheet, indicating a stronger financial position.

Components of Income	Components of Expenditure
Interest Income: Derived from domestic and foreign sources, including interest on rupee securities, loans and advances, and foreign securities. **Other Income**: Includes earnings from commissions, profits or losses on the sale of securities, and exchange gains or losses from foreign exchange transactions.	**Provisions**: Allocations to the Contingency Fund (CF) for unexpected financial contingencies and risks associated with monetary and exchange rate policies. **Other Expenses**: Costs related to printing currency notes, agency charges, employee expenses, and miscellaneous costs.

19 MICROFINANCE LENDING

Context: There is growing distress caused by microfinance loans (MFIs) in rural Karnataka, where many borrowers are facing significant financial hardships.

What is Microfinance lending?

- Microfinance lending refers to providing **small loans**, typically to individuals or small businesses in low-income or rural areas, who don't have access to traditional banking services.
- These loans are usually given **without requiring collateral** and are meant to help people start or expand small businesses, improve their living conditions, or cover emergency needs.
- The idea is to empower people, particularly those from marginalized groups, by giving them access to credit to improve their financial situation.
- **Microfinance institutions (MFIs)** are the organizations that offer these loans. They operate under the belief that even people with very low incomes can repay small

loans, provided they are offered the opportunity. MFIs usually work with individuals who may not qualify for conventional bank loans due to factors like lack of a credit history or collateral.

- **The loans are often used for purposes like:**
  - Starting or expanding a small business (e.g., selling goods or providing services)
  - Paying for education or healthcare
  - Covering emergency costs (e.g., repairing a house or buying farming tools)
- **Evolution of the Microfinance Sector in India:**
- The microfinance sector in India has evolved over four distinct phases:
- **Initial Period (1974–1984)**:
  - In **1974**, the **Shri Mahila Sewa Sahakari Bank** was established to provide financial services to women in the unorganized sector.
  - In **1984**, the National Bank for Agriculture and Rural Development (**NABARD**) advocated for **Self Help Group (SHG)** linkage, which became a key tool in poverty alleviation.
- **Change Period (2002–2006)**:
  - **2002**: Norms for unsecured lending to SHGs were aligned with those for secured loans, creating an environment for increased lending.
  - **2004**: The **Reserve Bank of India (RBI)** recognized microfinance as part of the priority sector, formally acknowledging MFIs as instruments for financial inclusion.
  - **2006**: Allegations of high interest rates and unethical recovery practices resulted in the shutdown of some MFI branches, bringing the sector under scrutiny.
- **Growth and Crisis (2007–2010)**:
  - **2007**: Private equity players entered the microfinance market, leading to rapid growth in the MFI loan book.
  - **2009**: The formation of the **Microfinance Institutions Network (MFIN)** allowed NBFC-MFIs to operate more cohesively and regulate themselves.
  - **2010**: The Andhra Pradesh crisis, marked by aggressive debt collection practices and borrower suicides, led to government intervention and the implementation of an Ordinance that significantly impacted MFIs.
- **Consolidation and Maturity (2012–2015)**:
  - **2012**: The **Malegam Committee** provided recommendations, which resulted in new RBI regulations aimed at stabilizing the sector.
  - **2014**: RBI granted **Bandhan Bank**, the largest microlender, a universal banking license, marking the mainstreaming of microfinance.
  - **2015**: The government launched the **MUDRA Bank**, aimed at financing small businesses and promoting entrepreneurship.

FACT BOX

Government Measures for the Development of Microfinance Institutions (MFIs)

- **Indian Micro Finance Equity Fund (IMEF):** Introduced in the Union Budget of 2011-12, the IMEF was set up to address the liquidity challenges faced by smaller MFIs, especially those operating in underserved areas.
  - The fund is managed by the **Small Industries Development Bank of India (SIDBI).**
  - Its primary goal is to strengthen the capitalization of socially oriented MFIs, enabling them to reach more clients and expand their services in rural and marginalized regions.
- **NABARD:** The National Bank for Agriculture and Rural Development (NABARD) plays a pivotal role in the microfinance sector by facilitating access to financial services for the poor in rural areas.
  - NABARD's Micro Credit Innovations Department works on various initiatives to enhance financial inclusion and improve access to credit for rural populations.
- **Self Help Group – Bank Linkage Programme (SHG-BLP):** This cost-effective model links poor households to formal financial institutions by promoting the formation of SHGs.
- **NABARD Financial Services Ltd. (NABFINS):** NABARD established NABFINS as a model microfinance institution that focuses on maintaining high standards of governance, transparency, and providing reasonable interest rates to borrowers. It operates with a focus on improving the financial accessibility of marginalized communities.
- **Micro Enterprise Development Programmes (MEDPs):** To boost the income-generating capabilities of SHG members, the Micro Enterprise Development Programmes (MEDPs) offer skill training aimed at improving production activities. These programs enhance the entrepreneurial skills of members, enabling them to diversify their sources of income and improve their livelihoods.

- **E-Shakti Initiative:** The E-Shakti Initiative, launched by NABARD, is a technological breakthrough aimed at enhancing the microfinance sector's efficiency.
- **Pradhan Mantri MUDRA Yojana (PMMY)**: Launched in 2015, the Pradhan Mantri MUDRA Yojana (PMMY) aims to increase the flow of credit to small businesses across India. The initiative focuses on providing micro-financing to non-corporate, non-farm small and micro-enterprises.

21 BHARAT BILL PAYMENT SYSTEM

Context: In order to centralize and streamline the bill payment process across India, the Reserve Bank of India (RBI) has mandated that all banks process credit card bill payments through the Bharat Bill Payment System (BBPS).

What is Bharat Bill Payment System?

- **Developed by:** National Payments Corporation of India (NPCI)
- The Bharat Bill Payment System (BBPS) is a unified platform to streamline and centralize the process of paying bills across India.
- BBPS facilitates bill payments through a wide network that includes bank branches, online portals, mobile apps, and other digital channels.

FACT BOX

National Payments Corporation of India (NPCI)

- It is an umbrella organisation for operating retail payments and settlement systems in India
- NPCI is an initiative of **Reserve Bank of India (RBI) and Indian Banks' Association (IBA)** under the provisions of the **Payment and Settlement Systems Act, 2007,** for creating a robust Payment & Settlement Infrastructure in India.
- It is a **"Not for Profit" Company** under the provisions of **Section 25 of Companies Act 1956 (now Section 8 of Companies Act 2013).**
- **Important introduction:** RuPay, Immediate Payment Service (IMPS), National Automated Clearing House (NACH), Aadhaar Payment Bridge (APB) System, Aadhaar enabled Payment System (AePS), National Financial Switch (NFS), Unified Payments Interface (UPI), National Electronic Toll Collection (NETC)

22 RBI'S PRAVAAH PORTAL

Context: The Reserve Bank of India (RBI) has introduced three key initiatives: the PRAVAAH portal, the Retail Direct Mobile App, and a FinTech Repository. These initiatives aim to facilitate easier interaction between individuals, entities, and the apex bank.

About PRAVAAH Portal

- The **PRAVAAH (Platform for Regulatory Application, Validation, and Authorisation) portal** allows individuals and entities to apply online for various regulatory approvals.
- It is a secure, centralized web-based portal for seeking authorization, licenses, or regulatory approvals from the RBI.
- **Benefits**: The portal is designed to improve the efficiency of the RBI's regulatory approval and clearance processes.

FACT BOX

Retail Direct Mobile App

- The Retail Direct Mobile App provides retail investors with easy access to the platform for transactions in **government securities (G-Secs).**
- **Background**: The retail direct portal was initially launched in November 2021 to help retail investors open **Retail Direct Gilt accounts** with the RBI under the **Retail Direct Scheme.**
- **Gilt Accounts**: A gilt account is a savings account that holds government securities instead of cash.
- **Functionality**: The scheme allows retail investors to buy G-Secs in primary auctions and trade them in the secondary market.

FinTech Repository

- **Purpose**: The FinTech Repository will hold information on the Indian fintech sector.
- **Benefits**: It aims to provide a better understanding of the sector from a regulatory perspective and help in designing appropriate policy approaches.

23 NABARD INITIATES STUDY ON IMPACT OF GI PRODUCTS

Context: The National Bank for Agriculture and Rural Development (NABARD) has commissioned a study to evaluate the impact of Geographical Indication (GI) products, with Symbiosis School of Economics chosen as the research partner.

Key-highlights:

- **Objectives of the Study:** to assess the benefits accrued to artisans and producers due to the GI tags associated with their products over time.
- **Expansion of GI Portfolio:** NABARD's support has led to the GI tagging of 144 products to date.
  - Notably, the journey began with **PochampallyIkat** from Telangana (formerly united Andhra Pradesh).
- **Diverse Range of GI Products:** Artisans across various regions have embraced the GI registration, showcasing the rich cultural diversity of India. Notable examples include **Banaras Brocades and Sarees (Uttar Pradesh), Blue Pottery of Jaipur (Rajasthan), Ilkal Saree (Karnataka), Jalna Sweet Orange (Maharashtra), and NakshiKantha (West Bengal),** among others.
- A geographical indication (GI) serves as a mark of origin for products possessing unique qualities or reputations attributable to their specific geographical location.

24 SMALL FINANCE BANKS (SFBS)

Context: The Reserve Bank of India (RBI) recently introduced new rules governing the conversion of Small Finance Banks (SFBs) into Universal Banks, signaling a significant shift in the banking landscape. The "Guidelines for 'on-tap' Licensing of SFBs in Private Sector" provide a transition path for SFBs to become universal banks.

Eligibility Conditions:

- Under the new guidelines, only listed SFBs meeting specific eligibility criteria are eligible to apply for a universal banking license. These criteria include-
  - minimum net worth of Rs 1,000 crore
  - scheduled status
  - satisfactory track record of at least five years
- **Gross non-performing assets (NPAs):** Additionally, aspiring SFBs must demonstrate profitability, maintaining gross non-performing assets (NPAs) of less than 3% and net NPAs of less than 1% in the preceding two financial years.
- **Capital adequacy**: They are also required to comply with prescribed capital adequacy norms and furnish a comprehensive rationale for their transition.

FACT BOX

About Small Finance Bank

- The concept of SFBs was laid down by **RaghuramRajan Committee.**
- **Objective:** To provide banking services to small and marginal enterprise farmers, low-income households, and other weaker sections of the society having limited access to basic banking services.
- **SFBs** are operational under the regulation of the RBI in India, under the purview of the apex bank's **Banking Ombudsman Scheme, 2006**, as amended from time to time.
- **Registered as:** Public limited companies under the **Companies Act, 2013**
- **Governed by:** Banking Regulations Act, 1949; RBI Act, 1934 and other relevant Statutes and Directives from time to time.
- **Services:** Savings Accounts, Current Accounts, Fixed Deposits, Recurring Deposits, Loans, etc.
  - **Comparison Parameter**
  - **Small Finance Bank**
  - **Commercial Bank**

Target Customer

- Underserved and unbanked segments of the population, like small businesses, MSMEs, and marginal farmers.
- Wider consumer base including large corporates, SMEs, and retail customers.

Services Offered

- Savings accounts, fixed deposits, recurring deposits, digital banking, debit cards, and so on.
- Apart from basic banking services, a wide range of financial services are offered including credit cards, wealth management, corporate banking services, etc.

Minimum Capital Requirement

- Rs 200 crores
- Rs 500 crores

Loan Products

- Microfinance loans, small personal loans, micro-business loans, and loans to marginal farmers and industries.
- Large corporate loans, housing loans, personal loans, etc.

Other Terms:

- **Universal Banks** are financial entities like commercial banks, financial institutions, NBFCs, etc. that undertake multiple financial transactions.
- **On-tap bank licensing facility**, introduced in 2016, enables a window for making applications for bank licenses at the RBI throughout the year.

25 RBI'S G-SEC APP

Context: The Reserve Bank of India (RBI) has announced the launch of a mobile application, the 'G-sec App', as part of its Retail Direct Scheme. This initiative aims to simplify the process of investing in government securities (G-Secs) for retail investors.

About G-sec App

- The G-sec App serves as a one-stop solution for retail investors looking to invest in government bonds and treasury bills.

It provides a user-friendly interface for buying and selling securities, eliminating the complexities of traditional investment methods.

FACT BOX

Retail Direct Scheme

- The Retail Direct Scheme was introduced in 2021 to enable individual investors to directly invest in **G-Secs** issued by the **Central and State Governments.**
- This eliminates the need for intermediaries or agents, making the investment process more accessible and transparent.

Government securities

- Government securities, also known as G-Secs, are **investment instruments** issued by governments to raise funds.
- They offer a **low-risk investment option** with **fixed interest rates.**
- Treasury bills are short-term securities issued for less than 12 months, while bonds are issued for longer durations.

26 GROSS NON-PERFORMING ASSETS (GNPA)

Context: The gross non-performing assets (GNPA) of banks are set to improve further up to 2.1 per cent by the end of the Financial Year 2025, as per a report.

What is a Non-Performing Asset?

- They are loans or advances that are in default or in arrears.
- In other words, these are those kinds of loans wherein principal or interest amounts are late or have not been paid.
- **Classification:** Non-Performing Assets are basically Non-Performing Loans. In India, the timeline given for classifying the asset as **NPA is 180 days**. As against **45 to 90 days of international norms.**
- **Types of NPA:**
- **Standard Assets:** It is a kind of performing asset which creates continuous income and repayments as and when they become due. These assets carry a normal risk and are not NPA in the real sense of the word. Hence, no special provisions are required for standard assets.
- **Sub-Standard Assets:** Loans and advances which are non-performing assets for a period of 12 months fall under the category of Sub-Standard Assets.
- **Doubtful Assets:** The Assets considered as non-performing for a period of more than 12 months are known as Doubtful Assets.
- **Loss Assets:** All those assets which cannot be recovered by the lending institutions are known as Loss Assets.

27 NEGATIVE INTEREST RATE POLICY

Context: Japan ended its negative interest rate policy, as the Bank of Japan (BoJ) raised interest rates for the first time since 2007. This marks an end to a prolonged period of ultra-loose monetary policy aimed at stimulating the economy.

What are negative interest rates?

- Negative interest rates are when central banks make their **commercial counterparts** pay to park their **excess cash at the institution.**
- This method is usually adopted during **deflationary periods** when consumers hold **too much money** instead of spending as they wait for a turnaround in the economy.
- Consumers may expect their money to be worth more tomorrow than today during these periods.
- When this happens, the economy can experience a **sharp decline in demand**, causing prices to plummet even lower.
- **Japan's objective behind the rate:** To encourage spending and inflation in an ageing society with a negative population growth.
- These negative interest rates were first introduced by Swedish Riksbank in 2009. This was followed up others such as the central banks of Denmark, Switzerland and then Japan.

28 REPO RATE

Context: The Reserve Bank of India's (RBI) six-member Monetary Policy Committee (MPC), is likely to keep the repo rate – its key policy rate – unchanged for the sixth consecutive time at 6.5 per cent to meet the 4 per cent consumer price-based inflation (CPI) target.

What is Repo rate?

- Repo stands for "**Re Purchase Option".**Repo Rate is the rate at which the central bank (Reserve Bank of India) lends to **other banks by buying the securities** with an agreement that the bank will buy back on a certain date.
- Repo lending is a short-term lending option to meet the liquidity requirements of commercial banks.
- Repo rate is the rate at which the **Reserve Bank of India (RBI) lends to other banks**.
- It is a part of the **Liquidity Adjustment Facility (LAF)**of the RBI.

FACT BOX

Other important rates

- **Reverse repo rate:** The interest rate that the RBI pays commercial banks when they park their excess cash with the central bank is called the reverse repo rate.
- **Bank rate: It** is the rate charged by the central bank for lending funds to commercial banks.
- **Statutory Liquid Ratio:** A commercial bank must retain a percentage of liquid cash, gold or other securities as deposits. This is known as Statutory Liquid Ratio or SLR.
- **Cash Reserve Ratio (CRR):** It is a percentage of deposits required by commercial banks to be maintained in the form of liquid cash with the RBI as reserves.
- **Marginal Standing Facility Rate (MSF):** It is a facility extended to commercial banks by the RBI in the event of an emergency to obtain liquidity overnight.

Components of Repo Rate:

- **Preventing "squeeze" in the economy -**The central bank adjusts the Repo rate in response to inflation. As a result, it seeks to govern the economy by keeping inflation under control.
- **Hedging and Leverage**- The RBI tries to hedge and leverage by purchasing securities and bonds from banks and providing cash in exchange for collateral deposited.
- **Short-Term Borrowing**— The RBI lends money for a **short length of time**, up to an overnight period, after which banks purchase back their deposited securities at a predetermined price.
- **Collateral and Securities**— The RBI takes gold, bonds, and other forms of collateral.
- **Cash Reserve or Liquidity**: Banks borrow money from the Reserve Bank of India (RBI) to preserve liquidity or cash reserves as a precautionary measure.

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CHAPTER 03

BUDGET & TAXATION

1 SIMPLIFYING TAX LAWS

Context: The Union Cabinet approved a new Income-Tax Bill that is expected to be tabled in Parliament. The Bill is designed to simplify the complex tax laws and make them easier to understand and follow for both taxpayers and tax authorities.

Key Objectives of the New Income-Tax Bill

- **Simplification**: One of the primary aims of the new Bill is to **reduce complexity**. The government intends to cut the number of sections by **25-30%**, making the law more concise and easier to understand. Unnecessary provisions, explanations, and provisos have been removed, and the overall word count has been halved.
  - Currently, there are **multiple tax regimes** applicable in case of various taxpayers (such as **companies, individuals, Hindu Undivided Family (HUF) Association of Persons (AOPs) Body of individuals (BOIs), co-operative societies**, etc.).
  - The new bill will converge to a single tax regime with an objective of reducing overall compliance burden and providing tax certainty

Income Range	Tax Rate
Rs 0 – Rs 4 lakh	No Tax
Rs 4 lakh – Rs 8 lakh	5%
Rs 8 lakh – Rs 12 lakh	10%
Rs 12 lakh – Rs 16 lakh	15%
Rs 16 lakh – Rs 20 lakh	20%
Rs 20 lakh – Rs 24 lakh	25%
Above Rs 24 lakh	30%

- **Clear Language**: The Bill focuses on using **simpler language**. It aims to eliminate **redundancy** and **complex explanations**, replacing them with **shorter sentences**, **active voice**, and **lucid language** for better clarity.
- **Avoiding Ambiguities**: The new law also addresses **interpretation issues** that have arisen in the past due to unclear language. This should reduce legal disputes and improve compliance.
- **New income tax slabs under the bill:** The Budget 2025 announcement proposed these income tax slabs under new tax regime:
  - The government has effectively exempted incomes up to Rs 12 lakh by allowing deductions and rebates.
  - If passed, the new tax system will take effect from the financial year 2025-26.
  - It will apply to taxpayers from the assessment year 2026-27.

2 INDIA'S INCOME TAX BILL, 2025 AND THE REGULATION OF VDAS

Context: As blockchain technology and digital economies expand, global governments are working to classify, regulate, and tax Virtual Digital Assets (VDAs). In

response, India's Income Tax Bill, 2025 introduces a comprehensive tax framework for VDAs, aligning with global taxation policies followed in the U.K., U.S., Singapore, Australia, New Zealand, and the UAE.

What Does the Income Tax Bill, 2025 Say About VDAs?

- VDAs Are Now Classified as **Property & Capital Assets**
  - **Section 92(5)(f)** treats VDAs as taxable property, similar to real estate or stocks.
  - **Section 76(1)** ensures that profits from selling VDAs are taxed like capital gains.
- This classification aligns with global practices:
  - In the United Kingdom, HM Revenue & Customs (HMRC) recognizes crypto as property, subject to **Capital Gains Tax.**
  - New Zealand's tax department treats crypto as taxable property.

How Are VDAs Taxed?

- A flat 30 percent tax is applied to income from VDA transfers.
- No deductions are allowed except for the cost of acquisition.
- A one percent **Tax Deducted at Source (TDS)** applies on all transactions, including peer-to-peer transactions.
- The TDS exemption limit is set at Rs 50,000 for small traders and Rs 10,000 for others.
  - Expenses such as **mining costs, platform fees, and gas fees** cannot be deducted from taxable income.
- **In comparison with other countries:** The United Arab Emirates allows a zero percent personal tax on VDA gains under certain conditions. The United Kingdom applies Capital Gains Tax on crypto profits.
- **Undisclosed Income & Asset Seizure**
  - **Section 301** states that unreported VDAs will be classified as undisclosed income and taxed accordingly.
  - **Section 524(1)** allows the government to seize VDAs in tax raids, similar to gold or cash.
  - This aligns with global practices, such as in the United Kingdom, where courts can freeze or seize crypto assets in legal disputes.
- **Mandatory Reporting of VDA Transactions**
  - **Section 509** mandates that crypto exchanges, wallet providers, and traders report transactions in a prescribed format to prevent money laundering and ensure transparency.
  - VDAs must be included in Annual Information Statements (AIS), which allows tax authorities to automatically track all crypto transactions.

FACT BOX

What Are Virtual Digital Assets (VDAs)?

- Virtual Digital Assets (VDAs) include:
- Cryptocurrencies such as Bitcoin and Ethereum
- Non-Fungible Tokens (NFTs)
- Other blockchain-based digital assets

3 IMPACT OF WINDFALL TAX ON NORTH SEA TRADE

Context: North Sea oil and gas producers are merging and shifting operations overseas due to Britain's windfall tax slashing profits.

About Windfall Tax:

- Windfall taxes are **designed to tax the profits a company derives** from an external, sometimes unprecedented event— for instance, the energy price rise as a result of the Russia-Ukraine conflict.
- These are profits that cannot be attributed to something the firm actively did, like an investment strategy or an expansion of business.
- A windfall is defined as an "unearned, unanticipated gain in income through no additional effort or expense".
- Governments typically levy a one-off tax retrospectively over and above the normal rates of tax on such profits, called **windfall tax.**
- One area where such taxes have routinely been discussed is oil markets, where price fluctuation leads to volatile or erratic profits for the industry.

FACT BOX

About the North Sea

- **Bordering Countries:** United Kingdom, Norway, Denmark, Germany, the Netherlands, Belgium, and France.
- The North Sea is a semi-enclosed, shallow continental shelf sea, about 100 meters deep, located between the **British Isles, Norway, and Europe**. It connects to the North Atlantic through a broad region between Scotland and Norway and the **Dover Strait.**

- **Baltic Sea Connection:** The Baltic Sea, nearly enclosed east of Denmark, connects to the North Sea via passages leading to the Kattegat. The Baltic includes the **Gulf of Bothnia and the Gulf of Finland** and is the largest area of brackish water in the ocean system.
- The North Sea is a busy area for shipping, fisheries, oil and gas exploration, sand extraction, and offshore wind energy.

4 CAPITAL GAIN TAX & INTEREST INCOME

Context: The Mumbai bench of the Income-tax Appellate Tribunal (ITAT) ruled that the difference between the proceeds from redeeming unlisted non-convertible debentures (NCDs) and their purchase cost will be considered as 'Interest income' and not 'capital gain tax'. It will be taxed under the head 'Income from other sources' for the investor.

About Capital Gain Tax

- Any profit or gain that arises from the sale of a 'capital asset' is known as 'income from capital gains'. Such capital gains are taxable in the year in which the transfer of the capital asset takes place. This is called **capital gains tax.**
- The following items do not fall under the category of capital assets:
  - Stocks, consumables, or raw materials held for business or professional purposes
  - Personal belongings like clothes and furniture used for personal use
  - **Agricultural land** in rural India
  - 6½% gold bonds (1977), 7% gold bonds (1980), or National Defence gold bonds (1980) issued by the central government
  - Special bearer bonds (1991)
  - Gold deposit bonds issued under the **gold deposit scheme (1999**) or deposit certificates issued under the **Gold Monetisation Scheme, 2015, and Gold Monetisation Scheme, 2019** notified by the Central Government.

Interest Income

- Interest income refers to the money earned by an entity for lending its funds or allowing another entity to use its money.
- It is typically considered taxable income and is reported in the income statement because it represents revenue earned by the entity.

FACT BOX

Non-convertible debentures (NCDs)

- Non-convertible debentures (NCDs) are **fixed-income securities** typically issued by highly-rated companies through public offerings to raise long-term capital.
- Unlike convertible debentures, NCDs cannot be converted into equity shares or stocks.
- **Category:** Debt category
- **Benefits (compared to convertible debentures):** liquidity, low risk, supreme returns and tax benefits

5 DIRECT TAX KITTY

Context: India's net direct tax collections picked up pace over the past month to rise 20.25% year-on-year by February 10, compared to a 19.4% uptick on the same date in January, as per data released by the Finance Ministry.

Data

Net direct tax is calculated by deducting refunds from gross tax inflows

- From Rs 14.7 lakh crore on January 10, net direct tax collections, had hit Rs 15.6 lakh crore by Saturday, constituting 80.23% of the revised estimates for direct taxes for this year.
- **Personal Income vs Corporate Income:** Growth in the Personal Income Tax (PIT) revenues continued to outstrip Corporate Income Tax (CIT), with a 26.91% uptick in net PIT collections vis-à-vis a 13.6% rise in CIT inflows so far this year.

Personal Income Tax	Corporate income-tax (CIT)
⦿ Income from Salary ⦿ Income from House Property ⦿ Income from Profits and Gains of Business or Profession ⦿ Income from Capital Gains ⦿ Income from Other Sources	⦿ Income-tax paid by domestic companies, and foreign companies on their income

- Revenue collection from direct taxes in 2023-24 is set to surpass the budgetary estimate by Rs 1.22 lakh crore.
- **Indirect Tax collection: N**ot just direct taxes, there has been buoyancy in indirect tax collections as well. Revenue collection from **Goods and Services Tax**

(GST) soared to Rs 16.69 lakh crore in the first 10 months of the current financial year, which is 11.6% higher when compared with the collection during the same period last year.

FACT BOX

Interim Budget for 2024-25

In the interim budget, the government increased the **direct tax revenue target** for the current financial year to Rs 19.45 lakh crore from the original budgetary estimate of Rs 18.23 lakh crore.

6 INDIA'S TAX-TO-GDP RATIO

Context: There has been predictions that India's tax-to-GDP ratio is expected to hit a record high of 11.7% of GDP in 2024-25, led by an uptick in the more 'equitable' direct taxes.

What is the tax-to-GDP ratio?

- The tax-to-GDP ratio represents a country's tax kitty relative to its GDP, indicating the government's ability to finance its expenditure.
- Simply put, it is the share of taxes in the overall output generated in the country.
- A higher ratio denotes a wider fiscal net and reduced dependence on borrowings.
- **Impact of lower ratio:** A lower ratio poses challenges for the government's spending on critical infrastructure and investments. It also strains fiscal deficit targets and constrains expenditure despite robust economic growth.
- **What measures can potentially boost the ratio (to increase revenue)?**
  - Enhancing tax compliance
  - Implementing the Direct Tax Code
  - Rationalizing GST

FACT BOX

Components of the fiscal deficit calculation

The fiscal deficit calculations are based on two components — income and expenditure.

- **Income component:** The income component is made of two variables, revenue generated from **taxes** levied by the Centre and the income generated from non-tax variables.
  - **The taxable income** consists of the amount generated from **corporation tax, income tax, Customs duties, excise duties, GST,** among others.
  - **The non-taxable income** comes from external grants, interest receipts, dividends and profits, receipts from Union Territories, among others.
- **Expenditure component:** The government in its Budget allocates funds for several works, including payments of **salaries, pensions, emoluments, creation of assets, funds for infrastructure, development, health and numerous** other sectors that form the expenditure component.

Tax Revenue

Non Tax Revenue

- **Income tax:** Taxes on individual salaries and income.
- **Corporate tax:** Taxes on firms and corporations.
- **Excise duties:** Duties levied on goods produced within the country.
- **Customs duties:** Duties imposed on goods imported into and exported out of India.
- **Service tax:** Tax levied by the government on service providers on certain service transactions.
- **Wealth tax:** Charged on the net wealth of the assesse. It is a tax on the benefits derived from ownership of property.
- **Gift tax:** Tax on the transfer of property by one individual to another while receiving nothing, or less than full value, in return.
- **Interest receipts** on account of loans by the central government;
- **Dividends and profits on investments** made by the government;
- **Fees and other receipts for services** rendered by the government; and
- **Cash grants-in-aid** from foreign countries and international organisations.

7 GST COLLECTION

Context: The total gross Goods and Services Tax (GST) revenue grew 7.3 per cent to Rs 1.77 lakh crore in December as compared to Rs 1.65 lakh crore in the same month a year ago.

GST Collection

- The total gross GST revenue for December was split across the following categories:
  - **Central GST (CGST):**Rs 32,836 crore
  - **State GST (SGST):**Rs 40,499 crore

- **Integrated GST (IGST):**Rs 47,783 crore (including Rs 18,310 crore collected on imports)
- **Cess:**Rs 11,471 crore (including Rs 1,258 crore collected on imports)

What is GST?

- GST (Goods and Services Tax), is an **indirect tax** imposed in India on the supply of goods and services.
- GST was introduced in India on July 1, 2017.
- A **value-added tax**, GST is imposed at each stage of the supply chain on the exact amount of value-addition achieved. Applicable across India, GST can also be described as a destination-based tax on consumption.
- **Types of GST:** GST is divided into four types:
  - **Central Goods and Services Tax or CGST**: CGST is imposed on the supply of products and services from one state to another.
  - **State Goods and Services Tax or SGST:** SGST is imposed on the supply of goods and services within a state.
  - **Integrated Goods and Services Tax or IGST:**IGST is imposed on inter-state transactions of products and services.
  - **Union Territory Goods and Services Tax or UTGST:**UTGST is charged on the supply of products and services in Union Territories along with CGST.

PYQ

1. Consider the following items: (2018)

1. Cereal grains hulled
2. Chicken eggs cooked
3. Fish processed and canned
4. Newspapers containing advertising material

Which of the above items is/are exempted under GST (Goods and Services Tax)?

(a) Only (b) 2 and 3 only
(c) 1, 2 and 4 only (d) 1, 2, 3 and 4

Solution: (c)

2. What is/are the most likely advantages of implementing 'Goods and Services Tax (GST)'? (2017)

1. It will replace multiple taxes collected by multiple authorities and will thus create a single market in India.
2. It will drastically reduce the 'Current Account Deficit' of India and will enable it to increase its foreign exchange reserves.
3. It will enormously increase the growth and size of economy of India and will enable it to overtake China in the near future.

Select the correct answer using the code given below:

(a) Only (b) 2 and 3 only
(c) 1 and 3 only (d) 1, 2 and 3

Solution: (a)

8 55TH GST COUNCIL MEETING

Context: The 55th meeting of India's Goods and Services Tax (GST) Council, was held in Jaisalmer, Rajasthan, significant attention was given to addressing pressing economic issues such as food inflation, unemployment, rural job creation, and maintaining capital expenditure momentum.

Key takeaways from the 55th GST Council meeting:

- **Increase in GST for used electric vehicles (EVs):** The Council approved raising the GST rate on old and used electric vehicles from **12 per cent to 18 per cent**.
  - This move aims to align the tax structure of used EVs with that of new EVs, which are currently taxed at 5 per cent.
- **Hike in GST for small petrol and diesel cars:** A decision was made to increase the GST rate on small petrol and diesel cars from 12 per cent to 18 per cent. This adjustment is intended to standardise tax rates across different vehicle categories.
- **Tax relief on health and life insurance premiums:** The Council granted full GST exemptions on term life insurance premiums and health insurance premiums for senior citizens. Additionally, health insurance policies with coverage up to Rs 5 lakh for other individuals will also enjoy tax relief. This measure is expected to make insurance more affordable and accessible.
- **GST rate adjustments on luxury goods**: To boost revenue, the Council decided to increase GST rates on luxury items such as high-end wristwatches and shoes. This change is projected to generate an additional Rs 22,000 crore annually.
- **Reduction in GST on essential items:** In an effort to reduce household expenses, the Council lowered GST rates on essential goods, including bicycles, exercise books, and large packs of packaged drinking water. This move is aimed at providing relief to consumers.
- **GST Rate Changes**
  - **GST Rate Reduction on Fortified Rice Kernel (FRK):** The GST rate on Fortified Rice Kernel (FRK), classifiable under HSN 1904, reduced to 5% from existing GST rate of 18%.

- **GST Exemption on Gene Therapy:** To exempt GST on gene therapy.
- **IGST Exemption on Long Range Surface to Air Missile System (LRSAM):** To extend IGST exemption to systems, sub-systems, equipment, parts, sub-parts, tools, test equipment, and software meant for the assembly/manufacture of LRSAM system under Notification 19/2019- Customs.
- **Compensation Cess Reduction for Merchant Exporters:** Rate of compensation cess to be reduced to 0.1% on supplies to merchant exporters. Reduction recommended to bring the compensation cess rate at par with the GST rate.
- IGST Exemption for International Atomic Energy Agency (IAEA) Imports: IGST to be exempted on import of all equipment and consumable samples by the inspection team of the IAEA subject to specified conditions.
- Concessional GST on Food Preparations for Government Programs: Concessional 5% GST rate to be extended to food inputs of food preparation for free distribution to economically weaker sections under government programmes subject to the existing conditions.
- **Increase in GST Rate on sale of old and used vehicles:** GST rate on the margin on the sale of all old and used vehicles, including electric vehicles, to be increased from 12% to 18%.
- No GST applicable on 'penal charges' levied by banks and s (NBFCs) for non-compliance with loan terms.
- Pepper and raisins supplied by agriculturists not to be liable to GST.

- **Specific Commodity Clarifications:**
  - **Autoclaved Aerated Concrete Blocks (ACC):** Blocks with over 50% fly ash content will attract 12% GST under HSN 6815.
  - **Pepper and Raisins:** Fresh or dried pepper and raisins supplied by agriculturists will not attract GST.
  - **Ready-to-Eat Popcorn:** Popcorn mixed with salt and spices attracts 5% GST if not pre-packaged and labelled, and 12% GST if it is pre-packaged. Popcorn mixed with sugar (e.g., caramel popcorn) falls under confectionery (HSN 1704) and attracts 18% GST.
  - **Pre-Packaged and Labelled Goods:** The definition has been revised to include all commodities intended for retail sale, containing up to 25 kg or 25 litres, and bearing labels under the Legal Metrology Act.

FACT BOX

GST Council

- In order to implement GST, the Constitution (One Hundred and First Amendment) Act, 2016 was enacted.
- Since then the GST council and been notified bringing into existence the Constitutional body to decide issues relating to GST.
- As per Article 279A (1) of the amended Constitution, the GST Council has to be constituted by the President within 60 days of the commencement of Article 279A.
- The GST Council is a constitutional body responsible for making recommendations on issues related to the implementation of the Goods and Services Tax (GST) in India.
- Composition: The GST Council shall consist of the following members:

The Union Finance Minister

- The Union Minister of State in charge of Revenue or Finance
- The Minister in charge of Finance or Taxation or any other Minister nominated by each State Government
- Any person nominated by the Governor of the State where there is a proclamation of emergency under Article 356 of the Constitution of India
- The GST Council decides tax rates, tax exemptions, the GST return due dates, tax laws, and other compliance deadlines, keeping in mind special rates and provisions for some states.
- Current GST Rate Structure: Currently, GST is applicable in 5 slabs, including 0% or nil tax. They are 0% (Nil tax), 5%, 12%, 18% and 28%.
- Essential commodities primarily belong to 0% and 5% tax slabs, while semi-essential items are taxed at 12% and 18% slabs. Luxury items attract the highest GST rate of 28%.

PYQ

1. **What is/are the most likely advantages of implementing 'Goods and Services Tax (GST)'? (2017)**
   1. It will replace multiple taxes collected by multiple authorities and will thus create a single market in India.
   2. It will drastically reduce the 'Current Account Deficit' of India and will enable it to increase its foreign exchange reserves.

3. It will enormously increase the growth and size of the economy of India and will enable it to overtake China in the near future.

Select the correct answer using the code given below:

(a) 1 only (b) 2 and 3 only

(c) 1 and 3 only (d) 1, 2 and 3

Solution: (a)

2. Consider the following items: (2018)

1. Cereal grains hulled
2. Chicken eggs cooked
3. Fish processed and canned
4. Newspapers containing advertising material

Which of the above items is/are exempted under GST (Good and Services Tax)?

(a) 1 only (b) 2 and 3 only

(c) 1, 2 and 4 only (d) 1, 2, 3 and 4

Solution: (c)

9 GST AND HEALTHCARE

Context: Insurance companies have jacked up premiums on health and life insurance policies this year which, together with the 18% Goods and Services Tax (GST), has made insurance less affordable for many sections of the country's population.

GST Structure on Healthcare:

- Currently, GST on health and life insurance policies is fixed at 18%. Since GST encapsulates service tax, which applies to the insurance industry, its introduction has increased premium amounts.
- Before GST, life insurance premiums were subject to 15% service taxes, comprising Basic Service Tax, Swachh Bharat cess, and Krishi Kalyan cess.
- The increase from 15% to 18% impacted the end consumer — that is, policyholders — by raising their premiums amounts.
- This, along with the runaway cost of treatment — medical inflation was estimated to be 14% towards the end of last year — has made buying medical insurance difficult for many people.

10 NET DIRECT TAX COLLECTIONS

Context: The net direct tax collections for the current fiscal year have shown robust growth, rising by 16.45% year-on-year to exceed Rs 15.82 lakh crore, according to the latest government data.

Key Insights:

- **Corporate Tax (CT) Performance**: **Gross collections** from corporate tax reached **Rs 9.24 lakh crore**, up from **Rs 7.90 lakh crore** in the same period last year.
  - After refunds, the **net corporate tax** collections stood at **Rs 7.42 lakh crore**, compared to **Rs 6.83 lakh crore** in the previous fiscal year.
- **Non-Corporate Tax (NCT) Growth**:
  - Non-corporate tax, which mainly includes **personal income tax**, showed strong growth.
  - **Gross collections** for this segment climbed to **Rs 9.53 lakh crore**, compared to **Rs 7.81 lakh crore** last year.
  - **Net collections** grew significantly to **Rs 7.97 lakh crore**, up from **Rs 6.50 lakh crore** in the same period of the previous fiscal year.
- **Direct Taxes Overview**:
  - Direct taxes in India encompass a wide range of taxes including **corporate tax**, **personal income tax**, **securities transaction tax**, **equalization levy**, and others.
  - These taxes are an essential source of revenue for the government and include **wealth tax**, **fringe benefits tax**, **banking cash transaction tax**, **hotel receipt tax**, **interest tax**, and **gift tax**, among others.

11 INPUT TAX CREDIT (ITC)

Context: In a significant development for the commercial real estate sector, the Supreme Court of India has permitted the Input Tax Credit (ITC) on construction expenses for buildings intended for lease. This ruling is expected to boost investments in commercial real estate and alleviate financial pressures for tenants.

What is Input Tax Credit (ITC)?

- **Input Tax Credit (ITC)** is a provision under the **Goods and Services Tax (GST) system** that allows businesses to claim a credit for the tax paid on inputs (goods or services) used in the course of their business.
- Essentially, it enables businesses to reduce their overall tax liability by offsetting the GST they pay on purchases against the GST they collect on sales.
- **Ruling**
  - The Supreme Court stated that if the construction of a building is essential for activities like renting or leasing, the building can be classified as "plant and machinery."
  - This classification allows businesses to claim ITC on the construction costs associated with such buildings.
  - The ruling suggests that this ITC will be available retroactively.

CHAPTER 04

EXTERNAL SECTOR & INTERNATIONAL ECONOMIC ORGANISATION

1 CCI'S INVESTIGATION INTO ZOMATO AND SWIGGY

Context: In 2022, the National Restaurant Association of India (NRAI) filed a complaint against Zomato and Swiggy, two of India's largest food delivery platforms, accusing them of anti-competitive practices that harmed other restaurants and disrupted fair market competition. The Competition Commission of India (CCI), which monitors business practices to ensure fair competition, launched an investigation into the matter.

What are the issues?

- The NRAI's complaint highlighted two main issues:
- **Exclusivity Contracts:** Zomato and Swiggy allegedly entered into exclusive agreements with certain restaurants. In exchange for offering lower commission fees, these platforms required some restaurants to list only on their platforms, making it harder for other food delivery services to compete.
- **Price Parity Requirements:** Both Zomato and Swiggy imposed price parity clauses on restaurants. This meant that restaurants had to match their prices across platforms, preventing them from offering cheaper prices on other food delivery apps.

FACT BOX

Competition Commission of India (CCI)

- The Competition Commission of India (CCI) is a **statutory body** of the Government of India responsible for enforcing the **Competition Act, of 2002**, it was duly constituted in March 2009.
- The **Monopolies and Restrictive Trade Practices Act, 1969 (MRTP Act)** was repealed and replaced by the Competition Act, 2002, on the recommendations of the **Raghavan committee**.
- **Composition:** The Commission consists of one Chairperson and six Members who shall be appointed by the Central Government.

The Competition Act, of 2002:

- The Competition Act, 2002, regulates competition in the Indian market and prohibits anti-competitive practices such as cartels, abuse of dominant market position, and mergers and acquisitions that may have an adverse effect on competition.
- The Act has been amended by the **Competition (Amendment) Act, 2007.**
- The **Competition Commission of India (CCI)** is responsible for implementing and enforcing the Act.
- **Judicial bodies:**

- The **Competition Appellate Tribunal** is a **statutory body** created in accordance with the Competition Act, 2002 to hear and regulate on appeals against any rules made, decisions made, or orders made by the Competition Commission of India.
- The government replaced the Competition Appellate Tribunal with the **National Company Law Appellate Tribunal (NCLAT) in 2017.**

Key-Terms

- **Predatory Pricing:** Predatory pricing occurs when a company sets prices below cost to drive competitors out of the market, with the intention of raising prices once competition is eliminated.

2 OECD GLOBAL TAX DEAL

Context: India is considering whether it should continue its participation in the OECD's global tax deal following the United States' decision to withdraw from the pact. US's exit effectively nullified the progress made by the OECD in bringing together 140 countries to agree on a global minimum tax of 15% for profits made by multinational corporations.

About OECD Global Tax Deal

- The Organization for Economic Co-operation and Development ("OECD") Global Tax Deal is a groundbreaking international agreement to overhaul how multinational corporations are taxed.
- In 2021, nearly 140 countries signed the OECD's global tax deal.
- The deal emerged from the **Base Erosion and Profit Shifting ("BEPS") project**, launched in 2013 to combat tax avoidance by multinational corporations
- Its purpose is to create a more unified international tax regime, with the U.S., home to several of the **world's largest multinational corporations** like Google and Amazon, playing a pivotal role in pushing the negotiations forward.
- The deal introduces a **two-pillar framework** aimed to address the **"race to the bottom"** approach of global tax competition and discourage cross-border tax avoidance by firms.
  - **Pillar 1** aims to reallocate the residual profits of large multinationals from their home countries to jurisdictions where they generate revenue
  - **Pillar 2** establishes a 15 per cent global minimum corporate tax.

3 INDIA'S TRADE POLICY AND RCEP

Context: The World Bank has advised India to reconsider its decision not to join the Regional Comprehensive Economic Partnership (RCEP), a major trade agreement in Asia. The World Bank believes that by joining RCEP, India could tap into regional value chains and meet its target of USD 1 trillion in exports.

Regional Comprehensive Economic Partnership (RCEP) Agreement

- RCEP is a **free trade agreement** between **Asia-Pacific nations** of **Australia, Brunei, China, Cambodia, Japan, Indonesia, Laos, South Korea, Malaysia, New Zealand, Myanmar, Singapore, Thailand, the Philippines, and Vietnam.**
  - India and the United States are **not members of RCEP**.
- The **15-member grouping** accounts for 30% of the world's population and 30% of global GDP (2.2 billion people). Thus, it is the largest trade bloc in history.
- By comparison, the **United States-Mexico-Canada trade agreement (USMCA)** covers 28% of world trade, while the **European Union's Single Market** is a distant third at nearly 18%.
- **India's stand**: India had previously **pulled out of RCEP** in **2019**, citing unresolved issues, especially concerns over trade deficits (India imports more than it exports) and the effect of cheaper imports on domestic industries.
  - This decision followed a 2018 report that highlighted India's growing **trade deficit** with countries having **free trade agreements (FTAs)** with India.
  - **Why did India opt out?** India was a member of the RCEP drafting committee from its inception in 2011, but in November 2019, it decided to opt out.
    - **Concerns regarding China:**India did not join RCEP raising a concern that this deal would open it up to Chinese goods.
    - **Safeguarding domestic interest:** Its decision was to safeguard the interests of industries like agriculture and dairy and to give an advantage to the country's services sector.

4 INDIA'S CAD WIDENS TO 1.1% OF GDP

Context: India's current account deficit (CAD) has slightly increased to 1.1% of GDP, amounting to $9.8 billion in the first quarter (Q1) of FY25, up from $8.9 billion (1% of GDP) in the same period last year. This rise is primarily due to an increase in the merchandise trade deficit.

Key-highlights:

- CAD occurs when a country's imports of goods and services exceed its exports. In Q1 FY25, India recorded a merchandise trade deficit of USD 65.1 billion, compared to USD 56.7 billion in the same quarter last year.
- The country had a surplus of USD 4.6 billion (0.5% of GDP) in the previous quarter (Q4 FY24).
- **Factors Influencing the CAD**
  - **Net Service Receipts:** Increased to $39.7 billion in Q1 FY25 from USD 35.1 billion a year ago, boosted by growth in service exports like computer, business, travel, and transportation services.
  - **Private Transfers:** Remittances from Indians working abroad rose to USD 29.5 billion from USD 27.1 billion in the same quarter last year.
  - **Primary Income Outgo:** Payments for investment income went up to USD 10.7 billion from $10.2 billion.
- **Foreign Investments**
  - **Foreign Direct Investment (FDI):** Net inflows increased to USD 6.3 billion from USD 4.7 billion a year ago.
  - **Foreign Portfolio Investment (FPI):** Moderated significantly to USD 3.9 billion from $15.7 billion.
- **Other Financial Indicators**
  - **External Commercial Borrowings (ECBs):** Net inflows fell to USD 1.8 billion from USD 5.6 billion a year ago.
  - **Non-Resident Indian (NRI) Deposits:** Increased to USD 4 billion, up from USD 2.2 billion.
  - **Foreign Exchange Reserves:** India's foreign exchange reserves grew by USD 5.2 billion in Q1 FY25, compared to a larger increase of USD 24.4 billion in the same quarter last year.

5 BRICS CURRENCY AND DE-DOLLARIZATION

Context: US President-elect Donald Trump has issued a strong warning to BRICS countries, threatening to impose 100% tariffs on them if they create or support any currency that could challenge the US dollar's dominance. Trump's statement suggests that if BRICS countries attempt to weaken the dollar's position, they could lose access to the US market—making it difficult for them to export goods to the US.

What is De-dollarisation?

- The US dollar, which accounts for around **58% of global foreign exchange reserves**, is a cornerstone of international trade and finance.
  - It is involved in nearly 90% of global forex transactions and remains the primary currency for commodities like oil. However, its share of global reserves has dropped to a 20-year low of 58%.
- **De-dollarisation** refers to countries reducing their dependence on the US dollar for trade, reserves, and financial transactions.
- **Background on US Dollar Dominance**:
  - After **World War II**, the **Bretton Woods Agreement (1944)** established the **US dollar** as the central currency for global trade. This system initially pegged the dollar to gold, and other currencies were linked to the dollar.
  - Though the **gold standard** ended in **1971**, the dollar continued to dominate because of its stability and trust.
  - The **US dollar** became the world's **primary reserve currency**, with over **58% of global foreign exchange reserves** held in dollars.
  - In the **1970s**, the US made deals with oil-exporting countries (especially **Saudi Arabia**) to sell oil only in US dollars. This created a constant demand for the dollar, known as the **"petrodollar" system**.
  - Many global systems, like **SWIFT** (for international payments), the **IMF**, and the **World Bank**, still operate primarily in dollars.

Role of BRICS in De-dollarisation

- The **BRICS** group (Brazil, Russia, India, China, and South Africa) has been leading efforts to move away from the dollar.
- **BRICS currency**: The idea of a **shared BRICS currency** gained traction during the **2023 Johannesburg summit**, where Brazilian President proposed a **common currency** to shield member states from dollar fluctuations.

6 ADANI-HINDENBURG DISPUTE

Context: The ongoing conflict between Hindenburg Research and the Adani Group has escalated with new allegations. This dispute has significant implications for market regulation and corporate governance in India.

What has happened?

- **Hindenburg Report**: In January 2023, Hindenburg Research accused Adani Group of using **tax havens** and having **high debt levels**. This led to a massive $150 billion drop in Adani's stock prices.
  - SEBI is investigating the Adani Group as a result of the Hindenburg report. Hindenburg continues to push for scrutiny of both Adani and the regulators involved.

- Notably, in January 2023 and in a review in July 2024, the Supreme Court ruled that they could not interfere in the **SEBI's jurisdiction to investigate claims** against Adani made in the Hindenburg report.

- **Adani's Response**: Adani Group dismissed the allegations as baseless and speculative.

FACT BOX

What is short-selling?

- Short selling is a **trading strategy** where investors bet that the price of a stock will decrease.
- Unlike the traditional method of buying a stock with the hope that its price will rise (going long), short selling involves borrowing shares of a stock and selling them at the current market price, to buy them back later at a lower price.
- The difference between the **selling price and the buying price is the profit for the short seller.**
- In India, short selling is recognised as a **legitimate trading strategy and** is allowed for all categories of investors, including retail and institutional investors, under a framework by Sebi.
- **How does short selling work?** Short-selling can be broken down into four steps, which are:
  - **Borrowing shares**: The short seller borrows shares of a stock from a broker.
  - **Selling shares:** The borrowed shares are sold in the open market at the current price.
  - **Buying back (covering)**: The short seller later buys back the same number of shares, ideally at a lower price.
  - **Returning shares:** The purchased shares are returned to the broker, and the short seller pockets the difference between the selling and buying prices.

7 RUPEE HITS ALL-TIME LOW

Context: The Indian rupee dropped to a record low of 85.80 per US dollar. It later closed at 85.52. This is the fourth consecutive day of decline for the rupee.

Key Reasons for the Fall:

- **Dollar Strength**: The **US dollar** has been strengthening globally, partly due to **higher US Treasury yields** (around **50%** for 10-year bonds), making the dollar more attractive to investors.
- **Dollar Demand from Importers**: Indian **importers** need more dollars to pay for goods and services at the **month-end**, increasing demand for the greenback.
- **Capital Outflows**: **Foreign Institutional Investors (FIIs)** sold shares worth **Rs 2,376 crore** on Thursday, leading to outflows from the Indian market, which increases the demand for dollars.
- **Crude Oil Prices**: While **crude oil prices** rose slightly, they continue to put pressure on the rupee since India imports a large amount of oil and needs more dollars for payment.

FACT BOX

What is Rupee's Decline?

- The **decline of the rupee** (Currency depreciation) refers to the **fall** in the value of the **Indian rupee (INR)** relative to other currencies, particularly the **US dollar (USD)**.
- This means that the rupee becomes weaker, and it takes **more rupees** to buy **one US dollar**.
  - For example, if the rupee's value goes from **INR 80 to INR 85** per dollar, it means the rupee has **declined** because it is now weaker and you need more rupees to purchase the same amount of dollar

8 REAL EFFECTIVE EXCHANGE RATE (REER)

Context: The Real Effective Exchange Rate (REER) of the rupee increased to 108.14 in November from 107.20 in October, appreciating by 0.9 per cent.

About Real Effective Exchange Rate (REER)

- REER represents the **inflation-adjusted, trade-weighted average value of a currency** against its trading partners and it is often used as an indicator of external competitiveness.
- The real effective exchange rate (REER) is the **weighted average of a country's currency** in relation to an index or basket of other major currencies.
- The weights are determined by comparing the relative trade balance of a country's currency against that of each country in the index.
- An increase in a nation's REER is an indication that its exports are becoming more expensive and its imports are becoming cheaper, reducing its trade competitiveness.

9 EFTA-INDIA TEPA

Context: The Swiss government recently announced its decision to suspend the Most Favoured Nation (MFN) clause in the Double Taxation Avoidance Agreement (DTAA) with India. However, the decision will not delay the ratification and implementation of EFTA-India TEPA.

What is EFTA-India TEPA?

- India and the four-nation **European Free Trade Association (EFTA)** signed the pact, officially dubbed as **TEPA (Trade and Economic Partnership Agreement),** in March.
- Its members are **Iceland, Liechtenstein, Norway, and Switzerland.**
- This trade agreement is expected to enhance trade relations between India and the EFTA bloc, including Switzerland, **irrespective of the MFN issue**.
- The agreement is yet to be implemented.

FACT BOX

India-Switzerland Trade

- In 2023-24, India's imports from Switzerland stood at USD 21.24 billion, in stark contrast to its exports of USD 1.52 billion, leading to a substantial trade deficit of USD 19.72 billion.
- India received about USD 10.72 billion in foreign direct investments from Switzerland between April 2000 and September 2024.
- **European Free Trade Association (EFTA)**
  - EFTA is an important regional group, with several growing opportunities for enhancing international trade in goods and services.
  - EFTA is one important economic block out of the three (other two - EU &UK) in Europe.
  - Among EFTA countries, Switzerland is the largest trading partner of India followed by Norway.

10 TAX AVOIDANCE TREATY

Context: The Central Board of Direct Taxes (CBDT) has clarified its stance on Principal Purpose Test (PPT) regarding Double Taxation Avoidance Agreement (DTAA), stating that it will be applicable prospectively, allowing grandfathering of prior investments. This clarification is especially important for investments made before the PPT was introduced in certain treaties, specifically the India-Mauritius, India-Cyprus, and India-Singapore DTAAs.

What is the Principal Purpose Test (PPT)?

- The PPT is a test used to determine whether the main purpose of a transaction or arrangement is to gain tax benefits from a **Double Taxation Avoidance Agreement (DTAA)** between countries.
- **Substance** requirements: To pass the PPT, taxpayers must prove that their activities have real substance in the country where they claim tax benefits (e.g., employees, offices, turnover, expenses).

FACT BOX

What is a Double Taxation Avoidance Agreement (DTAA)?

- A **Double Taxation Avoidance Agreement (DTAA)** is a tax treaty signed between two countries to avoid the situation where a taxpayer is taxed on the same income in both countries. The main objectives of DTAAs are to:
  - **Avoid Double Taxation**: Prevent individuals and companies from paying taxes in both countries on the same income.
  - **Promote Investment**: By reducing tax barriers, DTAAs encourage cross-border investment and economic cooperation between countries.
  - **Allocate Taxing Rights**: DTAAs specify which country has the right to tax specific types of income (e.g., interest, dividends, capital gains).
  - India has **over 90 DTAAs** with countries worldwide, including major ones like the **United States**, **United Kingdom**, **Mauritius**, **Singapore**, and **Cyprus**.
- **Grandfathering Provisions**
  - **Grandfathering provisions** are exceptions made for **pre-existing investments** or transactions, ensuring that they continue to receive the same tax benefits that were available at the time the agreement was signed, even if new rules (like PPT) are introduced later.
  - **Example**: In some DTAAs (like with **Mauritius**, **Cyprus**, and **Singapore**), there are specific grandfathering provisions to protect the **tax benefits of earlier investments**, even when PPT is introduced.

11 AMMONIUM NITRATE DUMPING

Context: The sharp increase in the import of ammonium nitrate (AN) from Russia has raised alarms among domestic fertilizer companies, which are currently investing over Rs 4,000 crore to ramp up their AN production capacity.

The Issue at Hand

- The import of ammonium nitrate surged to 2.39 lakh tonnes in the last fiscal year, up from just 91,236 tonnes in FY22. This significant increase has resulted in a decline in domestic capacity utilization, which fell from 91% to 72%.
- A key factor contributing to this issue is the **substantial price gap** between domestic and imported AN.
- Countries that benefit from low-cost, subsidized natural gas, a critical raw material for AN production, are able to sell their products (dump) at much lower prices.
  - **Dumping** is the export of a product at a price that is lower in the foreign market than the price charged in the exporter's domestic market.
- **India's Capacity for Ammonium Nitrate Production**: India currently has an installed ammonium nitrate production capacity of **96 lakh tonnes per annum**, with an **additional 10.19 lakh tonnes per annum capacity** under development by major fertilizer companies, including **Rashtriya Chemicals and Fertilizers, Gujarat National Fertilizer, and National Fertilizer.**

FACT BOX

Importance of Ammonium Nitrate

- Ammonium nitrate is a chemical compound with the formula NH4NO3. It is a white crystalline salt consisting of ions of ammonium and nitrate.
- **Usage:**
  - **Fertiliser:** Ammonium nitrate is a widely used fertilizer, primarily due to its nitrogen content. The compound consists of two key components: **NH4 (ammonium) and NO3 (nitrate).**
  - Plants can directly absorb nitrogen from the nitrate form, while the ammonium fraction is gradually converted into nitrate by soil microorganisms.
  - **Mining operations**: It is used as an explosive for blasting before the extraction of ores such as coal, iron, and limestone.
  - Other than the above, it is used as an ingredient for manufacture of **anaesthetic gases, cold packs**, etc.

12 CHINA'S EXPORT CONTROLS ON ANTIMONY

Context: China will impose export controls on some antimony products (including ore, ingots and oxide), citing national security, adding to measures imposed by Beijing since last year to curb shipments of strategic minerals.

What is Antimony?

- Antimony is a shiny grey metalloid with a variety of industrial uses. It has been known since ancient times and was historically used in medicine and cosmetics.
- **Applications:**
  - **Flame Retardants:** Antimony is predominantly used in flame retardants, accounting for around half of its global usage in 2023. These retardants are crucial in preventing or slowing the spread of fire in materials such as textiles and plastics.
  - **Photovoltaic Glass:** About 20% of antimony is used to make photovoltaic glass, which enhances the efficiency of solar cells.
  - **Lead-Acid Batteries:** Antimony is used in the manufacturing of lead-acid batteries, contributing to their performance and longevity.
  - **Military Equipment:** Antimony is used in various military applications, including infrared missiles, nuclear weapons, night vision goggles, and as a hardening agent for bullets and tanks.
- **Global Production:**
  - **China:** Dominates the production of antimony, accounting for 48% of global mine production in 2023 and is the largest producer of processed antimony products, including antimony trioxide (ATO).
  - **Tajikistan:** The second-largest producer, contributing 25% to global production.
- **National Security:** Antimony's use in military equipment and its role as a critical material in various advanced technologies have made it increasingly strategic.

13 ETHIOPIA'S ECONOMIC REFORMS AND IMF LOAN APPROVAL

Context: Ethiopia, facing severe financial difficulties, eased foreign exchange restrictions as part of a comprehensive economic reform plan. This move coincides with the International Monetary Fund (IMF) approving a loan for the country, which is seeking a multibillion-dollar financial rescue package ($1 billion).

About the IMF

- The International Monetary Fund (IMF) is an international financial institution headquartered in Washington, D.C.

- It was established in 1**944 during the Bretton Woods Conference** with the goal of fostering global monetary cooperation, securing financial stability, facilitating international trade, promoting high employment and sustainable economic growth, and reducing poverty around the world.
- The IMF provides financial assistance and policy advice to member countries facing economic difficulties.
- **Key Functions of the IMF:**
  - **Surveillance:** Monitoring the economic and financial developments of member countries.
  - **Financial Assistance:** Providing loans to member countries facing balance of payments problems.
  - **Technical Assistance and Training:** Offering support and training to help member countries improve their economic management.

14 INDIA'S BALANCE OF PAYMENTS

Context: Data from the Reserve Bank of India (RBI) showed that India's current account registered a surplus during the fourth quarter (Jan-Mar) of the 2023-24 financial year. This was the first time in 11 quarters that India had witnessed a surplus.

What is Balance of Payments (BoP)?

- The Balance of Payments (BoP) is like a financial record that tracks all the money flowing into and out of a country from its international transactions.
- It helps understand how much money India gains or lose from its dealings with other countries.
- **Components of Balance of Payments:**
  - **Current Account:**
    - **Trade of Goods:** This accounts for physical goods (like cars, wheat, gadgets) that India buys from or sells to other countries. If India imports more goods than it exports, it results in a trade deficit.
    - **Trade of Services (Invisibles):** Includes services like banking, IT, tourism, and money transfers from Indians working abroad. In Q4 of 2023-24, India saw a surplus on the current account mainly due to a surplus in invisible services despite a trade deficit.
  - **Capital Account:** Records investments rather than day-to-day transactions. It includes Foreign Direct Investment (FDI), Foreign Institutional Investments (FII), banking capital, currency and deposits, trade credits, special drawing rights.
  - **Foreign Exchange Reserves:** The BoP always balances through changes in foreign exchange reserves. When India receives more money from exports, investments, or loans than it spends, the RBI adds these dollars to its foreign exchange reserves.

15 IMF'S ARTIFICIAL INTELLIGENCE PREPAREDNESS INDEX (AIPI)

Context: In a recent development, the International Monetary Fund (IMF) has unveiled its Artificial Intelligence Preparedness Index (AIPI) Dashboard, ranking 174 economies worldwide based on their readiness to adopt and integrate artificial intelligence (AI) technologies.

Key Highlights of the AIPI

- **Global Rankings and Categories:** The index categorizes countries into Advanced Economies (AE), Emerging Market Economies (EM), and Low-Income Countries (LIC).
  - Singapore, Denmark, and the United States lead as top-ranked Advanced Economies with scores of 0.80, 0.78, and 0.77 respectively.
  - India is classified as an Emerging Market with a score of 0.49, positioned at the 72nd rank globally.
- **Factors Influencing Rankings**
  - **Digital Infrastructure**: India scored 0.11, lagging behind China (0.19), the US (0.18), and Singapore (0.21).
  - **Human Capital and Labor Market Policies**: India scored 0.12, slightly lower than China (0.15) and Singapore (0.20).
  - **Innovation**: India's score was 0.11, similar to Indonesia, but less than China, Singapore, the UK, and the US.
  - **Regulation and Ethics:** India and China both scored 0.15, with Singapore leading at 0.22, followed closely by the US and the UK.

FACT BOX

About the AIPI Index

- The AIPI Index aims to provide a comprehensive assessment of each country's readiness for AI adoption across critical sectors.
- This index evaluates countries across four key dimensions: **digital infrastructure, human capital and labor market policies, innovation and economic integration, and regulation and ethics.**

- It tracks **174 economies globally for AI readiness**.
- The index is based on data from **Fraser Institute, International Labour Organization, International Telecommunication Union, United Nations, United Nations Conference on Trade and Development, Universal Postal Union, World Bank, and World Economic Forum.**

16 PETRODOLLARS

Context: Recently, the US-Saudi Arabia petrodollar deal, which began in 1974, has come to an end after 50 years. This agreement was crucial as it involved Saudi Arabia selling oil exclusively for US dollars, thus strengthening the dollar's role in global finance.

About Petrodollars:

- Petrodollars are US dollars earned by **oil-exporting nations** through the sale of crude oil.
- This arrangement began after the US made a deal with Saudi Arabia and other OPEC countries to stabilize oil prices and ensure oil transactions were conducted in US dollars.
- **Background:** Initially, the US dollar became the **world's main reserve currency** under the **Bretton Woods Agreement** after **World War II.** This system tied the **dollar to gold**, ensuring stability in global trade.
- However, in 1971, President Nixon ended this gold backing, leading to **floating exchange rates** and economic uncertainties.
- Following the **Yom Kippur War in 1973**, OPEC imposed an oil embargo, causing oil prices to surge. In response, the US negotiated with Saudi Arabia and OPEC to ensure oil sales in dollars, thus establishing the petrodollar system. In return, the US provided military and economic support.

17 GROWTH TRENDS OF HIGH NET-WORTH INDIVIDUALS (HNWI) IN INDIA

Context: India's high net-worth individuals (HNWI) experienced significant growth in both population and wealth, driven by favorable market conditions and economic indicators. This trend aligns with the broader global increase in HNWI wealth and population observed in 2023, as per The Capgemini Research Institute's World Wealth Report 2024.

Key-highlights:

- **Increase in HNWI Population and Wealth:**
  - In 2023, India saw a significant rise of 12.2% in the number of high net-worth individuals (HNWI), reaching a total of 3.589 million.
  - The financial wealth of India's HNWIs also increased by 12.4% to $1,445.7 billion, compared to $1,286.7 billion in 2022.
  - This growth was attributed to market buoyancy, which spurred a $3.8 trillion increase in HNWI wealth globally.
- **Performance in the APAC Region:**
  - India and Australia were among the top performers in the Asia-Pacific (APAC) region.
  - India recorded a 12.4% growth in HNWI wealth and a 12.2% increase in HNWI population, driven by a resilient economy and strong performance in equity markets.
- **Economic Indicators:**
  - India's unemployment rate decreased to 3.1% in 2023 from 7% in 2022, despite a 7.3% growth in the economy.
  - Market capitalization in India increased by 29.0% in 2023, reflecting a robust equity market.
  - National savings as a percentage of GDP also rose to 33.4% in 2023, up from 29.9% in 2022.

18 EXTERNAL COMMERCIAL BORROWINGS (ECBS)

Context: Shriram Finance Ltd. (private non-banking financial company (NBFC)), has recently announced the raising of funds totaling $425 million and EUR 40 million through a syndicated term loan transaction.

The three-year **external commercial borrowing facility** was structured as a social loan.

About External Commercial Borrowings (ECBs)

- ECBs are **commercial loans** obtained by **eligible resident entities** from **recognized non-resident entities**. These loans serve as a source of funding for various business activities.
- **Parameters:** ECBs must adhere to specific parameters, including minimum maturity periods, permitted and non-permitted end uses, maximum all-in-cost ceiling, and other regulatory requirements.
- **Routes for ECBs**: ECBs can be raised through either the **automatic route** or the approval route, depending on certain criteria.

- **Approval Route**: Under the approval route, prospective borrowers submit their requests to the **Reserve Bank of India (RBI)** through an **Authorized Dealer (AD) category-I Bank.**

19 OPEC+ EXTENDS OIL OUTPUT CUTS

Context: OPEC+ extended deep oil output cuts until 2025 due to tepid demand growth and rising U.S. production. Current cuts of 3.66 million bpd were extended until end of 2025. Additional cuts of 2.2 million bpd extended until September 2024. These cuts will be gradually phased out from October 2024 to September 2025.

What are OPEC and OPEC+?

- **OPEC Formation:** Established in 1960 by **Iraq, Iran, Kuwait, Saudi Arabia, and Venezuela**, OPEC aimed to coordinate petroleum policies and stabilize prices.
- **Membership**: Currently comprises 12 countries, primarily from the Middle East and Africa, collectively representing about 30% of global oil production.
  - **OPEC Current Members**: Saudi Arabia, United Arab Emirates, Kuwait, Iraq, Iran, Algeria, Libya, Nigeria, Congo, Equatorial Guinea, Gabon, and Venezuela.
  - **OPEC+ Partners**: Russia, Azerbaijan, Kazakhstan, Bahrain, Brunei, Malaysia, Mexico, Oman, South Sudan, and Sudan.
- **OPEC+:** Formed at the end of 2016, OPEC+ is a coalition including 10 non-OPEC oil exporters like Russia.
- **Objective:** Together, OPEC and OPEC+ aim to regulate global oil supply, accounting for approximately 41% of global oil production.

FACT BOX

Working of Crude Oil Market

- **Production:** Oil is extracted from wells worldwide by both OPEC and non-OPEC countries, with production influenced by factors like technological advancements and geopolitical tensions.
- **Demand:** Global demand for oil fluctuates due to economic growth, industrial activities, transportation needs, and seasonal variations.
- **Market Players:**
  - **Producers:** Countries like Saudi Arabia, Russia, the United States, and others extract and supply crude oil to the market.
  - **Consumers**: Industries, transportation sectors, and households worldwide consume crude oil for various purposes.
- **Pricing Mechanism:**
  - **Benchmark Pricing**: Brent crude and West Texas Intermediate (WTI) are two widely used benchmarks for pricing crude oil.
  - **Supply and Demand Balance**: Fluctuations in supply and demand, influenced by geopolitical events, **production decisions by OPEC and non-OPEC countries**, and economic factors, impact crude oil prices.
- **Market Regulation:**
  - **OPEC and OPEC+:** These organizations regulate oil production levels among member and partner countries to stabilize prices.
  - **Government Policies**: National governments may implement policies affecting oil production, consumption, and trade.
- **Volatility:** Crude oil prices can experience significant fluctuations due to supply disruptions, geopolitical tensions, economic factors, and changes in demand.
- **Risk Mitigation**: Hedging strategies, such as **futures contracts, options, and derivatives**, are used by market participants to manage price risk.
- **Impact on Global Economy:**
  - **Inflation and Deflation**: Fluctuations in crude oil prices can impact inflation rates and consumer purchasing power.
  - **Economic Growth:** High oil prices can dampen economic growth, while low prices may stimulate economic activity, particularly in oil-importing countries.

20 INDIA'S GOLD RESERVES

Context: In fiscal year 2023-24, the Reserve Bank of India (RBI) initiated a substantial transfer of gold reserves from the UK to domestic vaults, marking one of India's largest movements of gold since 1991.

India's Gold Reserves

- As of March 2024, RBI's total gold reserves amount to 822.10 metric tonnes. Historically, a significant portion of this reserve was stored abroad, including with the Bank of England.
- However, the recent transfer of 100 metric tonnes to India brings the local holding to over 408 metric tonnes, almost equalizing the distribution between domestic and foreign storage.

- **Breakdown of Gold Holdings**: According to RBI's annual report for FY24, over 308 metric tonnes of gold serves as backing for issued currency notes, while an additional 100.28 tonnes is held domestically as an asset of the banking department.
- **India's Global Ranking**: India ranks **9th globally in terms of gold reserves**. This substantial holding reflects India's cultural affinity for gold and its historical significance as a store of value, contributing to the country's economic stability.

Purpose of Gold Reserves

- **Store of Value:** Gold is perceived as stable and reliable, instilling confidence in economic stability during uncertainty.
- **Currency Stability**: While the gold standard is no longer prevalent, gold reserves can still support a country's currency stability.
- **Diversification:** Gold diversifies a country's asset portfolio, mitigating risks associated with market fluctuations.
- **Inverse Correlation with USD**: Gold's value often increases when the US dollar declines, providing a safeguard during market volatility.
- **International Trade and Finance**: Some countries use gold for trade settlement or as collateral, enhancing creditworthiness and global standing.
- **Hedge during Crises**: Gold serves as a hedge against economic downturns or geopolitical uncertainties, protecting against inflation and currency devaluation.

FACT BOX

What is a Gold Reserve?

- A gold reserve is the **gold held by a national central bank**, intended mainly as a guarantee to redeem promises to pay depositors, note holders (e.g. paper money), or trading peers, during the eras of the gold standard, and also as a store of value, or to support the value of the national currency.
- India, like many other countries, stores a significant portion of its gold reserves in **foreign vaults.**
- The top 10 countries with the most gold reserves include the **United States, Germany, Italy, France, Russia, China, Switzerland, Japan, India and Netherlands (estimates by World Gold Council)**

PYQ

1. **Consider the following statements: (2023)**
   1. Statement – I: Switzerland is one of the leading exporters of gold in terms of value.
   2. Statement – II: Switzerland has the second largest gold reserves in the world.

   Which one of the following is correct in respect of the above statements?

   (a) Both statement-I and Statement-II are correct and Statement-II is the correct explanation for Statement-I

   (b) Both Statement-I and Statement-II are correct and Statement-II is not the correct explanation for Statement-I

   (c) Statement-I is correct but Statement-II is incorrect.

   (d) Statement-I- is incorrect but Statement-II is correct.

   Solution: (c)

21 30 YEARS OF MARRAKESH AGREEMENT

Context: The World Trade Organization (WTO) commemorates the 30th anniversary of the Marrakesh Agreement, a pivotal moment in global trade history.

About Marrakesh Agreement

- Formally established by the Final Act of the Uruguay Round of Multilateral Trade Negotiations, the Marrakesh Agreement laid the foundation for the creation of the WTO.
- On April 15, 1994, the Marrakesh Agreement was signed by 123 countries, paving the way for the establishment of the WTO on January 1, 1995.
- Over the past three decades, the WTO has played a crucial role in facilitating a significant expansion in global trade, aiming to enhance living standards, bolster employment opportunities, and foster sustainable development.

FACT BOX

About WTO

- **Founded:** 1 January 1995
- **Headquarters:** Geneva, Switzerland
- **Total members:** 164 member countries
- The World Trade Organization (WTO) is the referee in global trade disputes.
- It is a forum for governments to negotiate trade agreements and to settle trade disputes.

22 AUTHORISED ECONOMIC OPERATOR

Context: With the help of the efforts of Gem & Jewellery Export Promotion Council (GJEPC), the gem and jewellery sector has been granted Authorised Economic Operator (AEO) status by the Finance Ministry.

Understanding AEO Status:

- The AEO status is a prestigious designation conferred under the **World Customs Organisation (WCO) SAFE Framework of Standards**.
- **Objective:** to secure and expedite global trade operations.
- **Introduction:** as a pilot project by the Customs department in 2011.
- **Alignment with International Commitments:** India's AEO Programme aligns with the commitments outlined under **Article 7.7 of the World Trade Organization's Trade Facilitation Agreement (TFA).**

FACT BOX

India's Gems and Jewellery Sector

- India's gems and jewellery exports reached USD 37.73 billion in 2022-23.
- **Government measures**
    - **100% FDI under the automatic route**
    - **Comprehensive Economic Partnership Agreement (CEPA) with the United Arab Emirates (UAE)** to allow the Indian Gems and Jewellery industry to further boost exports.

23 WORLD BANK'S MOVE ON MULTILATERAL DEVELOPMENT BANKS (MDBS)

Context: Recently, the World Bank has set up a task force to study the recommendations for strengthening multilateral development banks (MDBs), laid out by an independent experts' group formed during India's G20 presidency.

Background

- Multilateral development banks (MDBs) originated in the aftermath of **World War II** to rebuild war-ravaged nations and stabilize the global financial system.
- Today, MDBs fund **infrastructure, energy, education, and environmental sustainability** in developing countries.

What Is a Multilateral Development Bank (MDB)?

- A multilateral development bank (MDB) is an international financial institution chartered by two or more countries for the purpose of encouraging economic development in poorer nations.
- Multilateral development banks consist of member nations from developed and developing countries.
- MDBs provide loans and grants to member nations to fund projects that support social and economic development, such as the building of new roads or providing clean water to communities.

FACT BOX

Major Multilateral Development Banks:

The following is a list of the major multilateral development banks, ranked by **total assets** are;

- European Investment Bank: €555.8 billion ($606.5 billion)
- International Bank for Reconstruction and Development, World Bank Group: $283 billion
- Asian Development Bank: $191.9 billion
- International Development Association, World Bank Group: $188.5 billion
- Inter-American Development Bank: $129.5 billion
- European Bank for Reconstruction and Development: €61.9 billion ($67.7 billion)
- African Development Bank: 33.8 billion UA
- Asian Infrastructure Investment Bank: $19.6 billion
- Islamic Development Bank: 22 billion Islamic dinars ($18.5 billion)
- Central American Bank for Economic Integration: $10.9 billion
- New Development Bank: $10.4 billion

24 INDIA-GHANA TO LINK UPI

Context: India and West African nation Ghana are teaming up to make it easier for people to send money between the two countries. They want to connect their payment systems - India's Unified Payments Interface (UPI) and Ghana's Ghana Interbank Payment and Settlement Systems (GHIPSS).

Key-highlights:

- Both countries agreed to make UPI available on Ghana's GHIPSS within six months. India's UPI is already being used in countries like **Singapore and the UAE.**
- India and Ghana are also discussing other collaborations like signing a deal on **Digital transformation Solutions,** setting up a **Local Currency Settlement System,** and exploring opportunities under the **African Continental Free Trade Agreement (AfCFTA).**
- **India-Ghana Trade:**
  - **Bilateral trade between India and Ghana:** It increased to USD 2.87 billion in 2022-23 from USD 2.6 billion in 2021-22.
  - **India's imports from Ghana:** gold, cocoa, cashew nuts and timber products
  - **India's exports to Ghana:** cereals, made-up textiles, agricultural machinery, transport vehicles, electrical equipment, pharmaceuticals, plastics, iron and steel, ethyl alcohol, beverages.

PYQ

1. Which of the following is the most likely consequence of implementing the 'Unified Payments Interface (UPI)'? (2017)

(a) Mobile wallets will not be necessary for online payments.

(b) Digital currency will totally replace the physical currency in about two decades.

(c) FDI inflows will drastically increase.

(d) Direct transfer of subsidies to poor people will become very effective.

Solution: (a)

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CHAPTER 05

TRADE

1 INDIA'S TRADE DEFICIT WITH TOP PARTNERS

Context: India faced a trade deficit with nine out of its top ten trading partners in the fiscal year 2023-24, according to official data. While the deficit widened with some countries, it narrowed with others, influencing India's overall trade balance.

Key Points:

- **Deficit Trends**: India's trade deficit increased with China, Russia, Korea, and Hong Kong in 2023-24 compared to the previous fiscal year.
  - However, the deficit narrowed with the UAE, Saudi Arabia, Russia, Indonesia, and Iraq during the same period.
- **Trade Partners:** China emerged as India's largest trading partner with $118.4 billion in two-way commerce, surpassing the US. Bilateral trade with the US stood at $118.28 billion in 2023-24.
- **Free Trade Agreements:** India has free trade agreements with Singapore, the UAE, Korea, and Indonesia, contributing to its trade dynamics.
- **Surplus and Deficit**: India maintained a trade surplus of $36.74 billion with the US in 2023-24, along with surpluses with the UK, Belgium, Italy, France, and Bangladesh.
- However, the overall trade deficit for India **decreased to $238.3 billion** compared to the previous fiscal.
- **Negative impacts of trade deficit:** Currency depreciation, increased borrowing from foreign lenders, and decreased foreign investment.

FACT BOX

About Trade Deficit

- A trade deficit occurs when a country's imports exceed its exports. A trade deficit is also referred to as a **negative balance of trade (BOT).**
- Trade Balance formula is as follows.

Trade Balance = Total Value of Exports – Total Value of Imports

- If the trade balance is negative — i.e. the country is in a trade deficit
- **Trade Deficit Calculation:** Trade deficit encompasses all international trade transactions, including goods and services, on both capital and current accounts.
  - **Capital account** transactions involve asset transfers like infrastructure, trademark or mining rights sales.
  - **Current account** transactions include primary income (e.g., dividends, interest, remittances) and secondary income (e.g., private remittances, pension payments, government aid).
- **Balance of Payments**: It is a systematic record of all economic transactions between the residents of a country and the rest of the world.

2 INDIA'S IMPORT DUTIES & TRADE RELATIONS WITH THE US

Context: India's import duties, also known as tariffs, have been a point of contention in trade relations with the United States. The US has often criticized India for imposing high tariffs on imported goods. However, India maintains that its tariffs are fully compliant with global trade rules set by the World Trade Organization (WTO).

What are tariffs?

- Tariffs are taxes imposed by a country on imported goods. They help protect domestic industries by making foreign products more expensive.
- **Are India's tariffs legal under WTO rules?** The WTO allows developing countries like India to maintain higher tariffs in exchange for commitments on:
  - **Trade-Related Aspects of Intellectual Property Rights (TRIPS)**
  - **Services trade liberalization**
  - **Agricultural trade regulations**
- When the WTO was formed in 1995, developed nations, including the US, agreed to this framework. Thus, India's import duties are **not arbitrary** but are based on **WTO agreements.**

FACT BOX

Global Trade Research Initiative (GTRI)

- Global Trade Research Initiative (GTRI) is a research Group focused on Climate Change, technology and trade
- GTRI aims to create high-quality and jargon-free outputs for governments and industry from the perspective of development and poverty reduction.

World Trade Organization (WTO)

- **Established in:** 1995
- The World Trade Organization (WTO) is an international organization established in 1995 following the ratification of the Uruguay Round Agreements.
- The **166-member forum** is the **only international body** that deals with the rules of trade between nations.

3 RECIPROCAL TARIFFS

Context: US will impose reciprocal tariffs on all countries, including India. This means India will face higher duties on its exports to the US, affecting key industries.

What are Reciprocal Tariffs?

- Reciprocal tariffs ensure fair trade by matching the import duties imposed by other countries.
- If a country charges high tariffs on US goods, the US will impose the same level of tariffs on that country's exports.
- The goal is to prevent unfair advantages and create a balanced trading system.

How does this affect India?

- Trump has criticized India for imposing over 100% tariffs on US automobile exports. India is **one of the most affected countries** due to its high tariff gap with the US.
- Sectors like **gems & jewellery, automobiles, chemicals, and pharmaceuticals** will be hit hardest.
- India could **lose up to USD 7 billion per year** due to reduced exports.
- This could **slow down GDP growth** by **5-10 basis points** in FY 2025-26.
- **What does India export to the US?**
  - **Total exports (2024)**: **USD 74 billion**
  - **Key exports at risk**:
    - Pearls, gems, and jewellery: **USD 8.5 billion**
    - Pharmaceuticals: **USD 8 billion**
    - Petrochemicals: **USD 4 billion**

4 TARIFF RATIONALIZATION

Context: The Union Budget 2025-2026 has rationalized the Indian Tariff with respect to industrial goods and such a move has come against the backdrop of a "tariff war" that the United States of America has initiated against Canada, Mexico and China.

What is Tariff rationalization?

- Tariff rationalization is the process by which the **tariff structure of a country** is amended to address the anomalies in the tariff.
- Such Tariff anomalies may have arisen owing to frequent policy changes or may be the result of a protectionist policy more focused on protecting the domestic industry.

- The goal of tariff rationalization is to improve the cost-effectiveness of raw material imports, thereby boosting domestic manufacturing, reducing production costs, and fostering exports.
- **Customs Tariff**, if structured well, can boost domestic manufacturing of finished goods by making available cost effective raw materials, thereby, providing a fillip to exports of such finished goods as well.

5 INDIA'S CONCERNS OVER THE EUROPEAN UNION'S CARBON TAX (CBAM)

Context: As part of ongoing negotiations to finalise a Free Trade Agreement (FTA), India is raising concerns over the European Union's proposed Carbon Border Adjustment Mechanism (CBAM), which will impose tariffs on carbon-intensive imports such as steel and aluminium starting in January 2026. This carbon tax could be as high as 30% on certain products, and it will affect India's exports to the EU, especially metals and other goods that are carbon-intensive.

What is CBAM?

- **CBAM** is a carbon tax that the EU plans to impose on goods imported from countries that have less strict environmental regulations.
- The tax targets products that produce high carbon emissions during production, such as **steel**, **aluminium**, **cement**, **fertilizers**, and **electricity**.
- It will start in **January 2026**, but exporters must begin providing **data on their carbon emissions** from **October 2023**.

Impact on India's Exports:

- India exports a large amount of goods to the EU, particularly **metals like steel and aluminium**. These exports are expected to be heavily impacted by CBAM, with **tax rates of 20–35%** on affected products.
- **2022-23 Exports**: India exported goods worth **$75 billion** to the EU, and **over 15%** of its total exports go to the EU. Key sectors like **metals**, **textiles**, and **chemicals** will face increased tariffs under CBAM.
- If CBAM applies to more products, **43% of India's total exports** to the EU (around **$37 billion**) could be at risk.

FACT BOX

India-EU Trade

- EU is India's largest merchandise trading partner, with bilateral trade reaching **USD 135 billion** in fiscal year 2024.
- The EU is India's **second-largest export destination** after the United States. Indian exports to the EU totalled **USD 76 billion**, while imports amounted to **USD 59 billion**.
- Additionally, trade in services between India and the EU reached a record **USD 53 billion** in 2023, with India exporting **USD 30 billion** in services.

Free Trade Agreement (FTA)

- A free trade agreement is a pact between 2 or more countries to eliminate or reduce import duties on a maximum number (90-95 per cent) of goods traded between them.
  - **Types**: PTA (preferential) or RTA (regional), or BTA (bilateral).
- The European Union (EU) and India are currently engaged in ongoing negotiations to finalize a Free Trade Agreement (FTA), with significant discussions expected around tariff reductions, market access, and other key trade issues.
- With the world's most extensive trade agreement network covering 76 countries, the EU is a key player in global trade.
- India, by contrast, has fewer FTAs but is currently in negotiations with both the EU and the United Kingdom.
  - India has inked trade deals with **Sri Lanka, Bhutan, Thailand, Singapore, Malaysia, Korea, Japan, Australia, the UAE, Mauritius and ASEAN and EFTA blocs**.
  - India is now prioritizing FTAs with the **UK, EU, and US** to expand exports and strengthen trade ties with major western economies.

PYQ

1. Consider the following countries: (2018)

1. Australia
2. Canada
3. China
4. India
5. Japan
6. USA

Which of the above are among the 'free-trade partners' of ASEAN?

(a) 1, 2, 4 and 5 (b) 3, 4, 5 and 6

(c) 1, 3, 4 and 5 (d) 2, 3, 4 and 6

Solution: (c)

2. **'Broad-based Trade and Investment Agreement (BTIA)' is sometimes seen in the news in the context of negotiations held between India and (2017)**
   (a) European Union
   (b) Gulf Cooperation Council
   (c) Organization for Economic Cooperation and Development
   (d) Shanghai Cooperation Organization

   Solution: (a)

3. **The term 'Regional Comprehensive Economic Partnership' often appears in the news in the context of the affairs of a group of countries known as (2016)**
   (a) G20 (b) ASEAN
   (c) SCO (d) SAARC

   Solution: (b)

6 UK-INDIA TRADE TALKS TO RE-LAUNCH

Context: Free trade talks between India and the UK will be relaunched in the new year.

India-UK Trade Relations

- India's trade relationship with the United Kingdom continues to grow steadily, showcasing immense potential for deeper collaboration and strategic engagement.
- As per the latest data from April to September 2024, India's exports to the UK witnessed a robust growth of 12.38%, reaching USD 7.32 billion, compared to USD 6.51 billion during the same period in 2023.
- Mineral fuels, machinery, and precious stones, pharmaceuticals, apparels, iron and steel and chemicals lead **India's export basket** to the UK, contributing a 68.72% share of total exports.
- The United Kingdom is a **priority country** for the achievement of India's ambitious USD 1 trillion export target by FY30, with exports to the UK expected to reach USD 30 billion by 2029-30.
- The UK remained the sixth largest investor in India, with a cumulative investment of approximately **USD 31.92 billion during FY 2000-22.** This constituted around **4% of the total Foreign Direct Investment (FDI)** into India.

7 INDIA-AUSTRALIA COMPREHENSIVE ECONOMIC COOPERATION AGREEMENT (CECA)

Context: Australia is actively negotiating a Comprehensive Economic Cooperation Agreement (CECA) with India.

What is CECA?

- A CECA is a **free-trade agreement** between two countries that strengthens their bilateral trade.
  - A **free trade agreement** is an arrangement between two or more countries where they agree either to end or reduce customs duties on the maximum number of goods traded between them, besides cutting down non-trade barriers on a significant value of imports from partner countries and easing norms to promote services exports and bilateral investments.
- It promotes **bilateral trade and investment** between the two countries.
- It eliminates tariffs on goods traded and liberalises services sectors to facilitate great business opportunities and cooperation between Singapore and India.

India-Australia Trade Relations

- Australia is an important trade and strategic partner of India.
- India is one of Australia's largest trading partners, with two-way trade in goods valued at over USD 6.7 billion in 2023-24.
- Bilateral trade between both sides, including goods and services, stood close to USD 50 billion at the end of calendar year 2023.
- Both the countries are part of the **Indo Pacific Economic Forum for Prosperity (IPEF)** and **Trilateral Supply Chain Resilience Initiative (SCRI)**.
- The **Australia-India Economic Cooperation and Trade Agreement (ECTA),** which came into effect in December 2022, has led to about USD 30 billion worth of Australian exports entering India tariff-free, with Australians saving around USD 225 million on goods from India.

PYQ

1. **With reference to the international trade of India at present, which of the following statements is/ are correct? (2020)**
   1. India's merchandise exports are less than its merchandise imports.

2. India's imports of iron and steel, chemicals, fertilizers and machinery have decreased in recent years.
3. India's exports of services are more than its imports of services.
4. India suffers from an overall trade/current account deficit.

Select the correct answer using the code given below:

(a) 1 and 2 only (b) 2 and 4 only
(c) 3 only (d) 1, 3 and 4 only

Solution: (d)

2. **Consider the following actions which the Government can take: (2011)**
   1. Devaluing the domestic currency.
   2. Reduction in the export subsidy.
   3. Adopting suitable policies which attract greater FDI and more funds from FIIs.

Which of the above action/actions can help in reducing the current account deficit?

(a) Only 1 and 2 (b) Only 2 and 3
(c) Only 3 (d) Only 1 and 3

Solution: (d)

8 TRADE DEFICIT

Context: Trade deficit narrowed to a three-month low of $22 billion in Dec as exports contracted 1% to $38 billion, while imports grew almost 5% to $60 billion.

What is a Trade Deficit?

- A **trade deficit** occurs when the value of a country's **imports** exceeds the value of its **exports**. In simple terms, it means the country is buying more goods and services from other countries than it is selling to them.
- This results in a negative balance of trade, also known as a **negative BOT (Balance of Trade)**.
- When money spent on imports is higher than the money earned from exports, a trade deficit is created.
- Trade deficits are an important indicator used to measure international trade activity. However, a **trade deficit** does not always mean a bad thing, as it depends on how the deficit is financed and the overall economic context.

FACT BOX

Current Account Deficit (CAD):

- A trade deficit is a part of the current account deficit (CAD), which includes:
  - **Trade Account**: This measures the import and export of goods. A **trade deficit** occurs when a country imports more goods than it exports.
  - **Invisible Account**: This accounts for the export and import of services, income, and transfers. If services, such as IT or tourism, are being exported more than they are imported, it can offset a trade deficit.
- When the combined balance of both the trade and invisible accounts is negative, it leads to a **current account deficit** (CAD).
- A **widening CAD** indicates that more foreign currency (like USD) is being demanded to pay for imports, which can weaken the country's currency, such as the **rupee**.

9 CHINA SURPASSES US IN TRADE WITH INDIA

Context: In the fiscal year 2023-24, China emerged as India's largest trading partner, surpassing the US, with a two-way commerce of USD118.4 billion. This slightly edged past the US, whose bilateral trade with India stood at USD118.3 billion during the same period.

Key-highlights:

- **Trade Figures with China**: India's exports to China rose by 8.7% to USD16.67 billion in the last fiscal year, driven by sectors like **iron ore, cotton yarn/fabrics/madeups, handloom, spices, fruits and vegetables, plastic, and linoleum**. However, imports from China increased by 3.24% to USD101.7 billion.
- **Trade Figures with the US**: In contrast, India's exports to the US dipped by 1.32% to USD77.5 billion in 2023-24, while imports decreased by about 20% to USD40.8 billion. However, imports from the US grew by 14.7%, resulting in an expanded **trade surplus** for India, which grew from USD16.86 billion to USD36.74 billion.
  - **Trends in Trade Surplus**: The significant growth in imports from the US contributed to India's **trade surplus expansion**, which increased from USD16.86 billion to USD36.74 billion in the fiscal year 2023-24.
- **Historical Context:** China was India's top trading partner from 2013-14 till 2017-18 and also in 2020-21. The UAE, followed by the US, held the position before China became the top trading partner again.
  - In 2023-24, the UAE ranked as India's third-largest trading partner, with a trade volume of USD83.6 billion.

- **Other Major Trading Partners:** Apart from China and the US, other major trading partners of India in 2023-24 included Russia (USD65.7 billion), Saudi Arabia (USD43.4 billion), and Singapore (USD35.6 billion).

10 OVERVIEW OF INDIA'S EXPORT PERFORMANCE

Context: India's export landscape has witnessed notable developments, despite global economic uncertainties.

Export Destinations and Performance

- India exported to 115 countries out of 238 destinations in 2023-24, encompassing key markets like the **US, UAE, China, and UK.**
- **Merchandise exports** slightly declined to USD 437.1 billion, while services exports rose to USD 341.1 billion in 2023-24. India's share in world merchandise exports increased from 1.70% in 2014 to 1.82% in 2023 and rank in world merchandise exporters improved from 19th to 17th during the same period.
- **Overall exports** reached USD 778.2 billion in 2023-24, with a marginal growth of 0.23% compared to the previous year.
- **Commodity-wise Performance:** 17 items saw increased exports in 2023-24, constituting 48.4% of India's export basket. Notable decline in petroleum products (-13.66%) and gems and jewellery (-13.83%).
- **Key Export Destinations:** UAE emerged as the primary destination with a 12.71% growth, followed by Singapore, UK, and China. Significant growth rates were observed in countries like Russia, Romania, and Albania, indicating new market exploration.
- **Regional Export Growth**
    - Exports to CIS, Oceania, and Europe witnessed expansion in 2023-24.
    - **Key export drivers in CIS region:** Russia, Uzbekistan, Ukraine, Armenia, and Tajikistan.
    - **Major export growth in Oceania:** Australia, Timor Leste, Samoa, Vanuatu, and Solomon Island.
    - **Notable export growth in Europe:** UK, Romania, Albania, Netherland, and Greece.

Import Trends

- Imports declined from 124 countries in 2023-24.
- Top 10 source countries for imports **include China, USA, Saudi Arabia, Indonesia, Russia, and Switzerland.**
- Decline in imports from countries like **UAE, Qatar, Kuwait, and Oman indicates the need for bolstering trade relations.**

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CHAPTER 05

INDIA'S FINANCIAL MARKET

1 DANANTARA SOVEREIGN WEALTH FUND

Context: Indonesia has launched a new sovereign wealth fund named Daya Anagata Nusantara, also known as Danantara. This fund is designed to manage the country's state assets, which are valued at over USD 900 billion. Danantara is set to become the largest sovereign wealth fund in Southeast Asia's largest economy, marking a significant step in Indonesia's economic strategy.

What is a Sovereign Wealth Fund (SWF)?

- A **sovereign wealth fund** is a **state-owned investment fund**.
- It is used by governments to manage national savings, often derived from surplus revenues such as those from natural resources, state-owned enterprises, or other sources of public wealth.
- The fund is comprised of money generated by the government, often derived from a country's surplus reserves.
- These funds typically invest in a range of assets, including **stocks, bonds, infrastructure projects, and real estate,** to grow the nation's wealth over time.
- **Key Features of Danantara:**
  - **Size and Scope**: With assets worth over **USD 900 billion**, Danantara will be the largest sovereign wealth fund in Southeast Asia. It aims to pool together Indonesia's public wealth and invest it efficiently to generate long-term returns.
  - **Purpose**: The primary goal of the fund is to manage state assets and invest in areas that contribute to **economic growth** and **national development**. It is expected to support infrastructure projects, innovation, and economic diversification in Indonesia.
  - **Management**: Danantara will be governed by a set of policies designed to ensure transparency and the efficient use of resources. It will focus on long-term investments that align with Indonesia's economic and social priorities.

2 FRONT-RUNNING

Context: The Securities & Exchange Board of India (SEBI) has unearthed a front-running scam in the Indian securities market and in an interim order, debarred 22 entities.

What is Front-Running?

- Front-running is an **illegal practice** in financial markets where an individual or entity trades a security based on **advanced knowledge of a forthcoming large trade** that is likely to affect the price of the security.
- The person who engages in front-running uses this **privileged information**, typically obtained through their position in a financial institution, to make a profit before the original trade is executed.
- The concept of front-running is primarily seen in situations involving large institutional trades, such as **mutual funds, pension funds, or hedge funds,** where the size of the trade can significantly influence the market price of a stock, especially if the stock is less liquid.

- Front-running is **illegal because it is based on insider information**—information that is not available to the general public. This unfair advantage allows the person who knows about the trade to exploit it for personal gain before the market reacts to the institutional trade.
- The **Securities and Exchange Board of India (Sebi)** uses various **algorithms, data analytics, and supervision technology** to track instances of front-running and insider trading.

3 SEBI'S PROPOSED NEW INVESTMENT PRODUCT

Context: The Securities and Exchange Board of India (SEBI), the regulator for the securities market in India, has proposed the introduction of a new investment product. This product aims to cater to a specific group of investors who are looking for a product with a higher risk-return profile than traditional Mutual Funds (MFs) but are unable to afford the high minimum investment required by Portfolio Management Services (PMS) or Alternative Investment Funds (AIFs).

About the new product

- This new product will be a regulated investment vehicle designed to fill the gap between **Mutual Funds and PMS/AIFs**, offering more flexibility for investors while maintaining necessary safeguards to manage risks.
- **Need for This New Investment Product:** Currently, investment vehicles in India are classified primarily into three categories based on the amount of investment required:
  - **Mutual Funds (MFs):** These are designed for retail investors with a low minimum ticket size, typically Rs 500. MFs are low-risk investments that are regulated by SEBI and provide relatively safer returns.
  - **Portfolio Management Services (PMS):** These are targeted at High Net-Worth Individuals (HNIs) who can afford a minimum investment of Rs 50 lakh. PMS generally involves personalized investment strategies with more flexibility and higher risk.
  - **Alternative Investment Funds (AIFs):** These funds require a minimum commitment of Rs 1 crore and are typically focused on providing high returns through investments in non-traditional assets such as private equity or venture capital.
- The gap between MFs and PMS/AIFs has left a group of investors who want higher returns than MFs but cannot afford the high entry threshold of Rs 50 lakh for PMS or Rs 1 crore for AIFs. To address this need, SEBI is proposing the creation of a new product that sits between these two categories in terms of risk and ticket size.

Mutual Funds (MFs), Portfolio Management Services (PMS), and Alternative Investment Funds (AIFs)

- **Mutual Funds (MFs): Mutual Funds** are investment vehicles where a pool of money from multiple investors is gathered and managed by a professional fund manager. These funds are invested in a diversified portfolio of stocks, bonds, or other securities, depending on the type of Mutual Fund (e.g., equity funds, debt funds, hybrid funds).
- **Types of Mutual Funds**:
  - **Equity Funds**: Primarily invested in stocks of companies.
  - **Debt Funds**: Invest in bonds or fixed income securities.
  - **Hybrid Funds**: Invest in both stocks and bonds.
- **Portfolio Management Services (PMS): Portfolio Management Services (PMS)** are tailored investment services provided by professional fund managers for individual investors.
- **Types of PMS**:
  - **Discretionary PMS**: The fund manager makes investment decisions on behalf of the investor.
  - **Non-Discretionary PMS**: The investor makes the final decision on the investment choices, but the portfolio manager provides recommendations.
  - **Ideal For**: **High-net-worth individuals (HNIs)** or investors who want personalized investment strategies and have a significant amount of capital to invest.
- **Alternative Investment Funds (AIFs): Alternative Investment Funds (AIFs)** are investment vehicles that invest in **non-traditional assets** such as private equity, venture capital, hedge funds, real estate, commodities, and other alternative assets.
- **Types of AIFs**:
  - **Category I**: Focus on investments in startups, social ventures, or infrastructure projects (e.g., venture capital funds).
  - **Category II**: Funds that are not specified under Category I or III, and may include private equity or debt funds.
  - **Category III**: Hedge funds that seek to generate high returns by using complex strategies like leverage, derivatives, etc.

Key Differences Between MFs, PMS, and AIFs

Feature	Mutual Funds (MFs)	Portfolio Management Services (PMS)	Alternative Investment Funds (AIFs)
Minimum Investment	Low (Rs 500 to Rs 1,000)	High (Rs 50 lakh or more)	Very High (Rs 1 crore or more)
Investor Type	Retail Investors	High Net-Worth Individuals (HNIs)	High Net-Worth Individuals, Institutional Investors
Risk Profile	Low to Moderate	Moderate to High	High
Regulation	Regulated by SEBI	Regulated by SEBI, but with more flexibility	Regulated by SEBI, with different categories for risk
Feature	Mutual Fund (MFs)	portfolio Management Services (PMS)	Alternative investment Fund (AIFs)
Liquidity	High (easily tradable)	Low (depends on the agreement, not easily liquid)	Low (varies based on the fund's structure)

4 SEBI'S LIBERALISED MF LITE FRAMEWORK

Context: SEBI has introduced the Mutual Funds Lite (MF Lite) framework to simplify the regulatory compliance for passively managed mutual funds.

What is SEBI's liberalised MF Lite framework?

- The Mutual Funds Lite (MF Lite) framework is a **new set of rules** introduced by the **Securities and Exchange Board of India (SEBI)** to make it easier for companies to create and manage certain types of mutual funds, specifically **passively managed** ones like **index funds and exchange-traded funds (ETFs).**
- **Simplified Rules**: The MF Lite framework offers simpler regulations for passively managed funds.
    - These funds follow specific rules for investing, so they don't require as much oversight compared to actively managed funds, where managers make more decisions about investments.
- **Encouraging New Players**: By making it easier to start these types of funds, SEBI hopes to attract more companies to enter the mutual fund market. This means more options for investors.
- **Faster Approval Process**: The framework aims to speed up the approval process for new passive funds. This means that companies can launch their funds more quickly and without having to provide as much detailed information upfront.
- **Cost-Effective**: With less paperwork and quicker approvals, it will be cheaper for companies to set up new funds. This could lead to lower costs for investors as well.
- **More Competition and Innovation**: As new companies enter the market, there will be more choices for investors. This competition can lead to better investment options and potentially lower fees.

FACT BOX

What are Passive funds?

- Passive funds are investment funds that aim to match the performance of a specific market index rather than actively selecting individual securities.
- They typically follow a **buy-and-hold strategy**, investing in the same assets that make up an index.
- **Active funds** employ a fund manager who participates in all buying and selling decisions. The **fund manager** manages the Fund with active investing by studying the market forces and the economy.
- **Key Features of Passive funds:**
    - **Index Tracking:** Passive funds replicate the performance of an index, such as the Nifty 50 or S&P 500. They invest in the same securities in the same proportions as the index.
    - **Lower Costs:** Because they don't require active management, passive funds usually have lower fees compared to actively managed funds.
    - **Less Frequent Trading:** Passive funds generally trade less often, leading to lower transaction costs.
    - **Predictable Returns:** Since they aim to match an index, the returns of passive funds are more predictable compared to actively managed funds, which can vary widely based on the manager's decisions.

- **Examples:** Common types of passive funds include:
  - Index Funds
  - Exchange-Traded Funds (ETFs)

5 FIXED-INCOME MUTUAL FUNDS

Context: In recent financial discussions, the nuances of fixed-income mutual funds have garnered attention, especially with the backdrop of potential interest rate changes.

About Fixed-income mutual funds:

- Fixed-income mutual funds can be broadly categorized as **open-ended or close-ended**.
  - **Open-ended funds** are bought and redeemed directly with the Asset Management Company (AMC)
  - **Close-ended funds** are listed on exchanges for trading.
- Another fundamental concept is **accrual**, where interest is added to the **Net Asset Value (NAV)** daily, with market price changes impacting NAV through mark-to-market valuation.
- **Categories:**
  - **Liquid Fund:** Designed for short-term needs, investing in instruments with maturity up to three months. Primarily earns from accruals, making it suitable for emergency cash-equivalent needs.
  - **Money Market Fund**: Invests in instruments with maturity up to one year, with limited mark-to-market impact. Suitable for short-term investments.
  - **Banking and PSU Fund**: Focuses on instruments issued by banks and PSUs, offering flexibility in portfolio maturity. Ideal for medium-term investment horizons.
  - **Corporate Bond Fund**: Invests in highest credit rating instruments, typically with a portfolio maturity of 3-5 years. Suitable for medium-term investment objectives.
  - **Dynamic Bond Fund:** Allows the fund manager to adjust portfolio maturity based on market conditions. Suited for medium to long-term investment goals.
  - **Gilt Fund:** Invests in government bonds with long maturity, offering exposure to interest rate cycles. Suitable for long-term investment strategies.
  - **Target Maturity Fund (TMF):** Provides a defined maturity date, offering high visibility on returns. Usually maintains high-grade credit quality.

6 DUES DIFFICULT TO RECOVER

Context: The Securities and Exchange Board of India (SEBI) has recently reported an increase in the amount of dues deemed difficult to recover (DTR), highlighting ongoing challenges in enforcing financial penalties and recoveries. As of the end of the financial year 2023-24, the amount marked as DTR has risen to Rs 76,293 crore.

What is DTR?

- DTR stands for "Difficult to Recover" dues.
- These are amounts that SEBI has marked as challenging to collect even after all recovery mechanisms have been exhausted.
- DTR dues include penalties imposed by SEBI's adjudicating officers or non-compliance with directives for refund, disgorgement orders, or outstanding fees.
- **Provisions**
  - **SEBI Act, 1992:** Section 28A of this Act empowers SEBI to recover dues from entities that fail to pay penalties or comply with orders for refunds or disgorgements.
  - **Securities Contracts (Regulation) Act (SCRA), 1956**: Provides additional authority to SEBI for recovery of penalties and enforcement of compliance.
  - **Depositories Act, 1996**: This Act also grants SEBI the power to enforce compliance and recover dues related to securities transactions.

FACT BOX

About SEBI

- Securities and Exchange Board of India (SEBI) is a **statutory regulatory body** that regulates the securities market and protects the interests of investors in securities.
- It was established by the **Government of India in 1992,** though it was first constituted as a non-statutory body in 1988.
- **SEBI's functions include:**
  - Regulating the securities market (stock market and mutual funds)
  - Protecting the interests of investors in securities.
  - Enforcing compliance (quasi-executive powers)
  - Making rules (quasi-legislative powers)
  - Adjudicating violations (quasi-judicial powers)
  - Registering and regulating

7 REITS (REAL ESTATE INVESTMENT TRUSTS)

Context: The recent Hindenburg report has raised allegations against SEBI chief Madhabi Puri Buch, claiming she had stakes in offshore companies linked to the Adani 'scam.' The report also criticized recent changes to REIT regulations, suggesting these changes benefited certain entities, including Blackstone.

What are REITs?

- REITs (Real Estate Investment Trusts) are trusts registered with **SEBI (Securities and Exchange Board of India) under the SEBI (Real Estate Investment Trusts) Regulations, 2014.**
- **Function:** REITs raise funds by issuing units to investors. These funds are invested primarily in real estate assets.
- **Investment Structure:** Investments can be made through **Special Purpose Vehicles (SPVs)** or Holding Companies.
- **Unit Holders:** Investors who purchase units of a REIT are known as unit holders.
- **Income Distribution:** The income generated from the REIT's assets is distributed to unit holders regularly.
- **Trading:** REITs are listed on stock exchanges and traded like securities. Investors can buy and sell REIT units on primary and secondary markets, similar to shares or mutual funds.
- **India's First REIT:** The first REIT in India was the Embassy REIT, sponsored by Blackstone, which received SEBI approval in April 2019.

8 ANGEL TAX

Context: The department for promotion of industry and internal trade proposed relieving new businesses of angel tax.

About:

- It is a 30% tax that is levied on the funding received by Startups from an external investor.
- However, this 30% tax is levied when Startups receive angel funding at a valuation higher than its 'fair market value'.
- It is counted as income to the company and is taxed.
- Angel tax was introduced in 2012, with the purpose of keeping money laundering in check.

FACT BOX

Section 56 (2) VII B of the **Income Tax Act**, also known as **the 'angel tax'** was first introduced in 2012 to deter the generation and use of **unaccounted money** through the subscription of shares of a closely held company at a value that is higher than the fair market value of the firm's shares.

FACT BOX

Provision related to Angle Tax under Finance Act 2023:

- **Amendment of Section 56(2)(viib):** Finance Act 2023 modified the 'angel tax' provision to include foreign investors in start-up funding taxation.
- **Exemption for Recognized Start-ups:** DPIIT-recognized start-ups were excluded from angel tax, sparing them from this tax liability.
- **Final Valuation Rules for Investors**: Finance Ministry established valuation rules, including methods like DCF, for resident and non-resident investors in unlisted companies.
- **Exemption for Investors from Certain Countries:** Angel tax was waived for investors from 21 countries, but countries like **Singapore, Netherlands, and Mauritius** were excluded.

9 ALTERNATE INVESTMENT FUNDS (AIFS)

Context: In recent months, the Reserve Bank of India (RBI) has implemented and subsequently adjusted regulations concerning Alternate Investment Funds (AIFs). The Indian government has asked the central bank to exempt sovereign funds (including a fund called Special Window for Affordable and Mid-Income Housing (SWAMIH)) from a recent set of tightened rules concerning investments in alternate investment funds (AIFs)

What is AIF?

- Alternate Investment Funds (AIFs) are pooled investment vehicles that invest in assets other than traditional stocks and bonds.
- They include various categories like **private equity, venture capital, real estate funds, etc.**

FACT BOX

About SWAMIH

- **Set up in:** 2019
- **Sponsored by:** Ministry of Finance
- **Managed by:** SBICAP Ventures

- **Backed by:** State Bank of India
- **Aim:** to support affordable housing projects by providing debt financing for stalled housing projects

10 CHINA'S OFFSHORE LISTING CHALLENGES

Context: Chinese firms aiming for offshore listings have hit a regulatory roadblock, leading to prolonged delays and lower valuations. Despite Beijing's pledge to ease the process and positive market indicators, the IPO drought persists, hindering capital raising in a slowing economy.

About Offshore Listings:

- Offshore listings are critical fundraising channels for Chinese companies. These deals also account for a bulk of the revenue global investment banks make in Asia.
- These listings not only provide access to **global capital markets** but also contribute significantly to the revenue of investment banks operating in Asia.

FACT BOX

Initial Public Offering (IPO)

- An **Initial Public Offering (IPO),** is when a privately held company, or a government-owned entity like **LIC**, raises funds by **selling shares** to the **public or new investors**.
- Through the IPO, the company gets its name listed on the **stock exchange.**
- **Filing with SEBI**: Before launching an IPO, the company must file its offer document with the **Securities and Exchange Board of India (SEBI),** the market regulator.
- **SEBI Criteria:** To safeguard investors, SEBI has set rules that companies must meet before conducting an IPO.
- **These criteria include:**
  - Having net tangible assets of at least Rs 3 crore.
  - Maintaining a net worth of Rs 1 crore in each of the preceding three full years.
  - Achieving a minimum average pre-tax profit of Rs 15 crore in at least three of the last five years.

11 FIXED-INCOME MUTUAL FUNDS

Context: In recent financial discussions, the nuances of fixed-income mutual funds have garnered attention, especially with the backdrop of potential interest rate changes.

About Fixed-income mutual funds:

- Fixed-income mutual funds can be broadly categorized as **open-ended or close-ended**.
  - **Open-ended funds** are bought and redeemed directly with the Asset Management Company (AMC)
  - **Close-ended funds** are listed on exchanges for trading.
- Another fundamental concept is **accrual**, where interest is added to the **Net Asset Value (NAV)** daily, with market price changes impacting NAV through mark-to-market valuation.
- **Categories:**
  - **Liquid Fund:** Designed for short-term needs, investing in instruments with maturity up to three months. Primarily earns from accruals, making it suitable for emergency cash-equivalent needs.
  - **Money Market Fund**: Invests in instruments with maturity up to one year, with limited mark-to-market impact. Suitable for short-term investments.
  - **Banking and PSU Fund**: Focuses on instruments issued by banks and PSUs, offering flexibility in portfolio maturity. Ideal for medium-term investment horizons.
  - **Corporate Bond Fund**: Invests in highest credit rating instruments, typically with a portfolio maturity of 3-5 years. Suitable for medium-term investment objectives.
  - **Dynamic Bond Fund:** Allows the fund manager to adjust portfolio maturity based on market conditions. Suited for medium to long-term investment goals.
  - **Gilt Fund:** Invests in government bonds with long maturity, offering exposure to interest rate cycles. Suitable for long-term investment strategies.
  - **Target Maturity Fund (TMF):** Provides a defined maturity date, offering high visibility on returns. Usually maintains high-grade credit quality.

12 CONFIDENTIAL IPO FILING

Context: A number of businesses have chosen to submit their initial public offering (IPO) documents in secret beforehand.

What is Confidential IPO Filing?

- By amending the **Issue of Capital and Disclosure Regulations (ICDR),** the **Securities and Exchange Board of India (Sebi)** enabled the **confidential pre-filing of Draft Red Herring Prospectuses (PDRHP)** an optional method starting in 2022.

- In **contrast to the standard procedure,** wherein the complete DRHP is disclosed to the public, the pre-filings in this case are private.
- When the corporation really decides on the timing, etc., of the issue, the DRHP—which takes into account the regulator's opinions—is released to the public.

13 ELECTRONIC TRADING PLATFORMS (ETPS)

Context: The Reserve Bank of India (RBI) released a draft Master Direction for Electronic Trading Platforms (ETPs) in the wake of increased integration of the onshore forex market with offshore markets.

Key Highlights of the Draft Master Direction - RBI (Electronic Trading Platform Directions, 2024)

Need for Regulation: The RBI's move comes in response to concerns raised about **unauthorized entities offering forex trading facilities with promises of high returns.**

- **Minimum Net-Worth Requirement:** Entities applying for authorization as Electronic Trading Platform (ETP) operators must maintain a minimum net worth of Rs 5 crore. This requirement is to be upheld continuously to ensure financial stability and resilience.
- **Incorporation in India:** The entity seeking authorization as an ETP operator must be a company incorporated in India.
- **Shareholding Compliance:** Any shareholding by non-residents in the entity must comply with all relevant laws and regulations, including the **Foreign Exchange Management Act, 1999**.
- **Technology Infrastructure:** ETP operators are required to maintain robust technology infrastructure characterized by high reliability, availability, scalability, and security.

FACT BOX

About ETPs

- In 2018, the RBI had introduced a framework for the authorisation of Electronic Trading Platforms to facilitate transactions in financial market instruments under its regulation.
- ETPs, distinct from recognised stock exchanges, are electronic systems enabling the trading of eligible instruments such as **securities, money market instruments, foreign exchange instruments, derivatives, etc.**

14 INVITS

Context: Real estate investment trusts (REITs) and infrastructure investment trusts (InvITs) have garnered Rs 1.3 lakh crore in the past four years till March-end, and are expected to facilitate more pooled funds, as per the Reserve Bank.

About

- **Real Estate Investment Trusts(REITs)** are the companies that finance, purchase, or manage commercial spaces that have the potential to generate an income. It is a legitimate way of investing in the real estate sector.
  - **Example:** Mall, shopping complexes, hotels, co-working spaces, and hospitals
- **Infrastructure Investment Trusts (InvITs)** are vehicles that allow the investors to pool their capitals in the infrastructure sector and hold income-generating assets. IndiGrid and IRB are some of the registered InvITs.
  - **Example:** Roads, highways, power, gas pipelines, energy projects, etc. are some of the major examples of InvITs.

15 GREEN BONDS

Context: Government of India is likely to issue 20000 cr-25000 cr of green bonds for which it has allowed Foreign institutional Investors (FIIs) to invest in it.

About

- Green bonds are a type of fixed-income investment used to fund projects with a positive environmental impact.
- Like traditional bonds, green bonds offer investors a stated return and a promise to use the proceeds to finance or refinance sustainable projects, either in part or whole.
- They follow the Green Bond Principles stated by the International Capital Market Association (ICMA).
- **Issues:** Transparency and reporting, some bonds may have lower liquidity than traditional ones, greenwashing.

FACT BOX

Blue Bonds

- Blue bonds are sustainability bonds used to finance projects that protect the ocean and related ecosystems.

- They might support sustainable fisheries, protection of coral reefs and other fragile ecosystems, or reducing pollution and acidification.
- All blue bonds are green bonds, but not all green bonds are blue bonds.

16 EXCHANGE TRADED CURRENCY DERIVATIVE

Context: A notification from the RBI on hedging of foreign currency risk caused a stir among market as it restricted the use of exchange traded currency derivative.

What is ETD?

- An Exchange Traded Derivative is a **standardised financial contract** that is traded on stock exchanges in a regulated manner.
- They are subject to the rules drafted by market regulators such as the **Securities and Exchange Board of India (SEBI).**

FACT BOX

Derivatives

- Derivatives are financial contracts that derive their values from the price fluctuations of their underlying assets such as stocks, currency, bonds, commodities etc.
- Essentially, there are two types of derivatives;
    - **Exchange Traded Derivatives (ETDs):** It is subject to standardised terms and conditions, hence, traded in the stock exchanges.
    - **Over the Counter (OTC) derivative**: It is traded between private counter-parties, in the absence of a formal intermediary

17 T+0 SETTLEMENT SYSTEM

Context: India's stock market is set to usher in the T+0 settlement system, making it among the handful of countries to implement the shorter trade settlement cycle.

What is T+0 system?

- In the **T+0 system (T refers to the day of the trade and 0 is the day of settlement)**, trades done in shares will be settled on the same day.
- This means shares will be transferred to the buyer's account and the funds will be deposited in the seller's account on the same day of the trade.
- **Impact:**A shorter settlement cycle on full implementation is aimed at making the system more dynamic. Since funds will be available on the same day of selling, it is expected to improve liquidity, allowing traders to use cash better.
- **Evolution:** Currently, India follows the **T+1 cycle**, which means trades are settled by the next day.
    - After following a **T+5 settlement cycle**, India moved to T+3 in 2002 and further reduced it to **T+2** in 2003.
    - In 2021, Sebi introduced the **T+1 system** before making it the norm in 2023. The regulator has also set its sights on instant trade settlement.

18 GOVERNMENT SECURITY (G-SEC)

Context: As many as 17 states tapped financial markets to raise a total of Rs 50,206 crore through auction of state government securities, marking the largest such weekly borrowing ever.

What is a Government Security (G-Sec)?

- A Government Security (G-Sec) is a **tradeable instrument** issued by the Central Government or the State Governments.
- It acknowledges the **Government's debt obligation**.
- Such securities are short term (usually called treasury bills, with original maturities of less than one year) or long term (usually called Government bonds or dated securities with original maturity of one year or more).
- G-Secs are issued through auctions conducted by **Reserve Bank of India (RBI).**
- In India, the **Central Government** issues both, **treasury bills and bonds** or dated securities while the State Governments issue **only bonds or dated securities**, which are called the **State Development Loans (SDLs).**

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CHAPTER 06

INDUSTRY & INFRASTRUCTURE

1 IREDA GETS 'NAVRATNA' STATUS

Context: Indian Renewable Energy Development Agency (IREDA) received the prestigious 'Navratna' status.

About Classification of India's Central Public Sector Enterprises (CPSEs)

- India's central public sector enterprises (CPSEs) are classified into three major categories - Miniratna, Navratna and Maharatna CPSEs.
- **Aim to assign ratna statuses to CPSEs:** to give operational freedom and decision-making power to the state-run entities.
- **Numbers:** There are **57 Miniratna, 17 Navratna and 13 Maharatna companies**. IREDA became the 17th Navratnacompany.

Miniratna Status

- There are two sub-categories under the Miniratna status - Miniratna-I and Miniratna - II.
    - **Miniratna Category-I**: CPSEs which reported profits in three consecutive years, have a pre-tax profit of Rs 30 crore or more in at least one of the three years, and have a positive net worth.
    - **Miniratna Category-II:** PSUs with a profit for the last three successive years and have a positive net worth.
- **Other requirements:**
    - A CPSE should have not defaulted on repayment of loans or interest due to the government.
    - Miniratna entities need not depend upon budgetary support or government guarantees.

Navratna status

- **Eligibility:** PSUs that have a Miniratna-I status and have obtained an "Excellent" or "Very Good" MoU rating in three out of the last five years and have a composite score of 60 or more in six selected performance indicators (including net profit to net worth, manpower cost to total cost of production, etc).
- **Important PSUs:** IREDA, BEL, CONCOR, Hindustan Aeronautics, NALCO, NBCC, NMDC, PFC

Maharatna status

- **Eligibility:**
    - Should have a "Navratna" status
    - Should be listed on the Indian stock exchanges
    - Should be compliant with minimum shareholding norms
    - Average annual turnover of more than Rs 25,000 crore and average annual net worth of over Rs 15,000 crore in the last three years
    - Average annual net profit of over Rs 5,000 crore in the last three years along with significant global presence.
- **Important PSUs:** BHEL, BPCL, Coal India, GAIL, HPCL, Indian Oil, NTPC, ONGC

FACT BOX

About IREDA

- **Established in:** 1987
- **Type:** Non-banking financial institution
- **Ministry:** Ministry of New and Renewable Energy
- **Objective**: Promoting, developing and extending financial assistance for setting up projects related to new and renewable sources of energy.

2 IRCTC & IRFC GET NAVRATNA STATUS

Context: The government granted Navratna status to IRCTC and IRFC, making them the 25th and 26th Navratna CPSEs. Now, all seven listed Indian Railways CPSEs hold Navratna status.

What is Navratna Status?

- Navratna status is conferred upon **public sector undertakings** that demonstrate outstanding financial and market performance.
- This recognition enhances their autonomy and financial authority.
- It is a **prestigious rank** for **government-owned companies**, placed **between Maharatna & Miniratna** categories.
- **To qualify, a company must have:**
  - A **composite score of 60+** on key financial indicators.
  - An **'Excellent' or 'Very Good' rating** in 3 of the last 5 years.

3 INDIA'S CORE SECTOR OUTPUT

Context: India's core sector output experienced a significant contraction of 1.8 percent in August 2024, marking the first decline in nearly four years. This follows a robust growth of 6.1 percent in July and a remarkable 13.4 percent expansion in August 2023. The slowdown is largely attributed to the high base effect from the previous year's performance.

Key-highlights:

- In August, steel output slowed to 4.5 percent against 10.9 percent in the same month last year.
- **Natural gas production** contracted by 3.6 percent during the month under review compared to an expansion of 10 percent in August 2023.
- **India's coal production** decreased by 8.1 percent in August, 2024 against an expansion of 17.9 percent in August 2023.
- **Crude Oil production** dipped by 3.4 per cent in August YoY in the month under review.
- **India's manufacturing PMI** had slumped to a three-month low of 57.5 in August compared with 58.1 in the previous month, as demand had softened.
- **The eight core sectors** contribute 40.27 percent to the **Index of Industrial Production (IIP)** which measures overall industrial growth.
- **Reason:** The drop in output is primarily skewed due to last year's elevated growth figures. As a result, the average growth for the first five months of the year has now reduced to 4.6 percent, compared to 8 percent during the same period last year.
- **Impact:** This contraction will significantly impact industrial production, particularly as manufacturing activity has also seen a decline.

FACT BOX

Core Sector

- The main or the key industries constitute the core sectors of an economy.
- In India, there are eight sectors that are considered the core sectors. The eight-core sectors of the Indian economy are **electricity, steel, refinery products, crude oil, coal, cement, natural gas and fertilizers.**
- These sectors have a major impact on the Indian economy and significantly affect most other industries as well.
- The eight industries have a combined share of 40.27 per cent in the Index of Industrial Production (IIP), which gives the growth rates of different industry groups in a specified period.
- Before the IIP is released, the **Index of Eight Core Industries (ICI)** is prepared every month and released by the **Office of the Economic Adviser (OEA), Department for Promotion of Industry and Internal Trade (DPIIT), and Ministry of Commerce & Industry.**
- **Components to calculate the ICI:**
  - **Coal** – Coal production, excluding Coking coal.
  - **Electricity –** Electricity generation of thermal, nuclear, hydro, imports from Bhutan.
  - **Crude Oil –** Total crude oil production.
  - **Cement –** Production in large plants and mini plants.
  - **Natural Gas –** Total production of natural gas.
  - **Steel –** Production of alloy and non-alloy steel only.

- **Refinery Products –** Total refinery production.
- **Fertilizer –** Urea, ammonium sulfate, calcium ammonium nitrate, complex grade fertilizer, and single superphosphate, among others

4 AILING INDIA'S TEXTILE INDUSTRY

Context: Despite its large size, India's textile industry has struggled with slow growth in recent years.

Current state of India's textile industry

- India is the **sixth-largest** exporter of textiles globally, contributing **21%** to the country's total exports in 2023-24. The sector holds a **4.5%** share in global trade, with the **United States and** European Union accounting for**47%** of India's textile and apparel exports.
- It employs over 4.5 crore people, with a significant portion of the industry focused on small and medium enterprises (MSMEs) across specialized hubs like Bhiwandi (Maharashtra), Tiruppur (Tamil Nadu), and Surat (Gujarat).
- **Cotton Production**: India is the second-largest cotton producer globally, contributing to 24% of the world's cotton output. Cotton cultivation employs about 60 lakh farmers, especially in Gujarat, Maharashtra, and Telangana.
- **Man-Made Fibres (MMF)**: India is the second-largest producer of synthetic fibres, with Reliance Industries and Grasim Industries leading production. However, MMF consumption per capita in India is low compared to countries like China and the U.S.
- **Growth and Exports**:
  - India's textile and apparel industry contributes 13% to industrial production, 12% to exports, and 2% to GDP.
  - **Exports were stagnant**, reaching $34.1 billion in FY24, only slightly higher than $33.4 billion in FY20.
  - India's exports face tough competition from countries like **China, Vietnam, and Bangladesh**, which benefit from lower production costs, vertically integrated supply chains, and simpler regulations.

FACT BOX

Government/Policies for Textile Sector

- **PM MITRA: Pradhan Mantri Mega Integrated Textile Region and Apparel:** The PM MITRA scheme focuses on establishing **Mega Integrated Textile Regions and Apparel Parks** across India to stimulate investment, innovation, and growth in the textile sector.
- **Production-Linked Incentive (PLI) Scheme:** The Production-Linked Incentive (PLI) Scheme is a strategic initiative aimed at boosting domestic manufacturing and reducing imports within the textile sector. It incentivizes companies based on their cumulative sales of domestically manufactured goods, specifically targeting man-made fiber (MMF) apparel, MMF fabrics, and technical textiles.
- **Samarth Initiative:** The Samarth initiative is a flagship skill development program led by the **Ministry of Textiles**, designed to enhance skills across the textile sector.
  - This **demand-driven and placement-oriented scheme** aims to train 10 lakh individuals from 2017 to 2020, focusing on the entire textile value chain, excluding spinning and weaving.
- **National Technical Textiles Mission (NTTM):** Launched in 2020, the National Technical Textiles Mission (NTTM) focuses on enhancing technical education, promoting research and innovation, and expanding market growth within the technical textiles domain over a four-year period.
- **Bharat Tex 2025:** It was India's largest global textile event. Bharat Tex 2025 served as a platform to accelerate the government's **"Farm to Fibre, Fabric, Fashion, and Foreign Markets"** vision.

5 INDIA'S MARITIME SECTOR

Context: India's maritime sector is growing rapidly and playing an important role in the country's economic rise. In 2023, India contributed 16% to global economic growth and is expected to become the third-largest economy soon. As India's global influence increases, its maritime sector (shipping, ports, etc.) is becoming a key part of its economic and strategic plans.

About India's Maritime Sector

- India has a **7,500-kilometer coastline**, with **12 major ports** and over **200 minor ports**, making it a key player in global shipping. About **95% of India's trade** by volume is handled through its ports, and **70% by value**.
- **Global Position**: India ranks as the **16th-largest maritime nation** in the world and is located along the world's busiest shipping routes. Many ships traveling between East Asia, America, Europe, and Africa pass through Indian waters.
- **Growing Fleet**: India has a fleet of **1,530 ships** (as of 2023), making it a major player in global shipping. It is also the third-largest in the world for **ship recycling**, contributing to **sustainable maritime practices**.

- **Port Infrastructure**: The cargo-handling capacity of Indian ports has grown by **87%** from 2014 to 2023. This is essential for supporting the nation's expanding trade and economy.
- **Government Role**: The Indian government has supported growth in the maritime sector through initiatives like:
  - **100% Foreign Direct Investment (FDI)** for port projects.
  - **Tax holidays** for port enterprises to encourage private investment.

Major Government Schemes in Maritime Sector

- **Sagarmala Programme**: A key initiative to improve ports, enhance connectivity, and develop coastal areas. It focuses on port modernization, better roads and railways to ports, and increasing coastal trade.
- **Maritime India Vision (MIV) 2030**: A plan to make India a global maritime leader. It covers over **150 initiatives** across 10 areas, including ports, shipyards, and inland waterways, to boost growth in the next decade.
- **Inland Waterways**: The government is working to develop **26 new national waterways** to ease transportation and reduce congestion on roads and railways.

6 INDIA'S FISHERIES AND AQUACULTURE SECTOR

Context: India's fisheries and aquaculture sector is in the spotlight as the country continues to experience significant growth in fish production.

Current state of India's fisheries and aquaculture sector

- India's fisheries and aquaculture sector has grown significantly in recent years, contributing to the livelihoods of approximately **three crore** fishers and fish farmers.
- The country's fish production reached a record **175 lakh tons** in **2022-23**, marking an **83% increase** in production since **2013-14**.
- A significant portion of this production (about **75%**) comes from **inland fisheries**, making India the **second-largest** fish and aquaculture producer in the world.
- Given this, improving the extension services that support fishers and fish farmers is crucial to ensure the sustainable growth of the sector.

Role of Extension Services in Fisheries and Aquaculture

Extension services are critical for **disseminating knowledge** and providing technical support to fishers and fish farmers. These services should focus on:

- Offering **request-based support** regarding the life cycle of improved species, water quality, disease management, and rearing technologies.
- Addressing the needs of **seed growers and hatcheries** to enhance productivity.
- Providing **need-based training** to promote **sustainable practices** and **fisheries-based business models**.

Critical extension initiative

Matsya Seva Kendras, **Sagar Mitras**, and **digital platforms**like **AquaBazaar** are pivotal in delivering **technical support** and **capacity building** to fishers and fish farmers.

- **Matsya Seva Kendras (MSK):** Under the Pradhan Mantri Matsya Sampada Yojana (PMMSY), the government has introduced Matsya Seva Kendras (MSKs) to enhance fisheries extension services. These Kendras are envisioned as one-stop solutions for fishers and fish farmers, offering a range of services delivered by trained aquaculture professionals.
- **Key Features of Matsya Seva Kendras:**
  - **Support for Women and Weaker Sections**: The government provides **60% financial assistance** to set up MSKs targeting **women** and **marginalized communities**.
  - **Services Offered**: MSKs provide a variety of services, including water quality testing, disease diagnosis, capacity building, and technology infusion for better fish farming.
    - For example, the MSK in **Thrissur, Kerala** has a **laboratory** for **water, soil, and microbial analysis**, and provides **disease testing** based on requests.
    - The MSKs in **Nasik and Sangli (Maharashtra)** focus on **capacity building** related to **seed and feed inputs**and the use of new technologies.
  - **Community and Cooperative Engagement**: The government encourages MSKs to engage with **start-ups**, **cooperatives**, **producer organizations**, **self-help groups**, and **joint liability groups** to foster **knowledge-sharing**and the adoption of **sustainable fishing practices**.
- **Impact of MSKs:** MSKs aim to promote a **"whole of government" approach**, meaning a collaborative effort across various government and community sectors to address challenges like **climate change** and improve fisheries management. They play a pivotal role in promoting **conservation** and **regenerative practices** in both **inland** and **marine**

- **Sagar Mitras: Connecting Sea-Borne Fishers:** Another critical extension initiative is the deployment of Sagar Mitras, or sea helpers, in coastal regions of India. These individuals act as an interface between the government and sea-borne fishers, providing essential support and information.

7 INDIA'S LOGISTICS SECTOR

Context: The logistics sector in India made significant progress in 2024 towards achieving the goals outlined in the National Logistics Policy (NLP) launched in 2022. The sector saw improvements in efficiency, cost reduction, and infrastructure, driven by key government initiatives and reforms.

Current status of India's Logistics Sector

- The logistics sector contributes around **13-14% to GDP** and provides livelihood for more than 22 million people.
- It enables **timely delivery, decreases costs, and enhances competitiveness**, crucial for thriving businesses.
- The logistics industry employs over 22 million people in India, making it a significant contributor to the country's employment landscape.
- The demand for India's logistics sector is expected to rise significantly due to several key factors.
- **India's projected GDP growth** of USD 26 trillion by fiscal year 2048 (with USD 6 trillion by 2030) and the goal of boosting merchandise exports to USD 1 trillion by 2030 will create substantial opportunities for the transport and logistics industry.
- Projections suggest that the sector will grow at a CAGR of 4.5 per cent from 2022 to 2050, reaching 15.6 trillion tonnes.

FACT BOX

Government measures targeting India's logistics

- **Dedicated Freight Corridors**: The government has established **high-speed, large-capacity railway corridors** to facilitate the transportation of goods.
- **Multi-modal Logistics Parks**: These parks are designed to integrate different transportation modes (road, rail, air) and provide advanced facilities like mechanized warehouses, cold storage, and customs clearance.
- **Parivahan Portal**: The portal integrates digital services for driving licenses and vehicle registrations. It includes a mobile application, **'mParivahan,'** to simplify administrative procedures, improving logistics operations by reducing paperwork and enhancing efficiency.
- **E-way Bill System**: Introduced in 2018, the e-way bill system requires electronic documentation for goods valued above Rs. 50,000. This has reduced the need for physical paperwork at state borders.
- **PM GatiShakti**: Launched in October 2021, PM GatiShakti aims to boost logistics efficiency by creating a National Master Plan for integrated infrastructure. With Rs. 7.5 lakh crore invested in 2022-23, it focuses on reducing disruptions and improving multi-modal connectivity to lower logistics costs.
- **National Logistics Policy (NLP)**: The NLP, launched in 2022, aims to reduce logistics costs as a percentage of GDP, targeting a seamless and integrated logistics market. It seeks to create a **single-window e-logistics platform** to make MSMEs more competitive and enhance the logistics sector's overall efficiency.
- **Unified Logistics Interface Platform (ULIP)** is designed to enhance efficiency and reduce the cost of logistics in India
- **Logistics Efficiency Enhancement Programme (LEEP)**: LEEP is designed to improve freight transport efficiency by addressing infrastructure gaps, reducing transportation time, and optimizing goods transfer processes through the use of technology and improved logistics practices.
- **Trade Facilitation Measures**: To boost trade, the government has developed an **Export-Import (EXIM) Logistics Group** and a comprehensive plan for port connectivity.
- The **Land Ports Authority of India (LPAI)** has made it easier to move and release wagons more quickly by **electrifying the short railway lines** that connect railway yards to inland container depots and container freight stations.

8 LNG'S CENTRALITY

Context: India and Qatar have a long-standing trade relationship, primarily fueled by India's heavy imports of Liquefied Natural Gas (LNG) from Qatar. As India's energy demand grows, LNG plays an even bigger role. During a recent state visit by Qatar's Amir, both nations agreed to double their bilateral trade to $28 billion annually by 2030.

India's LNG Imports Surge

- India is the 4th largest importer of **liquefied natural gas (LNG)** from **Qatar, USA, Russia and Australia.**
- **Qatar** is India's largest LNG supplier, contributing to nearly **50%** of India's LNG imports.
- **India's LNG imports** from Qatar in 2024 were **82 million tonnes**, making up **38.8%** of total LNG imports.
- **Future Growth in LNG Imports**: India's **LNG demand** is expected to grow significantly over the next few years due to the government's plan to increase the share of natural gas in the energy mix to **15% by 2030**.
  - As a result, **India's LNG imports** will double by **2030** to **65 bcm** (billion cubic meters) annually.
- **Qatar's LNG Export Capacity Expansion**: Qatar is set to increase its **LNG export capacity** to **142 million tonnes per year (mtpa)** by **2027**, nearly doubling its current capacity of **77 mtpa**.
  - This will further cement Qatar as India's **leading LNG supplier**.

FACT BOX

Government Initiatives

- **Pradhan Mantri Ujjwala Yojana (PMUY):** Launched in 2016, the scheme aims to make clean cooking fuel such as LPG available to the rural and deprived households which were otherwise using traditional cooking fuels such as **firewood, coal, cow-dung cakes etc.**
- **Pradhan Mantri Urja Ganga Project**: Launched in 2016, it is a gas pipeline project aimed to meet the energy demands of only river ganga flowing states.
- **Pradhan Mantri JI-VAN Yojana** spports bio-ethanol projects, including second and third-generation plants, to promote sustainable fuel production.
- **Strategic Petroleum Reserves (SPR)** enhances energy security with underground storage facilities in **Visakhapatnam, Mangalore**, and **Padur (Karnataka)**, holding **5.33 MMT** of crude oil.
- **Ethanol Blending Program** aims for **20% ethanol blending** in petrol by **2025-26**. Ethanol blending has increased from **38 crore litres** in 2013-14 to **707.4 crore litres** in 2023-24.
- **City Gas Distribution Network Expansion** extends **PNG** and **CNG** infrastructure to **733 districts** across 34 states/UTs, covering nearly **100%** of India's mainland.
- **Energy Security Initiatives** focus on overseas oil block acquisitions and exploration to enhance energy security.
- **Greener Fuel Initiatives**
  - **SATAT Initiative** encourages investment in **Compressed Biogas (CBG)** production from agricultural waste, cattle dung, and municipal solid waste, boosting rural income.
  - **Mission Green Hydrogen** aims to produce **Green Hydrogen** to meet global demand (over **100 MMT** by 2030), with potential exports of **10 MMT/year**. Targeted investments of **Rs 8 lakh crore** and **6 lakh jobs** created.
  - **National Bio-Energy Programme** promotes bio-energy production and waste reduction.
  - **Hydrocarbon Exploration and Licensing Policy (HELP)** attracts private investment in exploration and production to enhance domestic energy production.

9 NITIAAYOG RECOMMENDS INCLUDING COKING COAL IN CRITICAL MINERALS LIST

Context: The government must include coking coal in the list of critical minerals and provide special dispensation to enhance the domestic production of the key raw material for steel production, according to a NitiAayog report.

About Coking coal (or metallurgical coal)

- Coking coal (or **metallurgical coal**) is a **bituminous coal** with a suitable quality that allows the production of **metallurgical coke**.
- Coke is the main product of the **high-temperature carbonisation of coking coal**.
- It is an essential input material in **steelmaking**as it is used to produce **pig iron** in blast furnaces acting as the **reducing agent of iron ore** and as the **support of the furnace charge**.
  - Steel is cited as a strategic material in all industries related to the low-carbon transition. About 780 kg of coking coal is needed to produce 1 ton of steel.
- By-products of coke production such as **tar, benzole, ammonia sulphate and sulphur** are used for the manufacture of chemicals, as well as coke oven gas used for heat and power generation.

FACT BOX

Critical Mineral:

- **Critical minerals** are resources that are essential for the functioning of a nation's economy and are considered vital for national security.
- Government has released a list of **30 critical minerals for India.**
  - These minerals are **Antimony, Beryllium, Bismuth, Cobalt, Copper, Gallium, Germanium, Graphite, Hafnium, Indium, Lithium, Molybdenum, Niobium, Nickel, PGE, Phosphorous, Potash, REE,Rhenium, Silicon, Strontium, Tantalum, Tellurium, Tin, Titanium, Tungsten, Vanadium,Zirconium, Selenium and Cadmium.**

10 VIZHINJAM INTERNATIONAL SEAPORT

Context: The Vizhinjam International Seaport in Kerala is poised to become a key player in global logistics, with ambitions to transform Kerala's economy.

About Vizhinjam International Seaport

- Vizhinjam is situated in the southern part of Kerala, India, near the state capital, **Thiruvananthapuram**.
- It is developed by Adani Ports and SEZ under a public-private partnership.
- It is **India's latest international deep-water transshipment facility.**
- Its strategic position along major international shipping routes offers a significant advantage for maritime trade.
- It is located strategically on international shipping routes with a natural depth of 18-20 meters, Vizhinjam is designed to handle large mother vessels and plays a critical role in India's trans-shipment capacity.
- **Strategic Location and Global Connectivity**: Vizhinjam's location connects key global ports like Shanghai, Busan, and Rotterdam with major Indian ports, giving Kerala an edge in global logistics.
  - The port's development as a sea-air transshipment hub aims to position Kerala as a prominent maritime leader in South Asia.

PYQ

1. **Recently, which of the following States has explored the possibility of constructing an artificial inland port to be connected to the sea by a long navigational channel? (2016)**

(a) Andhra Pradesh

(b) Chhattisgarh

(c) Karnataka

(d) Rajasthan

Solution: (d)

11 INLAND WATERWAYS TERMINAL (IWT) IN ASSAM'S JOGIGHOPA

Context: Union Minister of Ports, Shipping, and Waterways, inaugurated the Inland Waterways Terminal (IWT) at Jogighopa, Assam, located along the Brahmaputra River. This new terminal is part of efforts to enhance logistics and connectivity in Eastern India, and strengthen trilateral trade between India, Bangladesh, and Bhutan.

About

- The terminal will serve as a major trade hub, facilitating better logistics and connectivity in the region.
- It aims to significantly improve trade flow between the three nations, particularly through the **Bharatmala Programme** and the **Dalu-Tura-Goalpara-Gelephu multimodal trade route.**
- **Strategic Location:** The terminal is situated 108 km from the Bangladesh border and 147 km from Guwahati via Inland Water Transport (IWT).
  - It is located just 91 km from **Gelephu, Bhutan**, where a modern city is under development.
- The terminal is strategically linked to **Bangladesh** and other parts of India via the **IBP (Indian-Bangladesh Protocol) route**, connecting through **Kolkata/Haldia**.

FACT BOX

Broader Growth in Inland Waterways Sector:

- The **IWT (Inland Water Transport)** sector has seen a **phenomenal rise** over the past decade:
  - A **767% increase** in the number of operational **national waterways**.
  - A **727% rise** in the volume of cargo handled on national waterways.
  - A **62% growth** in the number of **multi-modal terminals**.
  - An **860% increase** in **budget allocation** for **Inland Waterways**.
- **Cargo Traffic Growth**: Cargo traffic on national waterways has seen exponential growth from **18 million tonnes** a decade ago to **133 million tonnes** in FY 2023-24, at a **CAGR (Compound Annual Growth Rate)** of over **22%**.

12 JAWAHARLAL NEHRU PORT AUTHORITY (JNPA)

Context: Jawaharlal Nehru Port Authority (JNPA) is amongst top global ports and India's largest port by crossing 10+ million TEUs capacity in January 2025 and poised to achieve 10 million TEUs throughput by 2027.

About JNPA

- The Jawaharlal Nehru Port Authority (JNPA), also known as the Nhava Sheva Port, is one of the premier container-handling ports in India.
- Since its inception on May 26, 1989, JNPA has transformed from a bulk cargo terminal to become the premier container port in the country.
- Currently, JNPA operates five container terminals -- NSFT, NSICT, NSIGT, BMCT and APMT.

FACT BOX

Ports in India

- India hosts **13 major ports** and over **200 minor ports**. **Vadhavan Port (Maharashtra)** has been recently approved as the **13th major port**.
- **Major Ports** handle **95%** of India's trade by volume and **70%** by value.
- **Port Functions:** These ports are crucial for facilitating trade in goods like **petroleum**, **coal**, **iron ore**, **textiles**, and **automobiles**, and also serve strategic geopolitical roles in global maritime routes.
- **Major Ports in India:**
  - **West Coast Ports:** Mumbai, Kandla, Mangalore, Jawaharlal Nehru Port (JNPT), Mormugao, Cochin
  - **East Coast Ports:** Chennai, Tuticorin, Visakhapatnam, Paradip, Kolkata, Ennore
- Major Ports are managed by the **Ministry of Ports, Shipping, and Waterways** at the central level, whereas minor ports are managed by individual state governments.

13 CHENNAI-VLADIVOSTOK MARITIME CORRIDOR

Context: India has activated the Chennai-Vladivostok maritime corridor and is now plans to connect at least two other east coast ports—Paradip and Vizag—with this maritime corridor.

About the route

- The **Chennai-Vladivostok sea route (Eastern Maritime Corridor)** will cover a distance of about 5,600 nautical miles (about 10,500 km).
- The Chennai-Vladivostok Maritime route connects Chennai on India's east coast with **Vladivostok**, Russia's eastern port city.
- Vladivostok is the end point of the **Trans-Siberian Railway**, the fourth in terms of cargo turnover, and the first free seaport of the Far East.
- The Vladivostok-Chennai route passes through the **Sea of Japan**past the **Korean peninsula, Taiwan and the Philippines** in the **South China Sea**, past Singapore and through the **Strait of Malacca**, to emerge into the **Bay of Bengal** and then cuts across through the **Andaman and Nicobar archipelago** to Chennai.
- **Alternative to Red Sea:** In view of the current **Red Sea crisis**, and increased travel time, which has also pushed up costs, the **Vladivostok-Chennai maritime corridor** is seen as a possible alternative.
  - The **Red Sea route** now takes 48 days or say, against which Vladivostok route will be 15 days max. The Red Sea route accounts for 50 per cent of Indian exports and 30 per cent of imports.
  - Domestic companies use the Red Sea route through the Suez Canal to trade with Europe, North American, Africa and also Middle East.

FACT BOX

Present route

- At present, the two countries are linked through the traditional European route which passes through Red Sea, Mediterranean Sea and Baltic Sea.
- Operationalised in 2000, the circuitous route spans from the Nhava Sheva Port in Mumbai to the Port of St. Petersburg in Russia and goods take an average of 40 days to cover the distance of 8,675 nautical miles or about 16,000 km.

Far East

- The Far East is the easternmost part of Russia.
- The macro-region borders two oceans, the Pacific and the Arctic, and five countries — **China, Japan, Mongolia, the United States and the DPRK**.
- Located on the Golden Horn Bay north of North Korea and a short distance from Russia's border with China, the region extracts 98 per cent of Russian diamonds, 50 per cent of Gold, 14 per cent of Tungsten, and 40 per cent of fish and seafood and has about one-third of Russia's coal reserves.

14 VANDE BHARAT EXPRESS TRAINS

Context: Prime Minister Narendra Modi virtually inaugurated six new Vande Bharat Express trains, marking another milestone in India's expanding rail network. The six new routes inaugurated include services between Tatanagar-Patna, Brahmapur-Tatanagar, Rourkela-Howrah, Deoghar-Varanasi, Bhagalpur-Howrah, and Gaya-Howrah.

About

- Vande Bharat is India's first indigenously designed and manufactured **semi-high-speed train.**
- These semi-high-speed trains has transformed rail travel in India. Originally launched as **Train 18** in 2019, these trains have become a game-changer for Indian Railways, connecting major cities in half the time.
- According to the Indian Railways, these trains have already completed approximately 36,000 trips and carried over 3.17 crore passengers.
- The fleet travelled a distance equivalent to7 rounds of the Earthin the fiscal year 2023-24.
- The extensive network of these trains covers more than 280 districts across 24 states and Union Territories, highlighting their widespread reach and efficiency.
- The newest iteration, **Vande Bharat 2.0**, boasts several technological upgrades, including:
  - faster acceleration
  - indigenous 'Kavach' safety system
  - WiFi
  - anti-virus system
- These features make it a state-of-the-art option for travelers, ensuring both speed and safety.

15 VADHAVAN PORT

Context: India is gearing up to launch its most ambitious port project yet—a colossal venture set to reshape the country's maritime capabilities. Situated on the Maharashtra coast, the Vadhavan Port promises to be a game-changer in global shipping, projected to rank among the top 10 container ports worldwide upon completion.

Key Features of Vadhavan Port

The Rs 76,220 crore, all-weather, deep-draft port near the Gujarat border received cabinet approval in June 2024. It's important features are:

- **Capacity**: Annual capacity of 298 Million Metric Tonnes (MMT) and handling 23.2 Million Twenty-foot Equivalent Units (TEUs) annually.
- **Phase 1**: Initial operations will start with a capacity to handle 15 Million TEUs.
- **Infrastructure**: The port will feature nine container terminals, each extending 1,000 meters along the coast, and multiple specialized berths including multipurpose, liquid bulk, Ro-Ro, and small craft facilities.
- **Container Terminals**: Spread across the port, these terminals include storage yards directly behind the quay apron, optimized for streamlined container handling.
- **Specialized Berths**: Apart from container handling, the port includes berths for multipurpose cargo, liquid bulk, Ro-Ro operations, and small craft, catering comprehensively to diverse maritime needs.
- **Rail and Onshore Facilities**: A dedicated rail terminal and onshore reclamation areas further enhance logistical capabilities, ensuring seamless integration with national and regional transport networks.
- It will be over three times the size of India's current largest ports—the government-operated Jawaharlal Nehru Port Authority (JNPA) in Mumbai and the Adani-owned Mundra.
- The Vadhavan port, set to be operational by 2030, will be developed by reclaiming 1,448 hectares of sea land, eliminating the need for land acquisition.

16 HANDLOOM SECTOR

Context: The Union Textile Ministry recently mentioned that it has undertaken various measures for promoting the handloom sector.

Major Schemes

- **National Handloom Development Programme**: Under the Programme, financial assistance is provided to eligible handloom organisations/workers for upgraded looms and accessories, solar lighting units, construction of worksheds, product and design development, technical and common infrastructure, marketing of handloom products in domestic/overseas markets, etc.
- **Weavers' MUDRA Loan/Concessional Credit Scheme**: Under the scheme, margin money assistance for individual weaver and Handloom Organizations; interest subvention and credit guarantee fees on loans for a period of three years are provided.
- **Raw Material Supply Scheme**: The Ministry provides transport subsidy, for transportation of yarn to the doorstep of the beneficiary, and 15 per cent price subsidy on Cotton Hank Yarn, Domestic Silk, Woollen and Linen yarn and blended yarn of natural fibres.

- **Handloom Export Promotion Council:** For export promotion of handloom products, Handloom Export Promotion Council has been participating/organizing international marketing fairs/events for providing prominence to Indian handloom products globally.
- **The 'India Handloom' Brand** was launched on August 7, 2015, on the occasion of the National Handloom Day, to brand high-quality handloom products with zero defects. Since the launch of the "India Handloom" Brand, 1,998 registrations have been issued under 184 product categories.
- **GeM Onboarding:**Allows weavers to sell directly to government departments via the Government e-Marketplace (GeM).
- **Handloom Producer Companies**: 124 companies formed across states, with UNDP aiding in the capacity building of 100 of these companies.
- **Engagement with E-commerce Entities**: Collaboration with 23 e-commerce platforms to expand market **access for handloom products.**
- **Design Resource Centers (DRCs):**Established in major cities to enhance design excellence in handlooms.
- **Weavers' Welfare Scheme**: Includes National Handloom Development Programme (NHDP), Comprehensive Handloom Cluster Development Scheme(CHCDS), Handloom Weavers' Comprehensive Welfare Scheme (HWCWS), Yarn Supply Scheme (YSS), and Hathkargha Samvardhan Sahayata.
- **Handloom Export Scheme**: Supports the export of handloom products and participation in international fairs.
- **GI Tags:** From April 2023 to March 2024, the government awarded GI tags to several handloom products, enhancing their recognition and economic value. These products include:
  - **Barabanki** Handloom Products from Uttar Pradesh
  - **Chedibutta Saree** from Tamil Nadu
  - **Jodhpur Bandhej Craft** from Rajasthan
  - **Basohli Pashmina Woolen Products** from Jammu & Kashmir
  - **Rangwali Pichhoda of Kumaon** from Uttarakhand
  - **Tangail Saree** from West Bengal
  - **Garad Saree** from West Bengal
  - **Korial saree** from West Bengal

FACT BOX

Fact Box: India's Handloom Sector

- The handloom sector employs over **35 lakh individuals**, including **25 lakh female weavers** and allied workers, making a substantial contribution to the economy.
- According to the **Fourth All India Handloom Census 2019-20**, India has 35,22,512 handloom workers, with more than 70% being women. Out of the 31.45 lakh households involved in handloom activities, 88.7% are located in rural areas.
- **National Handloom Day** is observed on **August 7.** It marks the anniversary of the **Swadeshi Movement** of 1905 and was first celebrated in 2015.
  - The **Swadeshi Movement**, now known as **'Make in India' campaign** was officially proclaimed on August 7, 1905 in Bengal.
  - **Boycott movement** was also launched along with the Swadeshi movement.
  - The movements included using goods produced in India and burning British-made goods.
  - Bal Gandadhar Tilak encouraged Swadeshi and Boycott movement after the British government decided the partition of Bengal.

17 ROLE OF MSMES IN INDIA

Context: MSMEs play a crucial role in India's economic growth by contributing to employment, industrial output, and exports. Recognized as a key driver of development, they help in fostering entrepreneurship and regional economic balance.

Classification of MSMEs

- MSMEs are defined under the **Micro, Small, and Medium Enterprises Development (MSMED) Act, 2006**.
- The classification was revised under the **Aatma Nirbhar Bharat Abhiyan (2020)** based on investment and turnover:

Category	Investment Limit	Turnover Limit
Micro	Up to Rs 1 crore	Up to Rs 5 crore
Small	Up to Rs 10 crore	Rs 50 crore
Medium	Up to Rs 50 crore	Up to Rs 250 crore

FACT BOX

Government Support for MSMEs

- **Financial Assistance and Credit Access**
  - **Emergency Credit Line Guarantee Scheme (ECLGS)** offers collateral-free loans to MSMEs.
  - **MUDRA Loans** provide financial support up to Rs 10 lakh for small businesses.

- **Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)** helps MSMEs secure loans without collateral.

- **Digital and Technological Support**
  - **Udyam Registration** simplifies MSME registration and access to government schemes.
  - **Digital India initiatives** promote online transactions and e-commerce participation.
  - **The Zero Defect Zero Effect (ZED) Certification** enhances product quality and global competitiveness.
- **Market Access and Export Promotion**
  - **"Vocal for Local" and Make in India** encourage MSME-produced goods.
  - **Free Trade Agreements (FTAs)** expand international market opportunities.
  - **Cluster Development Programs** support MSMEs with shared infrastructure and resources.
- **Others:**
  - Prime Minister's Employment Generation Programme (PMEGP)
  - Micro and Small Enterprises-Cluster Development Programme (MSE-CDP)
  - Entrepreneurship Skill Development Programme (ESDP)
  - Procurement and Marketing Support Scheme (PMS)
  - National SC/ST Hub (NSSH)

18 10 YEARS OF 'MAKE IN INDIA'

Context: The 'Make in India' initiative, which aims to transform India into a global manufacturing hub was launched on September 25, 2014 and has completed a decade into existence.

About 'Make in India' Initiative

- The **'Make in India'** initiative aims to establish India as a **global manufacturing hub**. Over the past decade, it has focused on **enhancing investment, fostering innovation, and developing a robust manufacturing infrastructure.**
- **Objectives**: The campaign promotes investment, skill development, intellectual property protection, and aims to enhance India's manufacturing capabilities.
- It emphasizes boosting local manufacturing while showcasing India's industrial potential globally.
- This phase encompasses 27 sectors, integrating both manufacturing and services.

Key Initiatives to enable Make in India

- **Production Linked Incentive (PLI) Schemes**: These schemes attracts investment and promotes technology in 14 key sectors to enhance global competitiveness.
- **PM GatiShakti**: It is a strategic initiative for creating multimodal connectivity to achieve a USD 5 trillion economy by 2025, driven by seven engines: **Railways, Roads, Ports, Waterways, Airports, Mass Transport, and Logistics Infrastructure.**
- **Semiconductor Ecosystem Development**: It encompasses four key schemes:
  - Modified Scheme for Setting Up Semiconductor Fabs in India
  - Modified Scheme for Setting Up Display Fabs in India
  - Modified Scheme for Setting Up Compound Semiconductors, Silicon Photonics, Sensors Fabs, and Discrete Semiconductors, along with Semiconductor Assembly, Testing, Marking, and Packaging (ATMP) / OSAT Facilities in India
  - Design Linked Incentive (DLI) Scheme
- **National Logistics Policy**: Complementing PM GatiShakti, it enhances the logistics sector's soft infrastructure through the Comprehensive Logistics Action Plan (CLAP).
- **National Industrial Corridor Development Programme**: It focuses on creating smart cities and advanced industrial hubs.
- **Startup India**: Supports entrepreneurs and aims to shift India into a job-creating economy.
- **Implementation of GST**: It streamlines taxation to facilitate manufacturing and trade.
- **Unified Payments Interface**: It aims to bolster India's digital economy, enhancing ease of doing business.
- **Ease of Doing Business**: Continuous efforts to simplify regulations and reduce bureaucratic hurdles to boost investor confidence.

19 NINE YEARS OF START-UP INDIA

Context: On January 16, 2025, India marks nine years of Startup India, a transformative journey that began in 2016.

What is Startup India?

- **Launched in:** 2016
- Startup India is a flagship initiative of the Government of India, intended to catalyse startup culture and build a strong and inclusive ecosystem for innovation and entrepreneurship in India.

- Startup India has rolled out several programs with the objective of supporting entrepreneurs, and transforming India into a country of job creators instead of job seekers.
- These programs are managed by a dedicated Startup India Team, which reports to **The Department for Promotion of Industry and Internal Trade (DPIIT).**
- While the DPIIT heads the initiative, five government departments — the **Department of Science and Technology (DST), Department of Biotechnology (DBT), Ministry of Human Resource Development (MHRD), Ministry of Labour and Employment, Ministry of Corporate Affairs (MCA), and NITI Aayog**— are primarily responsible for the initiatives under Startup India.

FACT BOX

Government initiatives and policies to nurture the startup ecosystem

- **Startup India Seed Fund Scheme (SISFS)**: Provides funding for early-stage startups to develop prototypes and bring products to market.
- **Credit Guarantee Scheme for Startups (CGSS)**: Offers credit guarantees for loans to startups, fostering access to finance.
- **Fund of Funds for Startups (FFS)**: A Rs 10,000 crore fund to support early-stage investments and boost India's entrepreneurial ecosystem.
- **BHASKAR Platform**: Launched in 2024, this initiative aims to connect startups, investors, and mentors through a digital hub, enhancing collaboration and access to resources for startups across India, including non-metro cities.
- **Government e-Marketplace (GeM):** GeM have been made accessible to startups, providing a platform to present their innovations and secure public procurement deals.
- **Startup India Hub:** The Startup India Hub, initiated by the Department for Promotion of Industry and Internal Trade (DPIIT), is a pivotal platform to promote engagement among stakeholders within the startup ecosystem.
- **Atal Innovation Mission (AIM):** AIM is an initiative that promotes the establishment of **Atal Incubation Centres (AICs)** and **Established Incubation Centres (EICs)** to nurture innovative startups in their pursuit to become sustainable entities.
- **National Initiative for Developing and Harnessing Innovations (NIDHI):** It aims to foster innovation through support for incubators, seed funds, accelerators, and Proof of Concept grants.
    - Within NIDHI, the **Promoting and Accelerating Young and Aspiring Innovators and Startups (PRAYAS) programme** aids established Technology Business Incubators (TBI) by providing grants for Proof of Concept and prototype development.
- **Fund of Funds for Startups (FFS):** The Government established FFS in 2016, to boost capital availability and stimulate private investments.**Startup India Seed Fund Scheme (SISFS):** Easy availability of capital is essential for entrepreneurs at the early stages of growth of an enterprise.

Ministry-wise Initiatives

- **Ministry of Micro, Small & Medium Enterprises (MSME):** MSME, through **Khadi and Village Industries Commission (KVIC),** is implementing **Prime Minister's Employment Generation Programme (PMEGP)** for assisting entrepreneurs in setting up of new enterprises in the non-farm sector.
    - PMEGP being a **Central Sector Scheme** assists General Category beneficiaries with Margin Money (MM) subsidy of 25% of the project cost in rural areas and 15% in urban areas.
- **Ministry of Rural Development (MoRD)** is implementing its flagship scheme **Deendayal Antyodaya Yojana-National Rural Livelihood Mission (DAY-NRLM)** to reduce poverty.
    - The **Startup Village Entrepreneurship Program (SVEP)** is a sub component of DAY-NRLM to support entrepreneurs in rural areas to set up local enterprises.
- **Ministry of Agriculture and Farmers' Welfare (MoA and FW)** is implementing **"Innovation and Agri-Entrepreneurship Development" programme** under **Rashtriya Krishi Vikas Yojana (RKVY)** to promote **innovation and agri-entrepreneurship** by providing financial and technical support for nurturing startups ecosystem in the country.

20 REGISTERED STARTUPS IN INDIA

Context: The number of startups in India has increased to more than 1.4 lakh.

Key-highlights

- The number of Department for Promotion of Industry and Internal Trade (DPIIT) recognized startups State/UT-wise has shown that Maharashtra tops the list with 25,044 registered startups.

- Karnataka is second with 15,019 registered startups, followed by Delhi with 14,734 startups. Uttar Pradesh has secured the fourth place with 13,299 startups, while Gujarat is in fifth place with 11,436 startups.
- **Responsible factors for growth**: Increased internet penetration, digitization, and government initiatives
  - Various new sectors such as **DeepTech, SpaceTech, Artificial Intelligence, and EVs** have broadened the Indian startup landscape.

21 'BHASKAR' DIGITAL PLATFORM TO BOOST STARTUP ECOSYSTEM

Context: The Department for Promotion of industry and Internal Trade (DPIIT), Ministry of Commerce and Industry, launched the BHASKAR initiative, under the Startup India programme, to strengthen the startup ecosystem in the country.

About

- BHASKAR stands for **Bharat Startup Knowledge Access Registry' (BHASKAR)**
- It is a platform designed to **centralise, streamline, and enhance collaboration** among key stakeholders within the entrepreneurial ecosystem, including **startups, investors, mentors, service providers, and government bodies.**
- This initiative aligns with the **government of India's vision** to transform India into a global leader in innovation and entrepreneurship, reinforcing the country's commitment to the startup movement.
- India is currently home to over 1**,46,000 DPIIT-recognised startups** (and ranks third globally, following the US and China.)
- BHASKAR seeks to leverage this potential by providing an all-encompassing, **one-stop digital platform** that addresses the challenges faced by entrepreneurs and investors alike.
- **Features and Goals**
  - **Personalized BHASKAR IDs:** Each stakeholder will receive a unique ID, facilitating easier interaction and efficient discovery of opportunities and partnerships.
  - **Digital Registry:** BHASKAR aims to create the **world's largest digital registry for startup ecosystem stakeholders.**
  - **Central hub:** The platform will offer networking, centralized access to resources, and enhanced discoverability to support India's global brand and entrepreneurial growth.

22 COAL INDIA BAGS FIRST CRITICAL MINERAL ASSET

Context: Recently, the State-owned Coal India has mentioned that it is going to bag the first critical mineral asset, a graphite block, in Madhya Pradesh.

India's import dependence on Critical Minerals:

- The country imports about 69 percent of its graphite needs - natural, synthetic, and end-use products.
- Graphite has its utility as an **anode material in lithium-ion battery** manufacturing due to its relatively low cost and energy density.

FACT BOX

The Coal India Limited (CIL):

- Coal India Limited (CIL) is an Indian central public sector undertaking under the ownership of the Ministry of Coal, Government of India.
- It is headquartered in Kolkata.
- It is the largest government-owned-coal-producer in the world.

23 MUMBAI-AHMEDABAD BULLET TRAIN PROJECT

Context: The Mumbai-Ahmedabad bullet train is expected to begin operations in Gujarat by 2027 end and will later be extended to Maharashtra, according to the National High Speed Rail Corporation Limited (NHSRCL).

About Mumbai-Ahmedabad Bullet Train Project:

- The foundation stone for the Mumbai-Ahmedabad bullet train project was laid in 2017.
- **Speed and Distance:** The bullet train will zip along at 320 kmph, covering the 508.17 km distance between Mumbai and Ahmedabad in just about two hours.
- **Cost and Completion**: Estimated at Rs 1.65 lakh crore, the project is slated for completion by 2028.
- **National High-Speed Rail Corporation Limited**: Established under the Companies Act, 2013, NHSRCL aims to finance, construct, maintain, and manage high-speed rail corridors across India.

24 INDIA'S ROAD NETWORK

Context: The Indian government is planning to complete GIS mapping of all national highways to enhance planning, execution, and monitoring of road projects.

- India has the **world's second-largest road network**, covering approximately 66.71 lakh kilometers, with national highways constituting 2% and carrying over 40% of total traffic.
- There are currently **599 national highways** spanning 1,46,145 kilometers (December 2023).
- **Classification:** These highways are classified into various categories such as
  - **North-South Corridors**
  - **East-West Corridors**
  - **Golden Quadrilateral** (connecting Delhi, Mumbai, Chennai, and Kolkata)
  - **3-D Highways** (highway with 3 digit number, secondary branch of the main highway)
- **Key organizations involved**: Ministry of Road Transport and Highways (MoRTH), National Highways Authority of India (NHAI), Border Roads Organization (BRO), and National Highways and Infrastructure Development Corporation Ltd (NHIDCL).
- **Government initiatives:** Bharatmala Pariyojana and allowing 100% FDI in roads and highways under the automatic route.

PYQ

1. **With reference to India's projects on connectivity, consider the following Statements: (2023)**
   1. East-West Corridor under Golden Quadrilateral Project connects Dibrugarh and Surat.
   2. Trilateral Highway connects Moreh in Manipur and Chiang Mai in Thailand via Myanmar.
   3. Bangladesh - China - India - Myanmar Economic Corridor connects Varanasi in Uttar Pradesh with Kunming in China.

   How many of the above statements are correct?

   (a) Only one (b) Only two

   (c) All three (d) None

   Solution: (d)

25 GIS MAPPING OF NATIONAL HIGHWAYS

Context: The Indian government is planning to complete GIS mapping of all national highways to enhance planning, execution, and monitoring of road projects.

India's Road Network

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- **Government initiatives:** Bharatmala Pariyojana and allowing 100% FDI in roads and highways under the automatic route.

26 INDIA BECOME WORLD'S 3RD LARGEST SOLAR POWER GENERATOR

Context: India has emerged as the world's third-largest solar power generator in 2023, surpassing Japan, according to Global Electricity Review 2024 report. Solar energy's contribution to global electricity hit a record 5.5%, with India's solar generation reaching 5.8% of its total electricity production.

Key Highlights of the Report:

- India's Solar Power Ranking: India overtakes Japan to become the third-largest solar power generator globally, with solar energy contributing significantly to its electricity generation.
- **Global Renewable Energy Usage:** Renewable energy, including **wind and solar,** now accounts for over **30% of global electricity,** with clean energy sources, including **nuclear power,** comprising nearly **40% of total global electricity generation.**
- **Carbon Intensity Reduction:** The surge in renewable energy has led to a 12% decrease in the carbon intensity of global electricity since 2007.

- **Solar Energy Growth:** Despite challenges like **reduced hydropower production** due to drought conditions, solar energy remains the fastest-growing electricity source globally for the 19th consecutive year. Solar added double the new electricity capacity compared to coal in 2023.
- **India's Solar Generation Increase:** India's solar generation increased by 18 terawatt-hours (TWh) in 2023, positioning it fourth globally behind **China, the United States, and Brazil.** These four nations contributed **75% of the global increase in solar generation.**
- **Global Solar Generation Growth:** Global solar generation in 2023 was over six times higher than in 2015.

FACT BOX

India's Ambitious Goals to combat Climate Change

- By the end of the decade, it aims to reduce the **carbon intensity** of its economy by at least 45%.
- By 2030, it plans to have **50% of its electricity coming from renewable sources** and hopes to achieve **net-zero carbon emissions by 2070.**
- To reach these targets, India aims to have **500 gigawatts of renewable energy capacity** by 2030 and produce **5 million tonnes of green hydrogen**. This will be supported by **125 gigawatts of renewable energy capacity.**
- Additionally, India has approved the creation of **50 solar parks** with a combined capacity of **37.49 gigawatts.**
- **Government Initiatives for Solar Energy:** PM rooftop solar scheme, Pradhan Mantri Kisan Urja Surakshaevam Uttham Mahabhiyan (PM KUSUM), Solar Park Scheme, Rooftop Solar Scheme, Atal Jyoti Yojana (AJAY), National Solar Mission, SRISTI Scheme, International Solar Alliance (ISA)

27 INDIA'S FIRST COMMERCIAL CRUDE OIL STRATEGIC STORAGE

Context: India, the world's third biggest oil consumer and importer, plans to build its first commercial crude oil strategic storage as part of efforts to shore up stockpiles as insurance against any supply disruption.

About

- India, which meets over **85 per cent of its oil needs through imports**, will use the strategic reserves in any emergency situation like supply disruption or war.
- This approach mirrors the models adopted by countries like Japan and South Korea, allowing private lessees, predominantly oil majors, to engage in crude oil trading.
- The expansion of oil storage capacity also aligns with India's aspiration to become a member of the **International Energy Agency (IEA),** necessitating members to maintain a minimum of 90 days of oil consumption.

FACT BOX

International Energy Agency (IEA)

- **Established in:** 1974
- The International Energy Agency is a **Paris-based autonomous intergovernmental organisation** that provides policy recommendations, analysis and data on the global energy sector.
- The 31 member countries and 13 association countries of the IEA represent 75% of global energy demand.

28 INDIA LOOKING TO AFRICA FOR CRITICAL MINERALS

Context: India is looking to Africa for minerals such as copper, cobalt and other critical minerals, while also engaging with Australia for lithium blocks.

What are Critical Minerals?

- Critical minerals are elements that are the building blocks of essential modern-day technologies, and are at risk of supply chain disruptions.
- These minerals are now used everywhere from making mobile phones, computers to batteries, electric vehicles and green technologies like **solar panels and wind turbines.**
- Based on their individual needs and strategic considerations, different countries create their own lists.
- **Critical mineral in Africa:**
    - Africa is home to **30 percent** of the **world's known critical minerals.**
    - Africa holds substantial reserves of **bauxite, chromium, cobalt, copper, gold, iron, lithium, manganese, platinum, and uranium** to name just a few.

FACT BOX

30 Critical Minerals

- The Centre has identified '**30 critical minerals**', which are essential for the country's economic development and national security:
  - **Antimony, Beryllium, Bismuth, Cobalt, Copper, Gallium, Germanium, Graphite, Hafnium, Indium, Lithium, Molybdenum, Niobium, Nickel, PGE, Phosphorous, Potash, REE, Rhenium, Silicon, Strontium, Tantalum, Tellurium, Tin, Titanium, Tungsten, Vanadium, Zirconium, Selenium and Cadmium.**
  - **Ten minerals on the list are 100 per cent import-dependent.** These are lithium cobalt, nickel, vanadium, niobium, germanium, rhenium, beryllium, tantalum, and strontium.

29 INDIA CUTS IMPORT TAXES ON EVS

Context: India will lower import taxes on certain electric vehicles for companies committing to invest at least USD 500 million and setting up a local manufacturing facility within three years, a policy shift that could potentially bolster Tesla's plans to enter the South Asian market.

Impact of the move

- India currently levies a tax of 70% to 100% on imported cars depending on their value. The policy change is likely going to pave the way for Tesla to enter India.
- The move also aligns with India's goal to boost the adoption of EVs and reduce its dependence on oil imports, with the country setting a target of achieving 30% electric car sales by 2030.
- **The new policy will:**
  - provide Indian consumers with access to latest technology
  - boost the Make in India initiative
  - strengthen the EV ecosystem by promoting healthy competition among EV players leading to high volume of production, economies of scale, lower cost of production, reduce imports of crude oil, lower trade deficit, reduce air pollution, particularly in cities

FACT BOX

Import Duty

- Import duty is a type of tax levied on the import and specific exports of a nation's customs authorities.
- The value of goods will generally decide the amount of import duty that will be imposed.
- Sometimes, import duty is also referred to as **customs duty, import tax, import tariff, or tariff**.

30 INDIA'S FIRST-EVER UNDERWATER METRO ROUTE

Context: Prime Minister Narendra Modi inaugurated India's first-ever underwater metro route in Kolkata, a landmark project showcasing the nation's stride towards infrastructure development.

About

- The underwater service is part of the **Howrah Maidan-Esplanade section** of **Kolkata Metro's East-West corridor**, which will cover a distance of 16.6 km under the Hooghly river.
- The metro service will connect **Howrah and Salt Lake** -- the West Bengal state capital's twin cities. Three out of six stations will be underground.
- It is expected to zoom through a 520-meter stretch under the **Hooghly** in just 45 seconds.

31 E-COMMERCE CARGO MOVEMENT STARTS COURSE ON NW 1

Context: A memorandum of understanding (MoU) was signed between Inland Waterways Authority of India (IWAI) and Amazon Seller Services Private Limited (Amazon) for promoting cargo movement and transportation using river Ganga (National Waterway 1).

MoU for Inland Waterways Transportation

- The Inland Waterways Authority of India (IWAI) and Amazon signed a **Memorandum of understanding (MoU)** to promote cargo movement and transportation of customer shipments via the Ganga River (National Waterway 1).

- The agreement aims to leverage inland waterways, specifically the Ganga, to optimize logistics efficiency, reduce environmental impact, and foster economic development.

32 GOVERNMENT MAKES BIOGAS BLENDING MANDATORY

Context: Government initiative on making Biogas blending mandatory with an aim of achieving net zero emissions targets by 2070.

Government Policy on Biofuel:

- The government announced compulsory blending of compressed biogas, which is extracted from municipal and agriculture waste, in natural gas to cut reliance on imports.
- **Biogas Blending:** Initially, 1 per cent of biogas will be blended in gas used in automobiles and household kitchens for cooking from April 2025. The share will be increased to around 5 per cent by 2028.
- **Sustainable aviation fuel (SAF)**: The government also plans to have 1 per cent sustainable aviation fuel (SAF) in aircraft turbine fuel by 2027, doubling to 2 per cent in 2028. The SAF targets will initially apply to international flights.
- **CBG Blending Obligation (CBO):** It will promote production and consumption of Compressed Biogas (CBG) in the country.

FACT BOX

The key objectives of the CBO

- To stimulate demand for CBG in city gas distribution sector, import substitution for Liquefied Natural Gas (LNG), saving in forex, promoting circular economy and to assist in achieving the target of net zero emission.
- The CBO will encourage investment of around Rs 37,500 crores and facilitate establishment of 750 CBG projects by 2028-29.
- The CBG blending will be voluntary till FY 2024-2025 and the mandatory blending obligation will start from FY 2025-26
- A **Central Repository Body (CRB)** shall monitor and implement the blending mandate based on the operational guidelines.

33 INDIA BEGINS PRODUCING ‘REFERENCE’ FUEL

Context: India has joined the League of Nations producing ‘reference’ petrol and diesel, specialized fuels used for testing automobiles.

Need to produce reference fuel for India:

- For decades, India has relied on imports to meet the demand for these specialised fuels.
- Now, the **Indian Oil Corporation’s** Paradip refinery in Odisha will produce **‘reference’ grade petrol** and its **Panipat unit** in Haryana will produce **such quality diesel**.
- Shifting from dependence on imports and this initiative is in line with the government’s objective of becoming Aatmanirbhar has started producing the fuel at its refineries,

What are reference fuels?

- ‘**Reference fuels’** (**gasoline and diesel**) are premium high-value products, used for calibration and testing of vehicles by **auto OEMs and organizations** involved in **testing and certification** in the automotive field.
- For vehicle testing purposes, the fuel has to be of a **higher grade** than regular or **premium petrol and diesel.**
- The host of specifications -- from **Cetane number** to flash point, viscosity, sulphur and water content, hydrogen purity and acid number -- are listed **under government regulations**, such fuels are referred to as ‘reference’ petrol/diesel.

How fuels differ?

- The biggest difference between the **normal and premium fuel** lies in the **octane number.**
- The regular fuel has an **octane number of 87**, but premium fuel has an **octane number of 91**.
- Reference grade fuel comes with a **97 octane number.**

The octane number is a unit to **measure the ignition quality** of petrol or diesel.

CHAPTER 07

AGRICULTURE

1 INDIA'S AGRICULTURAL TRADE

Context: India's agricultural exports increased by 6.5 percent in April-December 2024 compared to the same period in 2023. However, agricultural imports grew much faster—by 18.7 percent—leading to a decline in India's trade surplus in farm products. This means that while India still exports more farm goods than it imports, the gap between exports and imports is narrowing.

Key-highlights

- Nearly **47%** of the population is dependent on agriculture for employment, and the sector contributes about **73%** to India's GDP.
- **Agricultural exports** grew from **2 billion to USD37.5 billion** in April-December 2024.
- **Agricultural imports** rose sharply from **6 billion to USD29.3 billion** in the same period.
- As a result, **India's agricultural trade surplus fell from USD10.6 billion to USD8.2 billion** in just one year.

Why is the Trade Surplus Shrinking?

- **Exports Are Fluctuating**
  - **Global Prices Matter**: When international food prices were high after COVID-19 and the Ukraine war, India's exports boomed. But now that prices have fallen slightly, exports have also declined.
  - **Government Policies**: India restricted exports of wheat and sugar to protect domestic supply, which reduced export earnings.
  - **Some Commodities Still Growing**:
    - **Basmati rice, spices, coffee, and tobacco** are doing well due to strong global demand.
    - **Marine exports** (shrimp and seafood) have declined, especially in the US and China.
    - **Sugar exports** have dropped significantly due to government limits.
- **Imports Are Rising**
  - **Edible Oils**: India depends heavily on imported cooking oils like palm oil and soybean oil.
  - **Pulses (Lentils, Chickpeas, etc.)**: Due to a poor domestic harvest, imports have surged.
  - **Cotton**: Once an exporter, India is now importing more cotton than it sells abroad.

2 NATURAL FARMING PRACTICES

Context: The NITI Aayog team commended the natural farming practices of Andhra Pradesh Community Managed Natural Farming (APCNF) and its potential in transforming the lives of small and marginal farmers.

What is Andhra Pradesh Community Managed Natural Farming (APCNF) Programme?

- The **Andhra Pradesh Community Managed Natural Farming (APCNF)** programme is a pioneering initiative aimed at promoting natural farming practices among farmers in Andhra Pradesh.
- Launched in **2016**, the program seeks to alleviate the debt cycle faced by farmers due to high input costs associated with conventional agriculture.

- **Objectives of the APCNF**
  - **Reduce Debt**: Help farmers escape the financial burden caused by expensive chemical inputs.
  - **Promote Sustainable Practices**: Encourage the adoption of natural farming techniques that enhance soil health and biodiversity.

FACT BOX

Natural Farming

- Natural farming is an **agro-ecological practice** that emphasizes the use of bio inputs derived from local ecosystems rather than relying on purchased chemical inputs.
- It differs from organic farming, which is primarily focused on product certification.
- **Key Components of Natural Farming**
  - **Beejamrit**: Seed treatment using cow dung, urine, and lime.
  - **Jivamrit**: A concoction for enhancing soil fertility using cow products and pulses.
  - **Whapasa**: Activating earthworms in soil to promote moisture retention.
  - **Mulching**: Creating microclimates with organic materials to conserve soil moisture.
  - **Plant Protection**: Applying biological mixtures to protect crops from pests and diseases.

Government Initiatives Supporting Natural Farming

- National Mission on Natural Farming (NMNF)
- Pradhan Mantri Krishi Sinchai Yojana
- Paramparagat Krishi Vikas Yojana (PKVY)
- Rashtriya Krishi Vikas Yojana (RKVY)

3 MAKHANA (FOX NUT)

Context: Following the announced of the formation of a Makhana Board in Bihar, Union Minister Shivraj Singh Chouhan interacted with Makhana producers in Darbhanga district, where he also accompanied farmers to sow seeds.

- Bihar's government has advocated for measures to promote Makhana cultivation, including the minimum support price for Makhana.

About Makhana (Fox Nut):

- Makhana (Fox Nut) is the dried seed of the prickly water lily (Euryale ferox), found in freshwater ponds across South and East Asia.
- It is known for its violet and white flowers, large prickly leaves, and black to brown seeds.
- Makhana is often consumed as 'lava' (popped snacks) and is highly nutritious, rich in **carbohydrates, protein, and minerals.**
- **GI Tag:** In 2022, Mithila Makhana received a **Geographical Indication (GI) tag.** A GI tag is granted to products with qualities linked to a specific region and is valid for 10 years, renewable thereafter.
- Makhana Production in India:
  - Bihar: Accounts for 90% of India's Makhana production, concentrated in 9 districts in northern and eastern Bihar **(Darbhanga, Madhubani, Purnea, Katihar, Saharsa, Supaul, Araria, Kishanganj, and Sitamarhi),** with the first four contributing 80% of the output.
  - Also cultivated in **Assam, Manipur, West Bengal, Tripura, Odisha**, and in neighboring countries like **Nepal, Bangladesh, China, Japan, and Korea.**
- **Climatic Requirements:**
  - It is grown in tropical and subtropical regions, in water bodies such as ponds and wetlands with shallow depths (4-6 feet).
  - It requires 20-35°C temperature, 50-90% humidity, and 100-250 cm of annual rainfall for optimal growth.
- **Makhana Board:** In February 2025, Finance Minister Nirmala Sitharaman announced the formation of a Makhana Board in Bihar.

4 CURRENT STATE OF INDIA'S FERTILIZER SECTOR

Context: The ongoing crises in Ukraine and Gaza have raised concerns about the stability of global fertilizer markets, directly impacting India, one of the world's largest agricultural producers.

Current State of India's Fertilizer Sector

- India's fertilizer sector is grappling with a significant supply-demand imbalance.
- Despite being one of the **largest consumers of fertilizers globally**, the country relies heavily on imports to meet its agricultural needs.
- The recent report by the **Standing Committee of Parliament on Chemicals and Fertilizers** indicated that domestic production is insufficient to meet the demand for fertilizers, particularly for **Di-Ammonium Phosphate (DAP) and Muriate of Potassium (MOP).**

- **Current Import Fertilizer Scenario:** The Standing Committee's August 2023 report shed light on the dependency on imports. It noted that:
  - Approximately 20% of India's urea requirement is met through imports.
  - About 50-60% of DAP and 100% of MOP needs are satisfied through foreign sources.
- The dependence on imports is especially concerning given the geopolitical tensions in regions like Eastern Europe and West Asia, which could disrupt supply chains and inflate prices.

FACT BOX

About Fertilisers

- Fertilisers are basically food for crops, containing nutrients necessary for plant growth and grain yields.
- Balanced fertilisation means supplying these following nutrients in the right proportion, based on soil type and the crop's own requirement at different growth stages.
  - **Primary** (N, phosphorus-P and potassium-K)
  - **Secondary** (sulphur-S, calcium, magnesium)
  - **Micro** (iron, zinc, copper, manganese, boron, molybdenum)
- India is among the **world's largest buyers of fertiliser**, besides **China, Brazil, and the US.**
- **India imports four types of fertilisers:**
  - Urea
  - Diammonium phosphate (DAP)
  - Muriate of potash (MOP)
  - Nitrogen-phosphorous-potassium (NPK)

Nutrient-Based Subsidy (NBS) scheme

- The NBS (Nutrient-Based Subsidy) scheme, introduced in 2010, is designed for fertilisers other than urea.
  - Urea, being the most widely used fertiliser, is **not covered under the NBS scheme**. Its pricing and subsidy are handled separately by the government.
- **Market-determined MRPs**: Unlike urea, NBS fertilisers have **market-determined MRPs**. Companies selling these fertilisers set their prices.
- **Fixed per-tonne subsidy:** Under NBS, the government provides a subsidy based on the nutrient content of the fertiliser. It fixes a subsidy per kilogram for **nitrogen (N), phosphorous (P), potassium (K), and sulphur (S)** components in the fertilisers.

5 GOVERNMENT EXTENDS ADDITIONAL SUBSIDY ON DAP

Context: In a bid to provide continued relief to farmers and ensure the affordability of fertilisers, the Indian government has extended its additional subsidy on Di-Ammonium Phosphate (DAP) beyond December 2024. This move will enable fertiliser companies to keep the retail price of DAP, avoiding a price hike that could have impacted the agricultural sector.

What is DAP?

- **Di-Ammonium Phosphate (DAP)** is one of the most commonly used fertilisers in India, second only to
- It is rich in two essential nutrients for plants: **phosphorus** and **nitrogen**, both of which play a crucial role in the growth of crops.
- **Properties:**
  - It is a very popular fertilizer because of its excellent physical properties and nutrient content.
  - It is free flowing, dust-free and does not normally give any storage problem.
  - DAP is almost water-soluble and ultimately leaves acid effect on soils because of **ammonia (NH4)** it contains.
  - DAP on incorporation into soil, reacts with water and gets converted into **HPO4 and NH4.**
  - **Ammonium (NH4)** follows the same routes as in case of urea.
  - Phosphorus in DAP is present in best available from **(HPO4).**
  - Depending upon the **soil reaction (pH),** phosphorus exists in 3 forms which can be absorbed by plant roots.
  - These are **HPO4, H2PO4 and PO4**. Phosphorus, which is immobile in soil, is not subjected to leaching losses.
- DAP is widely used to support the development of strong root systems, enhance flower and fruit production, and improve overall crop health.
- Due to its significant role in Indian agriculture, DAP is in high demand across the country, particularly during the ***Kharif and Rabi***
- India **imports around half of its annual DAP requirement**, which amounts to **11 million tonnes**. The cost of DAP has been volatile due to factors such as **geopolitical tensions** and increased transportation costs for raw materials, which has led to higher prices for imported DAP.

FACT BOX

Government Policy for Fertilizer Subsidy in India

- **Nutrient-Based Subsidy (NBS) for P&K Fertilizers:** Introduced in **2010**, the **Nutrient-Based Subsidy (NBS)** scheme provides subsidies based on the nutrient content of **P&K fertilizers**, including **DAP**. The prices are set by companies but are monitored by the government to ensure they remain affordable for farmers. This system allows companies flexibility in production and import based on market conditions.
- **Special Subsidy Packages for DAP:** Due to geopolitical issues affecting the cost of DAP, the government approved a **one-time special package** to ensure affordable prices. This subsidy is in addition to the NBS rates and helps offset the higher procurement costs of DAP.
- **Urea Subsidy: Urea** is provided at a fixed **MRP of Rs 242** per **45 kg** bag, unchanged since **2018**. The government compensates urea manufacturers for the difference between the cost and the price farmers pay, ensuring continued availability at subsidized rates.
- **PM-PRANAM for Sustainable Fertilizer Use:** Launched in **2023**, the **PM-PRANAM** scheme encourages states to reduce chemical fertilizer consumption by offering grants for savings. The initiative promotes **organic farming** and **resource conservation technologies** to ensure long-term sustainability in agriculture.
- **Promotion of Organic Fertilizers**: The government also provides **Rs 1,500 per MT** under the **GOBARdhan initiative** to promote organic fertilizers. The scheme supports biogas plants and aims to reduce dependence on chemical fertilizers, contributing to sustainable agriculture.

6 INDIA'S TUNA EXPORT GROWTH

Context: In 2023-24, India's tuna fish exports increased by 31.83%. This growth has prompted the government to explore new areas for sourcing tuna, with a particular focus on the Andaman and Nicobar Islands. The global market for tuna is valued at USD 41.94 billion, and the Indian Ocean is the second-largest tuna-producing region in the world, responsible for 21% of global tuna production.

Andaman and Nicobar Islands as a Potential Tuna Hub:

- The **Andaman and Nicobar Islands** are being targeted as a potential hub for tuna fishing and export. The Union Fisheries Department sees the region as having a lot of untapped potential.
- According to the department, the **Exclusive Economic Zone (EEZ)** around the islands has a variety of tuna species. The estimated potential yield is **64,500 tonnes** of tuna annually from these waters.
- **Expected Tuna Species and Quantities:** The department expects the following tuna species to be available for export annually from the region:
  - **Yellowfin tuna**: 24,000 tonnes
  - **Skipjack tuna**: 22,000 tonnes
  - **Bigeye tuna**: 500 tonnes
  - **Neritic tuna**: 18,000 tonnes
- **India's Current Tuna Export Statistics:** In the **2023-24** period, India exported **51,626 tonnes** of tuna, valued at **USD 87.96 million**.
- **Challenges in Tuna Fishing in Andaman and Nicobar Islands:** Despite the high demand for tuna, the tuna fishing sector in the Andaman and Nicobar Islands is **underdeveloped** and **underutilized**.
  - Lack of **modern fishing technologies**,
  - Inadequate **infrastructure** for fishing, **processing**, and **storage**,
  - Limited access to **fish processing**
- **Significance:** Tuna fishing, processing, and exports are expected to generate significant **employment** for local communities, especially in: **Fishing jobs**, **Processing unit workers**, and **Entrepreneurs** in related sectors like storage, transport, and distribution.
- Tuna is also a crucial source of **protein** for local island communities, many of whom have limited access to other food sources.

FACT BOX

India's Fisheries Sector

- India stands 2nd in global fish production after China
- The fisheries sector supports around 30 million people, especially from marginalized communities in India.
- As the world's second-largest fish producer, India achieved a record production of 17.5 million tonnes in 2022-23, contributing 8% to global fish production.

- The sector's significance is highlighted by its 1.09% contribution to India's Gross Value Added (GVA) and over 6.724% to India's agricultural GVA.
- **Government Initiatives for fisheries sector**
  - Pradhan Mantri Matsya Sampada Yojana (PMMSY)
  - Fisheries and Aquaculture Infrastructure Development Fund (FIDF)
  - Blue Revolution
  - Pradhan Mantri Matsya Kisan Samridhi Sah-Yojana (PMMKSSY)

7 FORTIFIED RICE

Context: Recently, the Indian government's initiative to implement the universal supply of fortified rice has come under scrutiny. Concerns have been raised regarding the safety of fortified rice and allegations that the approval was influenced by multinational companies. In response, the Union Food Ministry has asserted that fortified rice is a critical measure aimed at combating micronutrient deficiencies in the country.

What is Fortified Rice?

- Fortified rice refers to rice that has been enhanced with essential vitamins and minerals to address nutrient deficiencies in the population.
- This process involves adding micronutrients, such as **iron, folic acid, and other vitamins**, to improve the nutritional quality of rice, which is a staple food for many in India.
  - **Purpose**: The primary goal of rice fortification is to combat micronutrient deficiencies prevalent in India, particularly among vulnerable populations such as children and pregnant women.
  - **Safety Considerations**: Scientific evaluations conducted by various committees have indicated that **fortified rice is safe for consumption**, even for individuals with conditions like **Thalassemia and Sickle Cell Anemia**. The Ministry emphasizes that the **iron content in fortified rice is minimal and poses no significant health risks.**
  - **Implementation**: The rice fortification program began in 2019 and has expanded significantly. Currently, a large network of manufacturers and rice mills across India is equipped to produce and distribute fortified rice efficiently.
- **Fortified Staple food:** India is giving a massive push to fortify daily staples like cereals and milk with minerals and vitamins as a solution to micronutrient deficiency.
  - So far, India has developed fortification standards for **rice, wheat, edible oils, salt and milk.**
- **Science behind rice fortification:**
  - Under the fortification scheme, **milled broken rice** is ground to dust and a premix of vitamins and minerals is added to it.
  - Thereafter, an extruder machine is used to produce **fortified rice kernels (FRK)** resembling rice grains.
  - The kernels are then mixed in a **1:100 ratio** with regular rice to produce fortified rice. The cost to the consumer is estimatedto be less than 50 paisa per kg.
  - Rice kernels can be fortified with several micronutrients, such as **iron, folic acid and other B-complex vitamins, vitamin A and zinc.**

8 CENTRE RULES OUT MSP LAW

Context: The ongoing farmer protests in India have once again brought the issue of Minimum Support Price (MSP) to the forefront. As farmers take to the streets demanding legal guarantees for MSP, the government faces a delicate balancing act.

What Is MSP?

- Minimum Support Price (MSP) is the price set by the government at which it directly purchases agricultural products from farmers if the open market prices fall below this threshold.
- The primary purpose of MSP is to protect farmers against drastic price fluctuations during market volatility.
- It ensures a safety net for farmers, especially during bumper production years.
- It covers 22 crops, including paddy, wheat, maize, arhar (pigeon pea), cotton, and mustard seeds and Fair and Remunerative Price for sugarcane.

FACT BOX

The MSP is calculated based on different cost components:

- **A2 Cost:** This includes actual paid-out expenses such as seeds, fertilizers, pesticides, labor, and other direct costs incurred during cultivation.
- **A2+FL Cost:** In addition to A2, this covers the imputed value of family labor involved in farming. It recognizes the contribution of family members who work on the farm without receiving a direct wage.

- **C2 Cost:** The most comprehensive, C2 encompasses A2+FL and adds rental value of owned land and interest on capital (including machinery and equipment). It represents the total cost of production and ensures a reasonable return on investment for farmers.

- The MSP is recommended by the Commission for Agricultural Costs and Prices (CACP) based on various factors:
  - **Cost of Production:** The CACP considers the cost incurred by farmers in cultivating a crop, including expenses on seeds, fertilizers, labor, and machinery.
  - **Demand and Supply:** The availability of a particular crop in the market influences its MSP. If there's excess supply, the MSP may be adjusted accordingly.
  - **Price Trends:** Domestic and international price trends impact the MSP. The government aims to provide a price that covers production costs and ensures a reasonable profit for farmers.
  - **Terms of Trade:** The balance between agricultural and non-agricultural sectors affects the MSP. The government strives to maintain a fair exchange between these sectors.

The Swaminathan Commission's Recommendation

- The MS Swaminathan Commission, in its report, recommended that the government should raise the MSP to at least 50% more than the weighted average cost of production (C2+ 50% formula).
- This formula includes the imputed cost of capital and land rent, providing farmers with a fair return on their investment.

9 PARLIAMENTARY STANDING COMMITTEE RECOMMENDATIONS ON MSP

Context: A Parliamentary Committee on Agriculture, Animal Husbandry, and Food Processing presented its first report on the demands for grants for the Ministry of Agriculture and Farmers Welfare for the fiscal year 2024-25. The report, chaired by Charanjit Singh Channi (former Chief Minister of Punjab), contains several key recommendations aimed at improving farmers' welfare and addressing issues in the agricultural sector.

Key Recommendations from the Report:

- **Legal Guarantee for Minimum Support Price (MSP):** The committee has recommended that the **government** introduce a **legal guarantee for MSP**. This means farmers will be **assured of a minimum price** for their produce, which will **reduce market volatility**, **prevent farmer suicides**, and ensure a stable income. It would also **promote food security** and encourage farmers to invest in farming, thereby boosting **rural economic growth**.
  - The committee has stressed the need to **declare a roadmap** for implementing this legal guarantee, and regularly inform **Parliament** about the number of farmers selling produce at MSP.
- **Compensation for Paddy Waste Management:** To address the environmental issue of **burning paddy stubble** (parali), the committee recommends that farmers should be **compensated** for **disposing of crop residue**
  - The **Punjab government** has proposed a compensation of **Rs 2,000 per acre**, with the **central government** covering half of this amount.
- **Increase in PM-KISAN Support:** The committee has suggested that the **PM-KISAN scheme** should be enhanced by doubling the **monetary support** from **Rs 6,000** per year to **Rs 12,000** per year.
  - The committee also recommends extending **seasonal incentives** to **tenant farmers** and **farm labourers**.
- **Debt Waiver for Farmers:**
  - To address the growing **farmer distress** and **rural indebtedness**, the committee recommends a **debt waiver scheme** for farmers and farm labourers.
  - **Loan dependency** among rural families has risen sharply, with more families borrowing money to cover rising expenses. This has contributed to a rise in farmer **suicides** due to financial stress.
- **Increase in Budget Allocation for Agriculture:** The committee pointed out that despite **absolute increases** in budget allocation for agriculture, its share as a percentage of the total **central plan** has been decreasing. It recommended that the **central government increase** its budget allocation to **boost agricultural growth**.
  - The **growth rate of agriculture** has slowed down significantly, falling to **4%** in 2023-24, the **lowest in seven years**, down from the average of **4.18%** over the past four years.
- **Compulsory Crop Insurance for Small Farmers:** The committee recommended implementing **compulsory crop insurance** for small farmers, especially those with land holdings of up to **2 acres**, similar to the **PM-JAY health insurance scheme**.

- **National Commission for Minimum Living Wages for Farm Labourers:** A new **National Commission** should be set up to ensure **minimum living wages** for **farm labourers** and address their long-pending rights.
- **Renaming the Department of Agriculture:** The committee suggested renaming the **Department of Agriculture and Farmers Welfare** to the **Department of Agriculture, Farmers, and Farm Labourers Welfare** to reflect a **broader focus** on the **welfare of farm labourers**.

10 MSP APPROVED FOR RABI CROPS

Context: The Union Cabinet has recently approved new Minimum Support Prices (MSP) for Rabi crops for the 2025-26 marketing season. This decision comes amid ongoing discussions about agricultural support and food security in India, especially as the country prepares for the upcoming crop cycle. The increase in MSP is aimed at providing better financial support to farmers, ensuring they receive fair prices for their produce, and encouraging the cultivation of essential crops.

Key Highlights

- **Wheat MSP Increase**: The MSP for wheat has been raised by Rs 150 per quintal, from Rs 2,275 to Rs 2,425.
    - This increase is expected to benefit farmers, particularly in northern India, where wheat is a staple crop.
- **Mustard MSP Increase: T**he MSP for mustard has been increased by Rs 300, bringing it from Rs 5,650 to Rs 5,950 per quintal.
    - Mustard is a significant oilseed crop, and the higher MSP aims to boost cultivation and ensure better returns for farmers, especially in states like Rajasthan, Haryana, and Madhya Pradesh.
- **Chana MSP Increase:** The MSP for chana (a key pulse crop) has been raised by Rs 210, setting the new rate at Rs 5,650 per quintal.
    - This increase aims to promote chana production, which is vital for protein intake in the Indian diet, benefiting farmers in states like Madhya Pradesh and Maharashtra.

About Minimum Support Prices (MSP)

- MSP is a government-set price at which it purchases certain crops from farmers, ensuring them a minimum profit for their harvest.
- The MSP aims to safeguard farmers against price fluctuations in the market and encourage them to cultivate certain crops deemed essential for food security.
- **Crops under MSP:** CACP recommends MSPs of 23 commodities, which comprise
    - **7 cereals** (paddy, wheat, maize, sorghum, pearl millet, barley and ragi)
    - **5 pulses** (gram, tur, moong, urad, lentil)
    - **7 oilseeds** (groundnut, rapeseed-mustard, soyabean, seasmum, sunflower, safflower, nigerseed)
    - **4 commercial crops** (copra, sugarcane, cotton and raw jute)
- **Types of Crops:** India's agriculture is broadly divided into two seasons: Kharif and Rabi.
    - **Kharif Crops:** These are sown in the monsoon season (June to September) and harvested in autumn. Examples include paddy, ragi, bajra, jowar, maize, and cotton.
    - **Rabi Crops:** These are sown in winter (October to March) and harvested in spring. Examples include wheat, barley, gram, and mustard.

11 MSP OF SOYABEAN

Context: The Centre permitted Madhya Pradesh, Maharashtra and Karnataka to procure soybeans at the fixed MSP of Rs 4,892 per quintal.

About Soyabean Crop

- Soyabean (*Glycin max*) is a kharif oilseed crop. The crop belongs to legume family. It is native of East Asia.
- It is a rich source of Protein also excellent source of fibre. Oil extracted from soybean contain small amount of saturated fat.
- **Major soyabean growing states:** Madhya Pradesh, Maharashtra, Rajasthan, Karnataka, and Telangana.
- **Soil requirement:** Well-drained, fertile loamy soils with a pH range of 6.0 to 7.5
- Nationally, soybeans have been sown in around 12.51 million hectares of land this kharif season, which is nearly two per cent higher than the normal acreage under the crop. Normal acreage is the average acreage of the last five years.
- In July 2024, India imported around 1.84 million tonnes of edible oils, which is marginally less than the 1.85 million tonnes imported in June 2024.
- Most notably, India imported a record 1.08 million tonnes of palm oil which is the highest level reached since November 2022.

12 UNION CABINET APPROVES MAJOR AGRICULTURAL AND EMPLOYEE INCENTIVE INITIATIVES

Context: The Union Cabinet has merged all centrally sponsored schemes for the agriculture sector into two umbrella schemes — the Pradhan Mantri Rashtriya Krishi Vikas Yojana (PM-RKVY) and the Krishonnati Yojana (KY). The aim is to avoid duplication and ensure convergence.

Merger of Agricultural Schemes

The Cabinet decided to consolidate various Central schemes in agriculture into two new programs:

- **Pradhan Mantri Rashtriya Krishi Vikas Yojana (PM-RKVY):**
  - **Allocation**: Rs 57,074.72 crore
  - This scheme aims to promote sustainable agriculture.
  - The PM-RKVY comprises of the following schemes:
    - Soil Health Management
    - Rainfed Area Development
    - Agro Forestry
    - Paramparagat Krishi Vikas Yojana
    - Agricultural Mechanization including Crop Residue Management
    - Per Drop More Crop
    - Crop Diversification Programme
    - RKVY DPR component
    - Accelerator Fund for Agri Startups
  - **Krishonnati Yojana (KY):**
    - **Allocation:** Rs 44,246.89 crore.
    - It will address food security and agricultural self-sufficiency.
  - The rationalisation of various schemes has been undertaken to avoid duplication, ensure convergence, and provide flexibility to states, and state governments will also be able to draw a comprehensive strategic plan suiting their requirements for the agriculture sector.

13 GOVERNMENT TAKES STEPS TO SUPPORT OILSEED FARMERS IN INDIA

Context: In recent weeks, the Indian government has made significant decisions aimed at protecting oilseed farmers.

Edible oil production

- India imports over 70% of its edible oil needs, with more than half of this coming from palm oil, primarily sourced from Indonesia, Malaysia, and Thailand. The insufficiency in edible oil is negatively impacting FOREX.
- India is the **4th largest oilseeds producer** in the world. It has 20.8% of the total area under cultivation globally, accounting for 10% of global production.
- The country produces **groundnut, soybean, sunflower, sesamum, niger seed, mustard and safflower oilseeds.**
- **Largest oilseed-producing states** in India include Andhra Pradesh, Gujarat, Haryana, Karnataka, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu, Uttar Pradesh, West Bengal.
- **Important Missions**
  - **Mission Palm Oil**: It is a special campaign carried out by the central government with a focus on the Northeast, and inaugurated the first oil mill under this mission.
  - **National Mission for Edible Oils - Oil Palm (NMEO-OP):** Launched in 2021, the mission is committed to escalating oil palm cultivation and elevating Crude Palm Oil production to 11.20 lakh tonnes by 2025-26.
- **Government Bodies**
  - **Directorate of Oilseeds Development (DOD):** DOD was formed in the year 1942 and is responsible for supervising the **Oilseed Development Programmes** and Oil Palm Development Programmes across the country and in the designated states of Andhra Pradesh, Kerala, Tamil Nadu, and Karnataka.
  - **Indian Oilseeds and Produce Export Promotion Council (IOPEPC):** IOPEPC was formed in 1956. Its primary aim is to promote and protect India's export trade in commodities like oilseeds, vegetable oil and oilcake.

PYQ

1. **Consider the following statements: (2018)**
   1. The quantity of imported edible oils is more than the domestic production of edible oils in the last five years.
   2. The Government does not impose any customs duty on all the imported edible oils as a special case.

   Which of the statements given above is/are correct?

   (a) 1 only (b) 2 only
   (c) Both 1 and 2 (d) Neither 1 nor 2

   Solution: (a)

14 AGRO-METEOROLOGY UNITS

Context: The recent decision to revive District Agro-Meteorology Units (DAMUs) under the Gramin Krishi Mausam Sewa (GKMS) scheme highlights the importance of localized weather advisories for India's farming community.

What Are Agro-Meteorology Units (DAMUs)?

- DAMUs were set up in 2018 by the India Meteorological Department (IMD) in collaboration with the Indian Council of Agricultural Research.
- Their primary goal was to provide localized agricultural advisories using detailed weather data.
- These units were housed within **Krishi Vigyan Kendras (KVKs)** and staffed by experts trained in both meteorology and agriculture.
- **Key Functions of DAMUs:**
  - **Weather Data Utilization:** DAMUs used weather data, such as **rainfall, temperature, and wind speed**, to create actionable advisories for farmers.
  - **Timely Advisories:** These advisories, including guidance on **sowing, harvesting, irrigation, and pest management,** were communicated twice a week in local languages. They were disseminated via text messages, WhatsApp, newspapers, and direct interactions.
  - **Early Warnings:** DAMUs also provided **early warnings for extreme weather** events like **droughts and heavy rainfall**, helping farmers to prepare and adapt.
- DAMUs were shut down in March following an order by the IMD, which was influenced by NITI Aayog's recommendations.

15 AGRICULTURAL INFRASTRUCTURE FUND

Context: The Union Cabinet approved an expansion of the Agricultural Infrastructure Fund (AIF).

About Agriculture Infra Fund (AIF)

- Agriculture Infra Fund (AIF) is a financing facility launched in 2020.
- **Objective:** Creation of post-harvest management infrastructure and community farm assets.
- It is a **medium - long term debt financing facility** for investment in viable projects for post- harvest management infrastructure and community farming assets through interest subvention and credit guarantee support.
- Under this scheme, Rs 1 lakh crore is to be disbursed by financial year 2025-26 and the interest subvention and credit guarantee assistance will be given till the year 2032-33.
- **Eligible beneficiaries**: Farmers, Agri-entrepreneurs, Start-ups, Primary Agricultural Credit Societies (PACS), Marketing Cooperative Societies, Farmer Producers Organizations(FPOs), Self Help Group (SHG), Joint Liability Groups (JLG), Multipurpose Cooperative Societies, Central/State agency or Local Body sponsored Public Private Partnership Projects, State Agencies, Agricultural Produce Market Committees (Mandis), National & State Federations of Cooperatives, Federations of FPOs (Farmer Produce Organizations) and Federations of Self Help Groups (SHGs).

FACT BOX

Farmers' Producers Organisations (FPOs)

- A farmer producer organisation (FPO) is a **legal entity** that is owned and managed by farmers (cultivators, dairy producers, fishers, plantation owners, and others engaged in primary production in the agriculture sector).
- FPO is a generic term for farmer collectives and can refer to one of the following:
  - **A company** (under the Companies Act)
  - **A cooperative society** (under the Multi-state Cooperative Societies Act)
  - **A mutually aided cooperative society** (under the Mutually Aided Cooperative Societies Act).
- FPOs are one type of producer organisation; others include collectives of weavers and artisans. Since most farmer producer organisations in recent years have been registered as producer companies, the terms FPC and FPO are often used interchangeably.

16 KRISHI-DECISION SUPPORT SYSTEM (DSS)

Context: The Government has launched a digital geo-spatial platform, Krishi-Decision Support System (DSS), which will share real-time data-driven insights on weather patterns, soil conditions, crop health, crop acreage and advisories with all stakeholders — such as farmers, experts and policymakers.

What is Krishi-Decision Support System (DSS)?

- Krishi-DSS was a **first-of-its-kind geospatial platform** specifically designed for Indian agriculture.

- The platform provides seamless access to comprehensive data, including satellite images, weather information, reservoir storage, groundwater levels and soil health information, which can be easily accessed from anywhere at any time.
- **Application:** Krishi-DSS includes several advanced modules designed to support comprehensive agricultural management.
  - **Crop Management:** With **crop mapping and monitoring**, cropping patterns will be understood by analysing parcel-level crop maps over the different years. This information helps in understanding crop rotation practices and promotes sustainable agriculture by encouraging the cultivation of diverse crops.
  - **Drought and Flood Monitoring:** It provides near real-time information on soil moisture, water storage, and other critical indicators.
  - **Policy Support**: It helps inform agricultural policies and disaster response strategies.

17 109 HIGH-YIELDING, CLIMATE-RESILIENT, AND BIOFORTIFIED SEED VARIETIES

Context: Prime Minister Narendra Modi recently released 109 new crop varieties aimed at improving agricultural productivity and resilience. These varieties are designed to be high-yielding, climate-resilient, and biofortified to enhance nutrition and adapt to varying conditions.

About the Varieties:

- These seeds were developed by the Indian Council of Agricultural Research (ICAR) and state agriculture universities.
- The released varieties encompass 61 crops of 109 varities, including 34 field crops and 27 horticultural varieties.
- **Field Crops:**
  - **Cereals and Millets:** New varieties of rice, barley, maize, sorghum, pearl millet, and finger millet.
  - **Pulses**: New types of chickpea, pigeon pea, lentils, and mungbean.
  - **Oilseeds**: Varieties include safflower, soybean, groundnut, and sesame.
  - **Forage Crops**: Includes forage pearl millet, berseem, oats, forage maize, and forage sorghum.
  - **Sugarcane and Fibre Crops:** Four sugarcane varieties and six fibre crops, including cotton and jute.
  - **Potential Crops**: Includes buckwheat, amaranth, winged bean, adzuki bean, pillipesara, kalingda, and perilla.
- **Horticultural Crops:**
  - **Fruits, Vegetables, Tubers, Spices, and More**: Includes 40 new varieties covering a wide range of horticultural products.
- **Notable Varieties:**
  - **CR Dhan 416:** A rice variety suitable for coastal saline areas with a yield of 48.97 q/ha and resistance to multiple diseases and pests.
  - **Durum Wheat Variety**: Suitable for Maharashtra, Karnataka, and Tamil Nadu, with a yield of 30.2 q/ha, tolerance to heat, and biofortified with high levels of zinc and iron.

FACT BOX

About Biofortification

- Biofortification is a process of enhancing the nutritional quality of edible parts of the plants through genetic approach such as plant breeding.
- Biofortification is regarded as the most sustainable approach to alleviate malnutrition. It provides nutrients in natural form, thus nutrients enter the body as part of natural food matrix.
- 'Biofortified varieties' are as high yielding as 'traditional varieties', thus no loss is incurred to the farmers.
- They are also cost-efficient as they do not include any additional costs.

18 NITROGEN-USE EFFICIENCY IN INDIAN RICE VARIETIES

Context: Biotechnologists have discovered significant variations in nitrogen use efficiency (NUE) among popular rice varieties in India. This breakthrough could help develop new rice varieties that use less nitrogen, thereby reducing fertilizer costs and environmental pollution.

Key Findings:

- The study found a **five-fold variation in NUE** among different rice varieties, meaning some varieties are significantly better at using nitrogen efficiently.
- The findings suggest that there are many untapped varieties with potentially high NUE, which could be further explored.
  - **Nitrogen Use Efficiency (NUE)** measures the yield of a crop relative to the nitrogen available to it, including both natural and artificial sources.

- This research could lead to more efficient rice varieties that reduce fertilizer costs and environmental impact.
- **Current Challenges:** India uses a large portion of its urea on cereals, especially rice. Inefficient use of nitrogen fertilizers results in a waste of Rs 1 trillion annually in India and over USD 170 billion globally.
  - Nitrogen fertilizers contribute to nitrous oxide and ammonia pollution, affecting air quality, water sources, and climate change.
- **Potential Solutions:**
  - Improvements in fertilizer formulations and crop management practices can enhance NUE.
  - The study highlights the need for biotechnological advancements to develop rice varieties with higher NUE and better yields.
- **Global Context:** India is the second-largest source of nitrous oxide emissions, mainly due to fertilizer use, contributing significantly to global greenhouse gas levels.

FACT BOX

Rice Cultivation in India

- India is the world's second-largest producer of rice, and the largest exporter of rice in the world.
- **Major rice producing states:** West Bengal, UP, Andhra Pradesh, Punjab and Tamil Nadu.
- **Rice Growing Regions in India**
  - **North-Eastern Region:** Assam and other northeastern states. Rice is grown in the Brahmaputra River Basin. The region experiences heavy rainfall and relies on rainfed cultivation.
  - **Eastern Region:** Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Odisha, Eastern Uttar Pradesh, and West Bengal. Rice is cultivated in the Ganga and Mahanadi river basins. This region has the highest rice cultivation intensity in the country, with heavy rainfall and primarily rainfed cultivation.
  - **Northern Region:** Haryana, Punjab, Western Uttar Pradesh, Uttarakhand, Himachal Pradesh, and Jammu & Kashmir. Experiences low winter temperatures. Rice is grown as a single crop from May-July to September-December.
  - **Western Region:** Gujarat, Maharashtra, and Rajasthan. Rice is grown under rainfed conditions from June-August to October-December.
  - **Southern Region:** Andhra Pradesh, Karnataka, Kerala, and Tamil Nadu. Rice is cultivated in the deltaic tracts of the Godavari, Krishna, and Cauvery rivers, as well as in the non-deltaic rainfed areas of Tamil Nadu and Andhra Pradesh. Irrigated cultivation is prominent in the deltaic tracts.
- Cultivation of the **carbohydrate-rich grain** is a **major contributor** to the emission of two greenhouse gases (GHG) - **methane and nitrous oxide.**

19 DIRECT SEEDING METHOD

Context: Private sector investment in agriculture technologies will help to boost crop yields or cutting production costs for Indian farmers majorly like the Direct Seeding Method for Rice Cultivation.

What is Direct Seeding Method?

- Direct Seeding of Rice refers to the process of establishing a rice crop from seeds sown in the field rather than by transplanting seedlings from the nursery.
- It has been recognized as the principal method of rice establishment since 1950's in developing countries.
- The cultivation technique involves fertilising and planting directly into the soil in one or two steps. The soil is mildly disturbed by the seeding machine.
- Direct seeding is can be done by sowing of pre-germinated seed into a puddled soil (wet seeding) or standing water (water seeding) or prepared seedbed (dry seeding).

FACT BOX

- **Rice (*Oryza sativa*)** is the seed of the grass species ***Oryza glaberrima or Oryza sativa.***
- Rice consumes about 4,000 - 5,000 litres of water per kg of grain produced. But it is **not an aquatic crop:** it has great ability to tolerate submergence. Water creates unfavourable conditions for weeds, by cutting off sunlight and aeration to the ground.
- India is the **largest consumer of rice crop**. Not only this, India is also the **second largest producer of rice, after China.**

20 NABARD LAUNCHES AGRI FUND, 'AGRI-SURE'

Context: The National Bank for Agriculture and Rural Development (NABARD) has announced the launch of a

Rs 750-crore agri fund, dubbed 'Agri-SURE', to promote investment in innovative and technology-driven initiatives in agriculture and allied areas. The fund aims to support startups and rural enterprises, driving sustainable growth and development in the agricultural sector.

About Agri-SURE

- Agri-SURE is a fund launched by **NABVENTURES,** a subsidiary of NABARD, with an initial corpus of Rs 750 crore.
  - The fund has received contributions of Rs 250 crore each from NABARD and the Ministry of Agriculture, as well as Rs 250 crore from other institutions.
- **Objectives:** The primary objective of Agri-SURE is to promote investment in high-risk, high-impact activities in agriculture and allied areas.
- **Investment Strategy:** Agri-SURE will provide support through investments in sector-specific, sector-agnostic, and debt Alternative Investment Funds (AIFs), as well as direct equity support to startups. The fund aims to support approximately 85 agri startups with investment sizes of up to Rs 25 crore each by the end of its term.
- **Focus Areas:** The fund's focus areas include:
  - Promoting innovative, technology-driven initiatives in agriculture
  - Enhancing the farm produce value chain
  - Creating new rural ecosystem linkages and infrastructure
  - Generating employment
  - Supporting Farmers Producer Organizations (FPOs)
  - Encouraging entrepreneurship through IT-based solutions
  - Machinery rental services for farmers

21 WORLD'S LARGEST GRAIN STORAGE PLAN

Context: The National Level Coordination Committee (NLCC) for the World's largest grain storage plan recently held its maiden meeting in the Ministry of Cooperation, New Delhi.

What is the World's largest grain storage plan?

- This pilot project aims to enhance agricultural infrastructure at the grassroots level by establishing facilities like **warehouses, processing units, and Fair Price Shops** in **Primary Agricultural Cooperative Societies (PACS).**
- It integrates several existing government schemes like the **Agriculture Infrastructure Fund (AIF), Agricultural Marketing Infrastructure Scheme (AMI),** Sub Mission on Agricultural Mechanization (SMAM) Pradhan Mantri Formalization of Micro Food Processing Enterprises Scheme (PMFME) etc.
- **Implementing Agencies:** National Cooperative Development Corporation (NCDC) with the support of NABARD, Food Corporation of India (FCI), Central Warehousing Corporation (CWC), NABARD Consultancy Services (NABCONS) in coordination with States/ UTs concerned.

Need of such initiative

- At present, India holds 11% (16 Crore Hectare) of World's total Cultivable Area (138 Crore Hectare) and 18% (140 Crore) of Total World Population (790 Crore).
- However, the total Food Grain Production in India is 311 MMT and total Storage Capacity in India is only 145 MMT, i.e, there is a shortage of 166 MMT in Storage capacity.(as per FAO Statistical Data 2021).
- While other countries boast a surplus of 131%, India faces a deficit of 47% in storage capacity.

FACT BOX

Primary Agricultural Credit Societies

- PACS are the grass root level arms of the short-term co-operative credit structure.
- They deal directly with the rural (agricultural) borrowers, give those loans and collect repayments of loans given and also undertake distribution and marketing functions.
- They provide **short-term and medium-term agricultural loans**
- First PACS formed in: **1904**

Agriculture Infrastructure Fund (AIF)

- **Launched in:** 2020
- **Type:** Central Sector Scheme
- Agriculture Infrastructure Fund (AIF) is a financing facility.
- **Mains focus area:** post-harvest management, community farming assets
- **Objective:** To provide all-around financial support to the farmers, agri-entrepreneurs, farmer groups (PACS, Farmer Producer Organisations, Joint Liability Groups etc).
- **Credit Guarantee:** for loans up to Rs 2 crore. This is done under the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) scheme.

Agricultural Marketing Infrastructure Scheme (AMI)

- It is an open ended, demand driven, credit linked, back ended subsidy scheme.
- **Beneficiaries:** Individuals, Agri-preneurs, farmers, FPOs, Cooperatives, and state agencies etc. are eligible for assistance.

22 INDIA'S SPICE TRADE

Context: Hong Kong and Singapore recently recalled certain spice mix products of Indian brands over the presence of a higher than prescribed level of the sterilising agent Ethylene Oxide (ETO). Though, steps are initiated several measures to ensure that Indian spices comply with food safety standards, the Indian spice market has got impacted.

India's Spice Market

- In 2023-2024, India exported spices worth USD 4.4 billion (nearly 14 lakh tonnes), which is 12.3% higher than the FY 2022-2023.
- **Largest exported products (spice) in FY 2022-23:** Chilli, spice oils and oleoresins, curry powder and paste, cumin, mint products, cardamom and pepper
- **Production:** Garlic, ginger and chilli were the top three spices produced in FY23.
- **Important markets for Indian spices:** China, Bangladesh, west Asian countries and the U.S.

FACT BOX

About Spices Board of India

- **Founded:** 1987
- The Spices Board is the leading organization dedicated to the growth and global promotion of Indian spices.
- Its main tasks include promoting the export of **52 specified spices** and the **development of cardamom.**
- **Ministry Affiliation**: It operates under the **Ministry of Commerce and Industry**.
- **Commodity Boards:** The Spices Board is one of **five statutory Commodity Boards** under the **Department of Commerce.** These boards oversee the production, development, and export of key commodities such as **tea, coffee, rubber, spices, and tobacco.**

23 TIRTHAHALLI ARECA

Context: Of all the types grown in Karnataka, the arecanut cultivated in the Tirthahalli region turned out to be the highest grade variety.

About

- **Family:** *Arecaceae*
- Areca is actually a berry (and not a nut)
- India is the world's largest producer and consumer of betel nut. Karnataka is the leading areca-nut producing state, followed by Kerala.
- Areca nut trees can reach heights of 12 to 20 meters, and their crown-shaped leaves can reach lengths of 30 to 60 meters. The fruits range in length from 3 to 5 cm, are smooth, oblong in shape, have one seed, and are colored from green to orange.
- Areca nuts, the fruit's endosperm, have a diameter of 2-4 cm and are reddish-brown or greyish-brown in color.
- Areca nuts contain, lignin, tannins arecatannin and gallic acid, alkaloids (arecoline, arecaidine) and guvacine, loaded with vasoconstricting properties.

PYQ

1. **Consider the following (2018)**
   1. Areca
   2. Barley
   3. Coffee
   4. Finger millet
   5. Groundnut
   6. Sesamum
   7. Turmeric

   The Cabinet Committee on Economic Affair, has announced the Minimum Support Price for which of the above?

   (a) 1, 2, 3 and 7 only
   (b) 2, 4, 5 and 6 only
   (c) 1, 3, 4, 5 and 6 only
   (d) 1, 2, 3, 4, 5, 6 and 7

   Solution: (a)

2. **Consider the following pairs : (2014)**

   Region : Well known for the production of
   1. Kinnaur : Areca nut
   2. Mewat : Mango
   3. Coromandel : Soya bean

Which of the above pairs is/are correctly matched?

(a) 1 and 2 only (b) 3 only

(c) 1, 2 and 3 (d) None

Solution: (d)

24 BASMATI RICE (ORYZA SATIVA)

Context: India is gearing up to challenge Pakistan's attempts to broaden the geographical indication (GI) tag for its Basmati rice.

About

- Basmati rice is cultivated in the Himalayan foothills of the Indian subcontinent.
- The specific agro-climatic conditions, processing techniques such as harvesting and ageing are said to make this rice unique.
- Basmati rice is grown in 81 districts in India, spanning Jammu & Kashmir, Himachal Pradesh, Haryana, Delhi, Uttarakhand, Punjab, and western Uttar Pradesh.
- 34 varieties of Basmati are officially recognized under Seeds Act of 1966.

25 ONION EXPORTS

Context: India has allowed onion exports to a few countries on priority in response to diplomatic requests, but it will continue to ban overseas shipments amid projections of lower output for two years in a row.

Onion Production in India

- Rabi or winter-harvested onion is critical for country's availability as it contributes **72-75% of India's annual production.**
- It is also crucial for ensuring year-round availability as it has a better shelf life compared to kharif or summer onion, and therefore can be stored for supplies till November-December.
- India is the **world's largest exporter of onion**.
- **Projection of lower output:** India is expected to harvest 19.3 million tonnes of rabi or winter-grown onions during 2023-24, which is about 18% lower than the production of 23.6 million tonnes in the previous season.

FACT BOX

- **Rabi crops-** wheat, barley, oats, gram, mustard, linseed.
- **Kharif crops**- rice, maize, millet, ragi, pulses, soybean, groundnut.

PYQ

Changing Pattern

1. **Consider the following crops: (2013)**
   1. Coconut
   2. Groundnut
   3. Rice
   4. Wheat

   Which of these are Kharif crops?

   (a) 1 and 4 (b) 2 and 3

   (c) 1,2 and 3 (d) 2, 3 and 4

   Solution: (c)

2. **Consider the following statements: (2021)**
   1. Moringa (drumstick tree) is a leguminous evergreen tree.
   2. Tamarind tree is endemic to South Asia.
   3. In India, most of the tamarind is collected as minor forest produce.
   4. India exports tamarind and seeds of moringa.
   5. Seeds of moringa and tamarind can be used in the production of biofuels.

   Which of the statements given above are correct?

   (a) 1, 2, 4 and 5 (b) 3, 4 and 5

   (c) 1, 3 and 4 (d) 1, 2, 3 and 5

   Solution: (c)

26 DAIRY FARMING IN INDIA

Context: In a divergence from global trends, India's dairy sector experiences a robust 6% growth, propelled by the substantial contribution of the Gujarat Cooperative Milk Marketing Federation (Amul), as highlighted by Prime Minister Narendra Modi.

The numbers

- India has the world's largest bovine population and is a leader in milk production.
- In the past 10 years, the milk production in India has gone up by around 60% and the per person availability of milk has grown by around 40%.
- At a time when the global dairy sector is growing merely at a rate of 2%, India's dairy sector is growing at a rate of 6%.
- In the last 2 decades, the number of milk corporations in the state has doubled from 12 to 23.
- **Women participation:** More than 36 lakh people are connected with the dairy industry, including 11 lakh women. Out of the 16,384 milk houses, 3300 are completely run by women.

- **State-wise production:**
  - Uttar Pradesh contributed the highest share of milk production at 15.7%, followed by Rajasthan (14.44%), Madhya Pradesh (8.73 %), Gujarat (7.49 %) and Andhra Pradesh (6.70 %).
  - The highest annual growth rate was recorded by Karnataka (8.76%) followed by West Bengal (8.65%) and Uttar Pradesh (6.99%).

Important Government Initiatives

- The government has built 60,000+ **AmritSarovars** across the country. This very initiative will not only benefit farmers but will also strengthen the rural economy.
- The government has provided **Kisan Credit Card** facility to cattle farmers and fish farmers.
- The **National Programme for Dairy Development** was launched in 2014. It aims at strengthening infrastructure for milk production and processing, encouraging value-addition in milk and milk products apart from increasing farmers' access to organised markets.
- The **Dairy Processing & Infrastructure Development Fund** was initiated in 2017.
- The government has launched the **RashtriyaGokul Mission** towards development and conservation of indigenous bovine breeds.
- **Livestock Health and Disease Control Programme** focuses on vaccination of animals of economic and zoonotic importance.

27 VCM IN AGRICULTURE SECTOR AND ACCREDITATION PROTOCOL OF AGROFORESTRY NURSERIES

Context: Framework for Voluntary Carbon Market in Agriculture Sector and Accreditation Protocol of Agroforestry Nurseries has been launched.

What is Voluntary Carbon Market (VCM)?

- The VCM gives companies, **non-profit organizations, governments, and individuals** the opportunity to **buy and sell carbon offset credits**.
- A carbon offset is an instrument that represents the reduction of one metric tonne of carbon dioxide or GHG emissions.
- Companies that are unable to reach their **greenhouse gas (GHG) emission targets** can purchase carbon offset credits by investing in environmental projects that can avoid, reduce, or remove carbon emissions.

FACT BOX

Carbon Credits

- Carbon credits were devised as a mechanism to reduce greenhouse gas emissions by creating a market in which companies can trade in emissions permits.
- Under the system, companies get a set number of carbon credits, which decline over time.
- They can sell any excess to another company.
- **India's Carbon Market:**
  - India has 1,451 projects registered or under various stages of consideration at the world's two leading carbon registries.
  - Carbon credits issued to Indian entities are worth 11% of India's annual greenhouse gas emissions in 2021.
  - Indian entities have already earned about 652 million dollars from carbon credits used to offset emissions.

28 BASIC ANIMAL HUSBANDRY STATISTICS 2023

Context: The Union Minister for Fisheries, Animal Husbandry & Dairying Parshottam Rupala released the Basic Animal Husbandry Statistics 2023 (milk, egg, meat and wool production 2022-23) based on Animal Integrated Sample Survey (March 2022-February 2023) during the National Milk Day event at Guwahati.

Key-Findings

The Production of **Milk, Egg, Meat and wool** in the country is estimated annually based on the results of **Integrated Sample Survey (ISS)** which is conducted across the country in **three seasons** i.e., **summer (March-June), Rainy (July-October) and winter (November-February)**.

- **Milk Production**: The total Milk production in the country is estimated as 230.58 million tonnes during 2022-23 registered a growth of 22.81% over the past 5 years which was 187.75 million tonnes in 2018-19.
  - It was found that the highest milk producing State during 2022-23 was **Uttar Pradesh** with a share of 15.72 % of total milk production followed by **Rajasthan (14.44 %), Madhya Pradesh (8.73 %), Gujarat (7.49 %), and Andhra Pradesh (6.70 %)**.
  - In terms of **annual growth rate (AGR),** the highest AGR recorded by;

- Karnataka (8.76%) followed by West Bengal (8.65%) and Uttar Pradesh (6.99%) over the previous year.

⦿ **Egg Production:** The total Egg production in the country has estimated as 138.38 billion nos. during 2022-23 registered a growth of 33.31% growth over the past 5 years as compared to the estimates of 103.80 billion numbers during 2018-19.

- The major contribution in the total Egg production comes from **Andhra Pradesh** with a share of 20.13 % of total **Egg production** followed by **Tamil Nadu (15.58 %), Telangana (12.77 %), West Bengal (9.94%) and Karnataka (6.51 %).**
- In terms of AGR, the **highest growth rate** was recorded by West Bengal (20.10%) and followed by Sikkim (18.93%) and Uttar Pradesh (12.80%).

⦿ **Meat Production**: The total Meat production in the country is estimated as 9.77 million tonnes during 2022-23 registered a growth of 20.39 % over the past 5 years as compared to the estimates of 8.11 million tonnes in 2018-19.

- The major contribution in the total meat production comes from Uttar Pradesh with 12.20 % share and followed by **West Bengal (11.93 %), Maharashtra (11.50 %), Andhra Pradesh (11.20 %) and Telangana (11.06 %**).
- In terms of annual growth rate, the highest Annual Growth Rate (AGR) has recorded in Sikkim (63.08%) followed by **Meghalaya (38.34%) and Goa (22.98%).**

29 ONATTUKARA SESAME

Context: OnattukaraVikasana Agency, registered owner of the GI-tagged sesame seeds, plan to increase the area under sesame cultivation to 2,000 hectares from current 600 hectares.

About Onattukara Sesame

⦿ Sesame (*Sesamum indicum* L.) is one of the ancient and traditional annual oilseed crops cultivated in Onattukara region of Kerala, for its quality medicinal seeds and oil.

⦿ It is grown in the uplands and the summer rice fallows of Onattukara region.

⦿ Three species of wild sesame were identified *viz.*

- *Sesamum malabaricum*
- *Sesamum mulayanum*
- *Sesamum radiatum*

⦿ **OnattukaraEllu** and its oil are famous for its unique health benefits.

⦿ **Relatively higher antioxidant** content in OnattukaraEllu helps in fighting the free radicals, which destroy the body cells.

⦿ Also, the high content of unsaturated fat makes it beneficial for heart patients.

FACT BOX

About GI tags

⦿ A Geographical Indication (GI) tag is given to an entrepreneur or a group of businessmen of a particular area/ state/ country to manufacturer goods of exemplary quality.

⦿ These tags are issued according to the **Geographical Indications of Goods (Registration and Protection) Act, 1999.**

30 'NATIONAL LEVEL MONITORS' TO OVERSEE LIVESTOCK SCHEMES

Context: The Centre has decided to deploy National Level Monitors (NLM) to oversee the implementation of its livestock schemes including National Livestock Mission and Rashtriya Gokul Mission.

⦿ As per the appointment terms of reference for **National Level Monitors (NLM)**, two types of monitoring will be conducted by them **— Regular and Special**.

National Livestock Mission:

⦿ The National Livestock Mission (NLM) is an initiative to ensure quantitative and qualitative improvement in livestock production systems and capacity building of stakeholders.

⦿ The mission aims to promote sustainable development in the livestock sector by enhancing productivity, reducing livestock diseases, and ensuring effective implementation of various government schemes related to animal husbandry and dairying.

⦿ The mission encompasses all the Indian states.

⦿ There are **four sub-missions** under National Livestock Mission:

- Sub-Mission on Fodder and Feed Development
- Sub-Mission on Livestock Development
- Sub-Mission on Pig Development in North-Eastern Region
- Sub-Mission on Skill Development, Technology Transfer and Extension

⦿ It is a **centrally-sponsored scheme** and is run as a sub-scheme under '**White Revolution.'**

CHAPTER 08

REPORTS/INDICES

1 WEF'S TRAVEL & TOURISM DEVELOPMENT INDEX 2024

Context: India has climbed to the 39th spot in the World Economic Forum's Travel & Tourism Development Index 2024, marking a significant rise from its 2021 ranking of 54th.

Key-findings:

- **Topic 10 countries:** United States, Spain, Japan, France, Australia, Germany, the United Kingdom, China, Italy and Switzerland.
- The United States claimed the top position.
- Among the world's top 10 economies, India had the sharpest decline (compared to 2019 levels), followed by the UK, which slipped three spots to seventh.
- China have also seen a significant increase in tourism numbers this year, while the Middle East has seen tourism levels jump to about 20% above pre-pandemic levels.
- **Africa, Europe and the Americas** also showed considerably high recovery rates of around 90% last year.
- **Findings for India**
  - India emerged as the **highest-ranking country in South Asia** and among the **lower-middle-income economies.**
  - The country demonstrated high price competitiveness (18th) and boasted competitive air transport (26th) and ground and port infrastructure (25th). Particularly noteworthy were India's robust natural (6th), cultural (9th), and non-leisure (9th) resources, which contributed significantly to driving travel.

FACT BOX

About Travel & Tourism Development Index (TTDI)

- TTDI is brought out jointly by WEF and the University of Surrey.
- The index comes out **every two years** and evaluates 119 countries on a range of tourism development factors.

Government Schemes Promoting Tourism

- PRASHAD
- Swadesh Darshan
- SAATHI
- Dekho Apna Desh
- NIDHI

2 GLOBAL CITIES INDEX

Context: A recent report from Oxford Economics has evaluated cities worldwide based on various factors like economic output and quality of life. Surprisingly, no Indian city made it into the top 300, with Delhi ranking the highest at 350.

Key Findings

- The report ranks cities across 163 countries on parameters like **economics, human capital, quality of life, environment, and governance**.

- New York topped the list, followed by London and San Jose.
- New Delhi ranked 51st in human capital, surpassing cities like Geneva and Canberra. However, Sultanpur in Uttar Pradesh scored poorly in multiple categories, ranking last overall.
- **The index contains five categories:** Economics, Human Capital, Quality of Life, Environment, and Governance, which are aggregated to create an overall score for each city.
    - **Economics** is measured by GDP size and employment opportunities
    - **Quality of life** considers life expectancy and housing costs
    - **Human capital** assesses education and skills
    - **Environment** looks at air quality and emissions intensity
    - **Governance** measure political stability of a city and protection of residents' rights

3 INDIA'S UNEMPLOYMENT RATE DIPS

Context: India's unemployment rate for persons aged 15 years or above declined to 3.1 per cent in 2023, the lowest in the last three years, as per a report by the National Sample Survey Organisation under the statistics ministry. The Periodic Labour Force Survey (PLFS) for the calendar year 2023 indicates a positive trend, showcasing a decline from 3.6% in 2022 and 4.2% in 2021.

Key-highlights of the Data

- The **Periodic Labour Force Survey (PLFS)** for the calendar year 2023 shows the unemployment rate came down to 3.1 per cent in 2023 from 3.6 per cent in 2022 and 4.2 per cent in 2021.
- The employment situation is improving after the Covid pandemic hit the country.
- **Gender-wise data:**
    - **For females**, the **unemployment rate** declined to 3 per cent in 2023 from 3.3 per cent in 2022 and 3.4 per cent in 2021.
    - **For males**, it came down to 3.2 per cent in 2023 from 3.7 per cent in 2022 and 4.5 per cent in 2021.
- **Region-wise data**
    - **In Urban areas:** The overall rate of unemployment also declined to 5.2 per cent in 2023 from 5.7 per cent in 2022 and 6.5 per cent 2021.
    - **In rural areas**: It came down to 2.4 per cent in 2023 from 2.8 per cent in 2022 and 3.3 per cent in 2021.
- **Labour force participation rate (LFPR)** in Current Weekly Status (CWS) in urban areas for people aged 15 years and above increased to 56.2 per cent in 2023 from 52.8 per cent in 2022 and 51.8 per cent in 2021.

4 INDIA'S DIGITAL ECONOMY GROWTH (2024–2030)

Context: India's digital economy is expected to grow almost twice as fast as the overall economy, contributing nearly one-fifth of national income or gross domestic product (GDP) by 2030, according to the ministry of electronics and information technology (MeitY).

Key-highlights

- **Current Situation (2022–2023)**
    - **Share in National Income**: India's digital economy constituted **74%** of the national income in 2022–2023.
    - **Gross Value Added (GVA)**: The digital economy in 2022–2023 was valued at approximately **Rs 28.94 lakh crore** (~**USD 368 billion**).
    - **GDP Contribution**: It contributed around **Rs 31.64 lakh crore** (~**USD 402 billion**) to India's GDP.
- **Forecast for 2024–2025:** The digital economy is expected to grow **twice as fast** as the rest of the national economy. It will rise to **13.42%** of India's national income by the end of 2024–2025, up from **11.74%** in 2022–2023.
- **Projection for 2030:** By **2030**, India's digital economy will account for **nearly 20%** of the country's overall GDP.
- **Key Digital Economy Sectors**
    - **ICT Sector**: **Information & Communications Technology (ICT)** firms, **telecom**, and **electronics manufacturing** contribute the largest portion, making up **83%** of national GVA.
    - **Big Tech & Online Intermediaries**: These contribute **2%** of national GVA.
    - **BFSI, Trade, & Education**: Collectively, these sectors also contribute **2%** to national GVA.
    - E-Commerce and Digital-Only Services**:** **E-Commerce** and digital-only firms contribute a **limited** share of the digital economy:
        - **E-tailers** contribute about **3%** to GVA.
        - However, **BFSI digital activities** contribute **four times** that amount.

FACT BOX

Key Aspects of India's Digital Infrastructure

- **National Data Centres (NDCs)**: India has invested heavily in the expansion of data centres to support the growing demand for cloud services, data storage, and AI/ML applications.
  - **Key Locations**: Delhi, Pune, Bhubaneswar, Hyderabad, and soon, Guwahati.
- **Digital Public Infrastructure (DPI)**
  - **Aadhaar**: The world's largest digital identity program with **138.34 crore** Aadhaar numbers issued, enabling secure identity authentication.
  - **Unified Payments Interface (UPI)**: Facilitating **24,100 crore** financial transactions as of June 2024, promoting financial inclusion.
  - **DigiLocker**: A platform for digital document storage and verification, with **37.046 crore users** and **776 crore** documents.
  - **DIKSHA**: A platform for online learning, with **556.37 crore learning sessions** and **14.37 crore course completions**.
  - Other key DPI platforms include **GeM** (for government procurement), **UMANG** (access to government services), **API SETU** (for open APIs), and health platforms like **Co-WIN** and **Aarogya Setu**.
- **Digital Governance and Services**
  - **Digital India,** launched in 2015, aims to transform India into a digitally empowered society and knowledge economy.
  - **Common Services Centres (CSCs)**: Over **5.84 lakh CSCs** have been set up across India, offering a wide range of government services in rural areas.
  - **UMANG App**: A unified mobile application providing access to government services in **23 languages**, with over **7.12 crore users**.
  - **MeriPehchaan**: A **National Single Sign-On (SSO)** service that enables citizens to authenticate and access government services with a single set of credentials.
  - **e-Sign (e-Hastakshar)**: A digital signature service, with **81.97 crore e-Signs** issued.
  - Revolutionizing Governance and Public Service Delivery
  - **DigiLocker**: Over **37 crore** registered users use DigiLocker to access and authenticate their documents digitally.
  - **CollabFiles**: A centralized platform for government officials to manage and share documents securely.
  - **GovDrive**: A cloud-based platform for securely storing and managing official documents.
  - National Knowledge Network (NKN) connects national and state data centres, facilitating digital governance and enabling collaborative research and resource sharing across institutions.
  - **API Setu**: A platform that allows seamless data exchange and service delivery across government systems. Over **6,000 APIs** have been published, facilitating **312.01 crore** transactions.
  - **MyGov**: A citizen engagement platform that encourages public participation, with over **4.89 crore registered users**.
  - **Rural Digital Services**: The **Common Services Centres (CSCs)** initiative brings digital services to rural areas, providing access to government schemes, telemedicine, financial services, and more.
- **Digital Health & Education**
  - **eSanjeevani**: A telemedicine service offering healthcare remotely.
  - **e-Hospital**: A hospital management system for streamlining hospital processes.
  - **e-Courts**: A platform digitizing judicial processes.
  - **DIKSHA**: An online education platform for teachers and students.

5 SURVEY TO ASSESS WOMEN PARTICIPATION IN WORKFORCE

Context: The Union Ministries of Labour& Employment and Women & Child Development have started a joint survey on increasing women participation in the workforce.

About The Survey

- The survey is being taken to assess the **spread of women employee-friendly practices** in the country.
- Various **international agencies and trade unions**, including the International Labour Organization, had expressed concern over the **decrease in participation of female workforce** in the country.

PLFS Data (2022-23):

- The latest **Periodic Labour Force Survey (PLFS) results**, released in October 2023, indicate a **significant increase in women's participation in the labor force**.
- The participation rate has risen from **3% in 2017-18 to 37% in 2022-23**.
- The survey includes **questions on various policies**, such as the formation of internal complaints committees for preventing sexual harassment, provision of creche facilities, ensuring equal pay for equal work, offering flexible or remote working hours, and providing transportation facilities during late hours.

FACT BOX

About Periodic Labour Force Survey:

- The Periodic Labour Force Survey (PLFS) is a comprehensive and recurring survey conducted by the Government of India through the **Ministry of Statistics and Programme Implementation (MoSPI).**
- The primary objective of the PLFS is to collect data related to labor force participation, employment, and unemployment in the country.
- The survey aims to provide up-to-date and detailed information about the labor market in India, which is crucial for policymakers, researchers, and other stakeholders.
- PLFS collects data in two ways — **Usual Status (US)** and **Current Weekly Status** (CWS).
- Within usual status, the survey respondent has to recall their employment details from the last one year while in the CWS; the respondent has to recall the details over the past one week.
- **Usual Status of Employment:** The estimate of the labour force in the usual status includes;
  - The persons who either worked or were seeking/available for work for a relatively long part of the **365 days preceding** the date of survey and also;
  - those persons from among the remaining population who had worked at least for **30 days** during the **reference period of 365 days** preceding the date of survey.
- The estimate of the labour force according to the **current weekly status** approach is derived by considering those who worked for **at least 1 hour** or was seeking/ available for **work for at least 1 hour on any day during the 7 days preceding the date of survey.**

6 INDIA RANKS 35TH IN GLOBAL FUTURE POSSIBILITIES INDEX

Context: Future Possibilities Index (FPI), providing insights into India's positioning at 35th globally and the top-performing countries. The study, conducted by Newsweek Vantage and Horizon Group during the World Economic Forum Annual Meeting, evaluates countries' readiness to harness future opportunities.

Findings

- The Future Possibilities Index (FPI) reveals **Denmark, the US, the Netherlands, Germany, and the UK** as the top-ranking countries in assessing readiness for future trends.
- Among large emerging markets, **China secures the highest position at 19th, followed by Brazil at 30th, India at 35th, and South Africa at 50th**.
- The study assesses **factors crucial for governments, investors, and private sector stakeholders to capitalize on six global transformative trends.**
- These trends, shaping growth and well-being across 70 countries, include the Exabyte **Economy, Wellbeing Economy, Net Zero Economy, Circular Economy, BioGrowth Economy, and Experience Economy**.
- Emphasizing the **Exabyte Economy's** role in advanced **digital technologies**, **Wellbeing Economy's** focus on **health prevention and wellness, Net Zero Economy's** commitment to reducing **carbon emissions, Circular Economy's** emphasis on **recycling and reuse, BioGrowth Economy'**s innovations in **food and agriculture**, and **Experience Economy's** shift towards **consuming experiences over physical good**
- Highlighting the substantial business opportunities, the study estimates **a combined value of over USD 44 trillion by 2030, constituting more than 40% of global GDP in 2023**.
- These opportunities may **disproportionately benefit the Global North**, emphasizing the need for a strong industry base for widespread economic growth and societal well-being.

7 SOUTH INDIA TAKES LEAD IN NPS ENROLMENT AMIDST NATIONWIDE CHALLENGES

Context: Chairman of the Pension Fund Regulatory & Development Authority (PFRDA) highlights the dominance of South India in National Pension System (NPS) enrolments.

Key Information

- During the current fiscal year, South India has emerged as the **frontrunner in NPS private sector enrolments, encompassing both NPS Corporate and NPS All Citizen categories**.
- The region contributes **significantly, with 39% of enrolments in NPS Corporate and 29% in NPS All Citizen**.
- Moreover, **36% of women participating in the NPS Corporate subscriber base hail from the Southern region**, marking the highest percentage nationwide.

8 INDIA'S BUILT-UP AREA

Context: India's built-up area has steadily increased over the past 17 years from 2005-06 to 2022-23, expanding by almost 2.5 million hectares, a new analysis showed.

Key-highlights

- **Period taken:** 2005-06 and 2022-23.
- The built-up land showed a **modest increase with an overall growth** of around **31 per cent**.
- Around 35 per cent of built up area has been added, with an average increase of around 2.4 per cent annually from **land cover**, which include wasteland and agricultural land cover.
- **Wasteland,** which includes degraded and unproductive land, contributed significantly (12.3 per cent) to built-up area expansion by 12.3.
- A substantial percentage of built-up area expansion originated from **agricultural land covers,** which includes
  - 3 per cent of double / triple / annual crop
  - 3 per cent of **kharif crop**
  - 1 per cent of **rabi crop**
  - 9 per cent of plantation
  - 8 per cent of fallow land

FACT BOX

Built-up area

- The term 'built-up area' refers to an area with buildings (roofed structures), paved surfaces (roads, parking lots), commercial and industrial sites (ports, landfills, quarries, runways) and urban green areas (parks, gardens).

9 WORLD DEVELOPMENT REPORT 2024

Context: As per the World Bank's 'World Development Report 2024: The Middle-Income Trap' report, it may take India close to 75 years, China more than 10 years, and Indonesia nearly 70 years to reach one-quarter of the United States' income per capita.

Highlights of the Report:

- The report mentions the data from the past 50 years shows that countries usually hit a "trap" when they reach 10 percent of the annual **US GDP per capita or middle of the range** as per what the World Bank classifies as middle-income countries — equivalent to 8,0000 dollars as on date.
- By 2023-end, **108 countries** with a total population of six billion (75 per cent of the world) were classified as 'middle-income'.

Since 1990, only **34 middle-income economies** have managed to shift to high-income status.

What is Per-capita Income?

- Per capita income is a measure of the **amount of money earned per person in a nation or geographic region.**
- Per capita income is used to determine the average per-person income for an area and to evaluate the standard of living and quality of life of the population.
- **Classification of Countries based on Income Per capita:** Based on per capita income, the World Bank has broadly classified countries into four categories.
  - Low-income countries
  - Lower-middle income countries
  - Higher-middle income countries
  - High-income countries

FACT BOX

Difference between GDP and Per Capita Income

- **Gross domestic product (GDP)** is the value of all the finished goods and services produced in a nation. It consists of consumer spending, government spending, investments, and net exports.
- **Per capita income** is the amount of income earned per person in a nation.

10 ASIA POWER INDEX

Context: India has officially surpassed Japan to become the third most powerful country in Asia, as reported by the latest Asia Power Index released by the Lowy Institute. This significant shift underscores India's expanding influence across the continent and positions it as a major global player with aspirations of superpower status.

What the Asia Power Index Measures?

- The Asia Power Index, compiled annually by the **Australian think tank Lowy Institute**, evaluates power dynamics across Asia using a comprehensive set of metrics. These include:
    - **Economic Resources**: It measures GDP, trade, and investment capabilities.
    - **Military Capability**: It assesses defense spending, armed forces strength, and technological advancements.
    - **Diplomatic Influence**: It evaluates participation in international organizations and bilateral relations.
    - **Cultural Reach**: It considers the impact of cultural exports and soft power.
    - **Future Resources**: It looks at population dynamics and potential growth.
- India's rise to third place reflects improvements in these key areas, particularly in defense, diplomacy, and economic growth.

11 EAC-PM PAPER

Context: The recent report by the Economic Advisory Council to the Prime Minister (EAC-PM) evaluates the economic trajectories of various Indian states post-liberalization. It emphasizes the significant economic growth of southern states and contrasts their progress with the stagnation or decline seen in some other regions, particularly West Bengal and certain northern states.

Key Highlights of the Report

- **Economic Surge in Southern States**
- Southern states, namely **Karnataka, Andhra Pradesh, Telangana, Kerala, and Tamil Nadu**, now collectively contribute to **30% of India's GDP.**
- These states exhibit **higher-than-average per capita incomes**, indicating robust economic performance since liberalization.
    - Before 1991, southern states did not show expectational performance. However, since the economic liberalization of 1991, the southern states have emerged as the leading performers.
- **Decline of West Bengal**
    - West Bengal has experienced a notable decline in its GDP contribution, from 10.5% in 1960-61 to just 5.6% currently.
    - The state's per capita income has plummeted from 127.5% of the national average to 83.7%, now trailing behind states like Rajasthan and Odisha.
    - Despite historical advantages, West Bengal's policies may have hindered its growth, marking it as an exception among maritime states, which have generally prospered.
- **Performance of Other Regions**
    - While Bihar's economic position has stabilized, it still lags behind in growth compared to other states. Conversely, Odisha has shown significant improvements, shedding its previous reputation as a laggard.
    - **Maharashtra continues to be India's largest contributor to GDP,** though its share has decreased from over 15% to 13.3%. Despite this, its per capita income remains high at 150.7% of the national average.

FACT BOX

About the Paper

- The paper 'Relative Economic Performance of Indian States: 1960-61 to 2023-24' focused on the relative performance of states in terms of their share of the national economy and their per capita GDP as per cent of the national average since 1960-61.
- The data span from **1960-61 to 2023-24.**
- **Calculation of state's share in India's GDP:** The state's share in India's GDP is calculated by dividing the Gross State Domestic Product (GSDP) of the state by the sum of GSDP of all states.
- **Gross State Domestic Product (GSDP) or State Income** is the indicator for measuring the economic growth of a State.
    - GSDP is a measure in monetary terms, the **sum total volume of all finished goods and services** produced during a given period of time, usually a year, within the geographical boundaries of the State, accounted without duplication.
- The State Domestic Product is classified under three broad sectors such as **Primary sector, Secondary sector and Tertiary sector.**
    - It is compiled economic activity wise as per the methodology prescribed by the **Central Statistics Office (CSO), GOI** and furnished to the **Ministry of Statistics and Programme Implementation (MOSPI).**