

For UPSC CSE



SUMMARY OF ECONOMIC SURVEY 2025-26



OUR COURSES

In 15 Hours



Mode: **Online**



Q-R-P

QUICK REVISION PROGRAMME

Economy, Geography & Environment

For UPSC CSE PRELIMS 2026



Mr. Guna Mathivanan

Founder - Director, Simply Current Affairs

Economy

Fee- 999/-



Mrs. K Mohana Priya

Geography-Faculty, Simply Current Affairs

Geography

Fee- 999/-



Ms. Vilasini Muruganand

Environment-Faculty, Simply Current Affairs

Environment

Fee- 999/-

Economy + Geography + Environment 2,500/-

Starts - 27th March 2026

To enroll visit website
www.simplycurrentaffairs.com



In 15 Hours

Mode: **Online**



Q-R-P

QUICK REVISION PROGRAMME

Economy

For UPSC CSE PRELIMS 2026

Focus Areas - National Income, Inflation, Public Finance, RBI, Monetary Statistics, Banking, Financial Market, External Trade and Last 10 Years PYQ Discussion

Course	Price
Economy Clean Course	999/-
Economy + Geography + Environment	2,500/-



Mr. Guna Mathivanan

Founder-Director, Simply Current Affairs

To ENROLL visit website - www.simplycurrentaffairs.com

Starts - 31st March 2026

To enroll visit website
www.simplycurrentaffairs.com



In 15 Hours

Mode: **Online**



Q-R-P

QUICK REVISION PROGRAMME

Geography

For UPSC CSE PRELIMS 2026

Focus Areas - Complete NCERT Geography for UPSC Prelims - Thematic Mastery in 15 Hours and Last 10 Years PYQ Discussion

Course	Price
Geography Clean Course	999/-
Economy + Geography + Environment	2,500/-



Mrs. K Mohana Priya

Geography Faculty, Simply Current Affairs

To ENROLL visit website - www.simplycurrentaffairs.com

Starts - 30th March 2026

To enroll visit website
www.simplycurrentaffairs.com



In 15 Hours

Mode: **Online**



Q-R-P

QUICK REVISION PROGRAMME

Environment

For UPSC CSE PRELIMS 2026

Focus Areas - Basics of Ecology, Ecosystem, Biodiversity, Pollution and Climate Change and Last 10 Years PYQ Discussion

Course	Price
Environment Clean Course	999/-
Economy + Geography + Environment	2,500/-



Ms. Vilasini Muruganand

Environment Faculty, Simply Current Affairs

To ENROLL visit website - www.simplycurrentaffairs.com

Starts - 27th March 2026

To enroll visit website
www.simplycurrentaffairs.com



www.simplycurrentaffairs.com





STARTS ON
11-02-2026

75x75 Batch-3 A COMPREHENSIVE CURRENT AFFAIRS COURSE

For UPSC CSE PRELIMS 2026

Key Features

- 1000+ crucial current affairs topics from May 2025 to April 2026 in 75 days.
- Practice Multiple Choice Questions (MCQs) after every class
- Previous Year Question linkage with Current Affairs Topics
- Exclusive coverage of Economic Survey 2025-26 and Budget 2026
- Static linkage with current affairs
- Mapping Related Areas and Places in the News in every class
- Get your doubts cleared directly with Mr. Guna Mathivanan

Mode : Online

Fees : ₹ 5,250/-



To Enroll Visit Website
www.simplycurrentaffairs.com



For More Updates,
Visit Our Telegram Channel
<https://t.me/GUNAMATHIVANAN>

Mr. Guna Mathivanan,
Founder-Director, Simply Current Affairs



STARTS ON
16-02-2026

ECONOMY FULL COURSE FOR UPSC PRELIMS 2026

Bilingual Batch தமிழில்

Class Notes will be Given in English, Classes Explained in தமிழ்

Course Highlights

- Complete Static Economy Syllabus covering all essential chapters
- NCERT Foundation - Class 9-12 Economy explained
- 1 Year Economy Current Affairs (relevant for Prelims 2026)
- Exclusive sessions on Economic Survey 2025-26 & Union Budget 2026
- 4 Full-Length Economy Tests + Detailed Discussions
- PYQ Sessions - Last 15 years' Economy questions decoded
- Each Class Duration - 1.5 Hours
- 25+ Power-Packed Classes

Validity: Till Prelims 2026

Mode : Online

Fees : ₹ 4,250/-



To Enroll Visit Website
www.simplycurrentaffairs.com

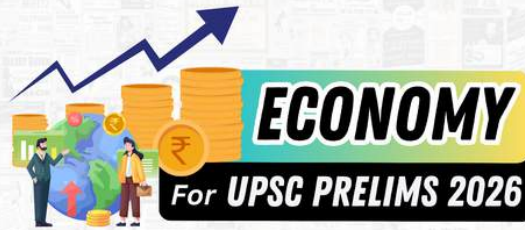


For More Updates,
Visit Our Telegram Channel
<https://t.me/GUNAMATHIVANAN>

Mr. Guna Mathivanan,
Founder-Director, Simply Current Affairs



LIMITED SEATS
Enroll Now!



Course Highlights

- Complete Static Economy Syllabus covering all essential chapters
- NCERT Foundation – Class 9–12 Economy explained
- 1 Year Economy Current Affairs (relevant for Prelims 2026)
- Exclusive sessions on Economic Survey 2025–26 & Union Budget 2026
- 4 Full-Length Economy Tests + Detailed Discussions
- PYQ Sessions – Last 15 years' Economy questions decoded

40+ Power-Packed Classes

Validity: Till Prelims 2026

Mode : Online

Fees : ₹ 4,250/-



To Enroll Visit Website
www.simplycurrentaffairs.com



For Free Learning,
Visit Our Telegram Channel
<https://t.me/GUNAMATHIVANAN>

Mr.Guna Mathivanan,
Founder-Director, Simply Current Affairs



STARTS ON
28-01-2026



TEST SERIES

(For UPSC Prelims 2026)

“One of its kind program covering Current Affairs + Linked Static through weekly tests for complete UPSC Prelims readiness.”

Course Highlights

- Coverage: May 2025 – April 2026 (Current Affairs + Linked Static) through weekly tests for consistent practice & progressive learning
- Exclusive Test on Economic Survey & Union Budget
- 15 Tests in Total with detailed discussion by Mr.Guna Mathivanan → 12 Sectional + 2 Revision + 1 Full-Length

Mode : Online

Fees : ₹ 2,950/-



To Enroll Visit Website
www.simplycurrentaffairs.com



For Free Learning,
Visit Our Telegram Channel
<https://t.me/GUNAMATHIVANAN>

Mr.Guna Mathivanan,
Founder-Director, Simply Current Affairs

TABLE OF CONTENTS

FOREWORD	2
INTRODUCTION	3
CHAPTER 01: STATE OF THE ECONOMY: PUSHING THE GROWTH FRONTIER	3
CHAPTER 02: FISCAL DEVELOPMENTS: ANCHORING STABILITY THROUGH CREDIBLE CONSOLIDATION.....	12
CHAPTER 03: MONETARY MANAGEMENT AND FINANCIAL INTERMEDIATION: REFINING THE REGULATORY.....	20
TOUCH	20
CHAPTER 04: EXTERNAL SECTOR: PLAYING THE LONG GAME.....	25
CHAPTER 05: INFLATION: TAMED AND ANCHORED	32
CHAPTER 06: AGRICULTURE AND FOOD MANAGEMENT: RAISING PRODUCTIVITY, SECURING INCOMES AND ENSURING FOOD SECURITY	35
CHAPTER 07: SERVICES: FROM STABILITY TO NEW FRONTIERS	39
CHAPTER 08: INDUSTRY'S NEXT LEAP: STRUCTURAL TRANSFORMATION AND GLOBAL INTEGRATION	43
CHAPTER 09: INVESTMENT AND INFRASTRUCTURE: STRENGTHENING CONNECTIVITY, CAPACITY AND COMPETITIVENESS	50
CHAPTER 10: ENVIRONMENT AND CLIMATE CHANGE: BUILDING A RESILIENT, COMPETITIVE AND DEVELOPMENT-DRIVEN INDIA	56
CHAPTER 11: EDUCATION AND HEALTH: WHAT WORKS AND WHAT'S NEXT	59
CHAPTER 12: EMPLOYMENT AND SKILL DEVELOPMENT: GETTING SKILLING RIGHT.....	63
CHAPTER 13: RURAL DEVELOPMENT AND SOCIAL PROGRESS: FROM PARTICIPATION TO PARTNERSHIP.....	68
CHAPTER 14: EVOLUTION OF THE AI ECOSYSTEM IN INDIA: THE WAY FORWARD	71
CHAPTER 15: URBANISATION: MAKING INDIA'S CITIES WORK FOR ITS CITIZENS	72
CHAPTER 16: FROM IMPORT SUBSTITUTION TO STRATEGIC RESILIENCE AND STRATEGIC INDISPENSABILITY.....	75



FOREWORD

Dear Aspirants,

This summary of the Economic Survey (2025–26) has been prepared with a focus on the requirements of the upcoming UPSC CSE Prelims, while also serving as a useful resource for Mains and the Interview stage. We advise you to prioritise an understanding of the trends, terminologies, and schemes outlined here (which are the areas frequently targeted by UPSC for question framing), rather than attempting to memorise every statistic. Happy Learning!



INTRODUCTION

- The **Economic Survey** is an **annual publication** prepared by the **Department of Economic Affairs under the Ministry of Finance**, under the guidance of the **Chief Economic Adviser (CEA)**.
- It serves as the **government's annual economic report card**, assessing the previous year's performance and outlining the outlook for the year ahead.
- Once prepared, the Survey is approved by the **Finance Minister**.
- India's first Economic Survey was presented in **1950-51**. The document was presented with the Union Budget till 1964. Later, it was separated and **presented in Parliament a day before the Budget is read**.

CHAPTER 01: STATE OF THE ECONOMY: PUSHING THE GROWTH FRONTIER

GLOBAL ECONOMIC GROWTH – FRAGILE AND DIVERGING

- Over the past year, the **global economic activity** has remained **relatively stable** in the short term. This is reflected in the **IMF's projections of growth and inflation** for advanced economies (AEs) and emerging market and developing economies (EMDEs) made at various points in time between January 2025 and January 2026.

Table I.1: Revisions in IMF's global growth and inflation projections vis-a-vis Jan '25 forecasts

Growth outlook stabilises after Apr '25 downward revisions									
Growth forecasts – 2025 (percent)				Growth forecasts – 2026 (percent)				Growth deviation from Jan '25	
	Jan '25	Apr '25	Oct '25	Jan '26		Jan '25	Apr '25		Oct '25
AE	1.9	1.4	1.6	1.7	AE	1.8	1.5	1.6	1.8
EMDE	4.2	3.7	4.2	4.4	EMDE	4.3	3.9	4.0	4.2
Global	3.3	2.8	3.2	3.3	Global	3.3	3	3.1	3.3
Growth: Green = upward revision, Red = downward revision									
Inflation expected to remain stubborn in AEs									
Inflation forecasts – 2025 (percent)				Inflation forecasts – 2026 (percent)				Inflation revision over Jan '25	
	Jan '25	Apr '25	Oct '25	Jan '26		Jan '25	Apr '25		Oct '25
AE	2.1	2.5	2.5	2.5	AE	2.0	2.2	2.2	2.2
EMDE	5.6	5.5	5.3	5.2	EMDE	4.5	4.6	4.7	4.8
Global	4.2	4.3	4.2	4.1	Global	3.5	3.6	3.7	3.8
Inflation: Green = downward revision, Red = upward revision									
Source: IMF World Economic Outlook (WEO) Jan 2025 to Jan 2026									
Note: The colour coding is based on deviation from the Jan 2025 forecasts.									

- However, the **global economic environment remains uncertain**, shaped by **geopolitical tensions, fragmented supply chains, trade disruptions**, and an **increased reliance on economic policy instruments for strategic purposes**.
- This has led to a **deterioration in global Foreign Direct Investment (FDI) flows**.



- As per the **United Nations Conference on Trade and Development's (UNCTAD) World Investment Report 2025**, FDI flows in 2024 declined by 11 per cent YoY.
- The **global economy** has entered a phase in which **geopolitical considerations exert a much stronger influence than they did in the 2010s**.

Resurgence of 'Economic Statecraft':

- Over the past few years, '**Economic Statecraft**', broadly defined as the **deliberate use of economic means to achieve strategic ends**, has witnessed a **rapid resurgence**.
 - Eg: Compelling a country to stop hostilities with a third party or to liberalise its markets.

TRENDS IN THE DOMESTIC ECONOMY

Advance Estimates for FY26 reflect Strong Growth Momentum:

- Even as the global economy navigates uncertainty, **India continues to chart a strong growth path**, as reflected in the **First Advance Estimates (FAE) for FY26** released by the **Ministry of Statistics and Programme Implementation (MoSPI)**.
- These estimates place the **real GDP¹ growth rate at 7.4 per cent** and the **GVA growth rate at 7.3 per cent**, reaffirming India's status as the **fastest-growing major economy for the fourth consecutive year**.

Table I.2a: Demand and Supply side drivers of growth

Real Growth, YoY, Percent				
Production Approach (Supply Side)				
	H1: FY25	H1: FY26	FY25 (PE)	FY26 (FAE)
Agriculture, Livestock, Forestry & Fishing	2.7	3.6	4.6	3.1
Industry	6.1	7	5.9	6.2
Mining & Quarrying	3.6	-1.8	2.7	-0.7
Manufacturing	4.8	8.4	4.5	7.0
Electricity, Gas, Water Supply & Other Utility Services	6.5	2.4	5.9	2.1
Construction	9.3	7.4	9.4	7.0
Services	7.0	9.3	7.2	9.1
Trade, Hotels, Transport, Communication & Services related to Broadcasting	5.8	8	6.1	7.5
Financial, Real Estate & Professional Services	6.9	9.9	7.2	9.9
Public Administration, Defence & Other Services	8.9	9.7	8.9	9.9
GVA at Basic Prices	6.2	7.9	6.4	7.3
Expenditure Components (Demand Side)				
Private Final Consumption Expenditure (PFCE)	7.3	7.5	7.2	7.0
Government Final Consumption Expenditure (GFCE)	1.9	2.5	2.3	5.2
Gross Fixed Capital Formation (GFCF)	6.7	7.6	7.1	7.8
Exports	5.5	5.9	6.3	6.4
GDP	6.1	8.0	6.5	7.4

Source: MoSPI



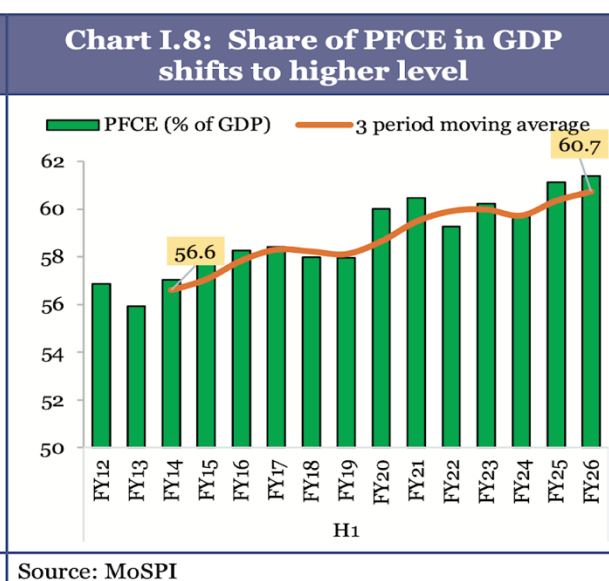
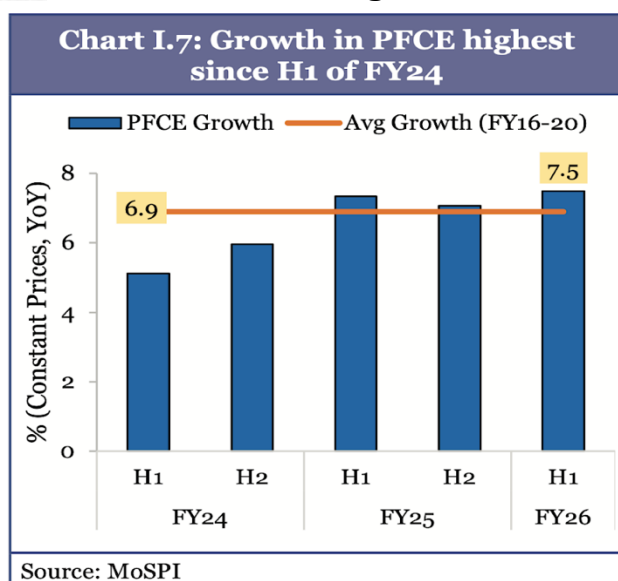
Table I.2b: Sectoral contribution to GDP

Share as % of Nominal GDP, Percent				
Production Approach (Supply Side)				
	H1: FY25	H1: FY26	FY25 (PE)	FY26 (FAE)
Agriculture, Livestock, Forestry & Fishing	14.0	13.2	16.3	15.2
Industry	24.5	24.3	24.6	24.3
Mining & Quarrying	1.6	1.4	1.6	1.4
Manufacturing	12.7	13.0	12.6	12.8
Electricity, Gas, Water Supply & Other Utility Services	2.5	2.4	2.4	2.3
Construction	7.7	7.6	7.9	7.8
Services	52.6	53.6	49.9	51.1
Trade, Hotels, Transport, Communication & Services related to Broadcasting	15.1	15.0	15.9	15.8
Financial, Real Estate & Professional Services	23.7	24.3	20.8	21.4
Public Administration, Defence & Other Services	13.7	14.3	13.2	13.8
Expenditure Components (Demand Side)				
Private Final Consumption Expenditure (PFCE)	61.1	61.4	61.4	61.5
Government Final Consumption Expenditure (GFCE)	10.0	9.6	10.0	9.9
Gross Fixed Capital Formation (GFCF)	30.6	30.5	29.9	30.0
Exports	21.1	21.2	21.2	21.5

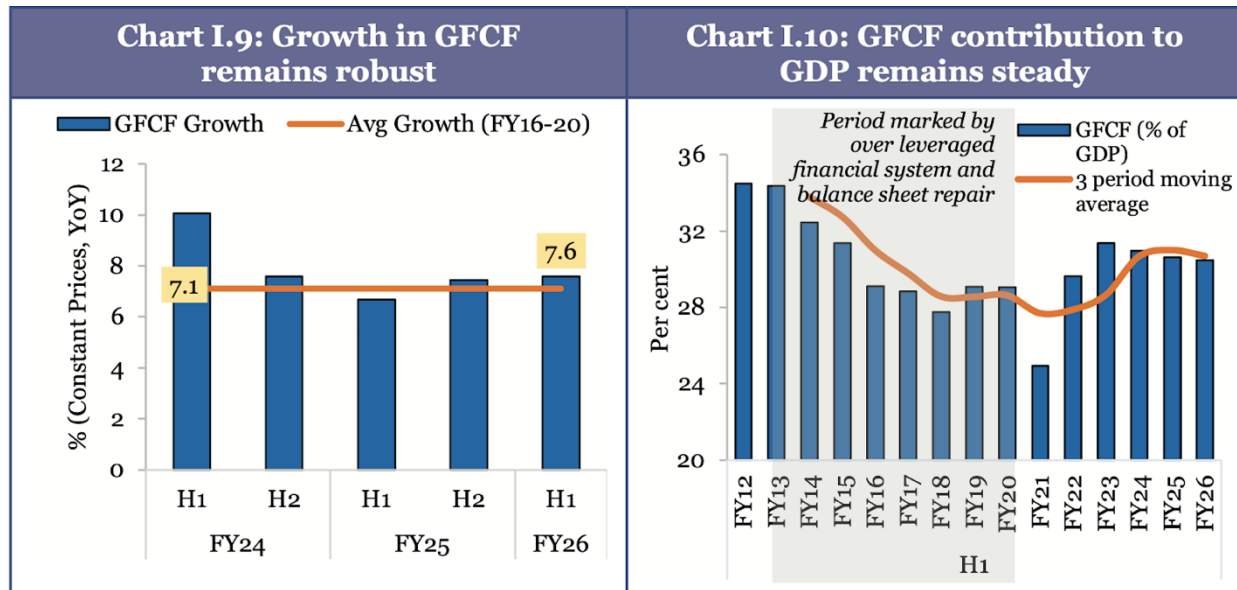
Source: MoSPI

Demand Side: Domestic Drivers anchor GDP growth in FY26:

- **Domestic demand** continues to underpin economic growth in FY26.
 - The share of **Private Final Consumption Expenditure (PFCE)²** in GDP rose to **61.5 per cent** in FY26, the **highest level since FY12**.

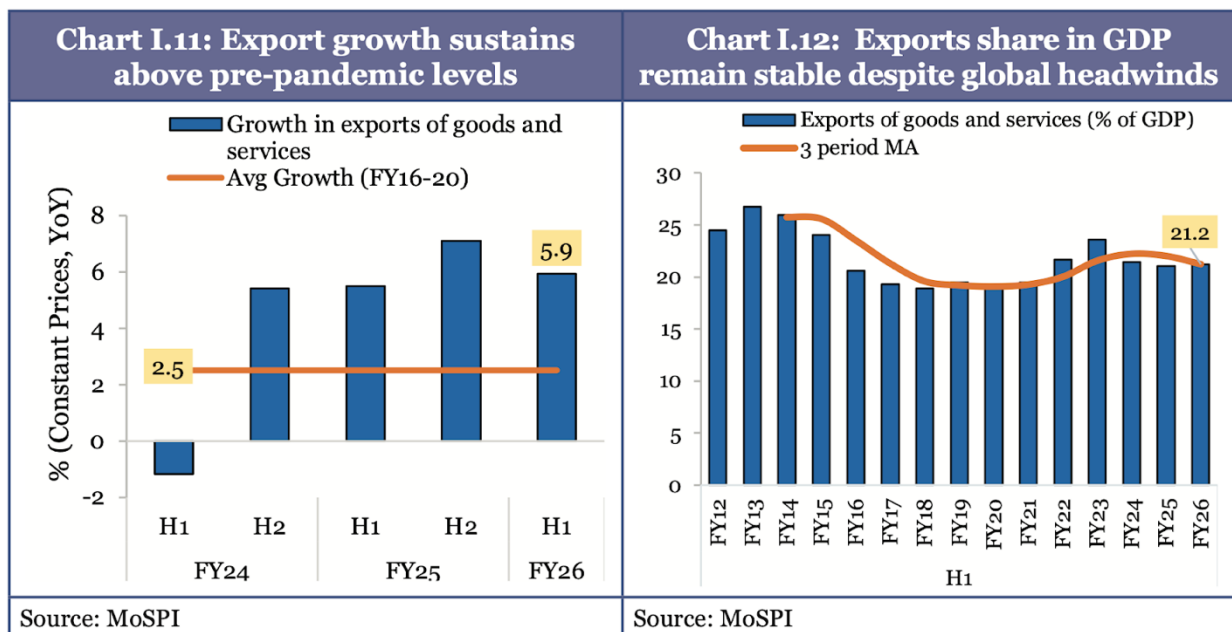


- Along with consumption, **investment has continued to anchor growth** in FY26, with the **share of Gross Fixed Capital Formation (GFCF)³ estimated at 30.0 per cent.**



Source: MoSPI

- While **domestic drivers** remained the **primary source of growth** in FY26, **external demand**, with a share of **21.6 per cent of GDP**, also supported growth.



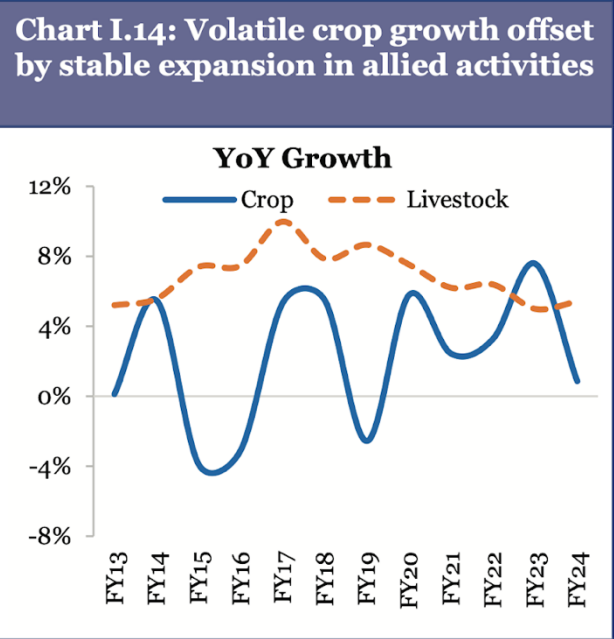
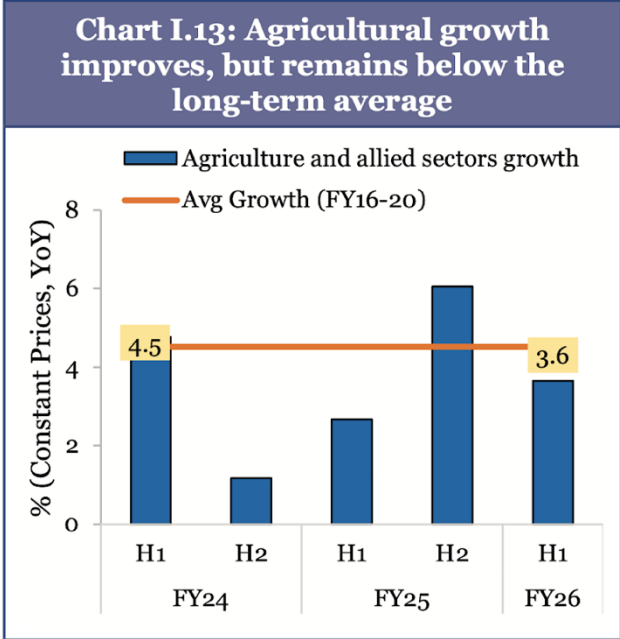
Source: MoSPI

Source: MoSPI

Industry and Services lead supply-side growth in FY26:

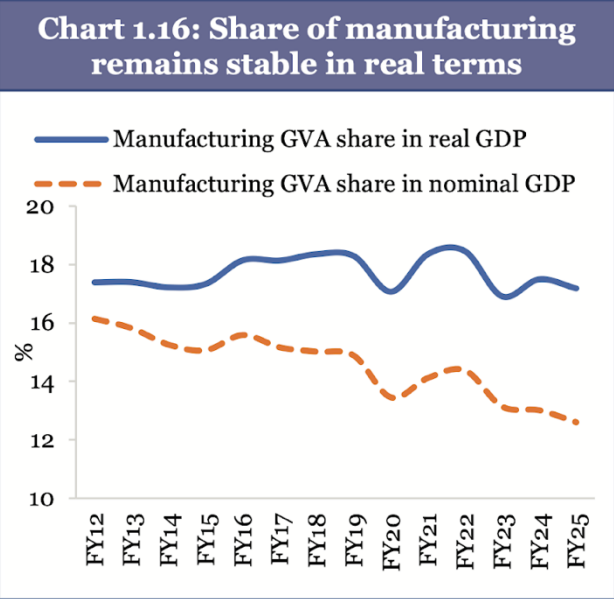
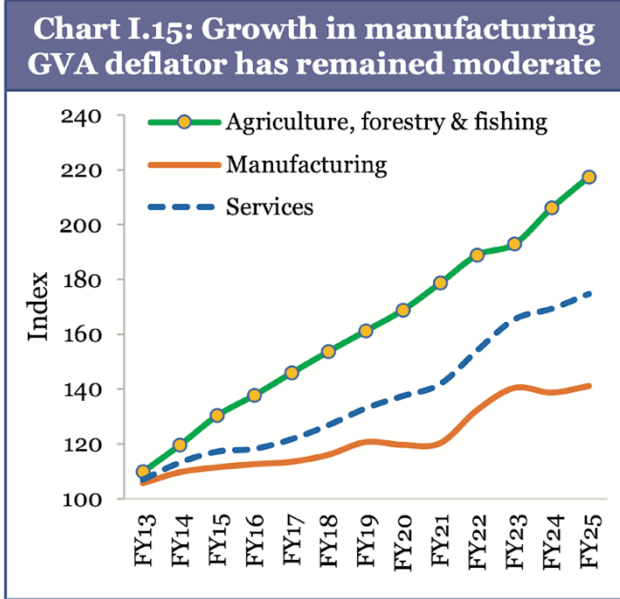
- From a **supply-side perspective**, growth in GVA during FY26 was led by the **industry and services sectors.**
- Agriculture has provided a stabilising force**, with output supported by favourable monsoon conditions and **steady value addition from allied activities.**





Source: MoSPI

- **Agricultural GVA grew by 3.6 per cent in H1 FY26, below the long-term average of 4.5 per cent.** By contrast, **allied activities**, particularly **livestock and fisheries**, have grown at **relatively stable rates of around 5-6 per cent.**
- **In real (constant) price terms, manufacturing GVA share has remained steady at around 17-18 per cent.**



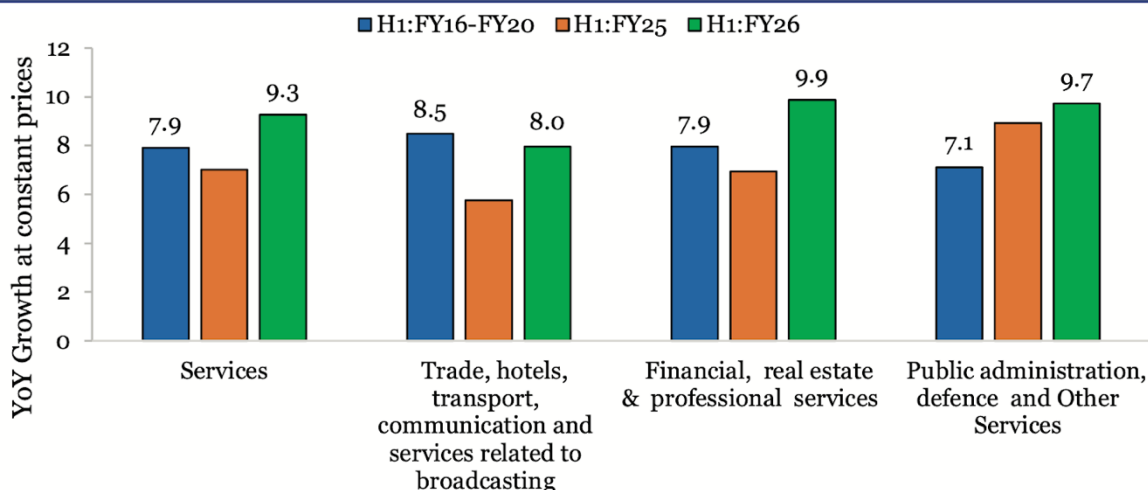
Source: MoSPI

Services Sector Performance:

- Services, true to its label as the **stabilising component of the GVA**, is **estimated to have grown by 9.1 per cent in FY26**, up from pre-pandemic average of 7.9 per cent.



Chart I.18: Sectoral growth in H1:FY26 higher than pre-pandemic trends



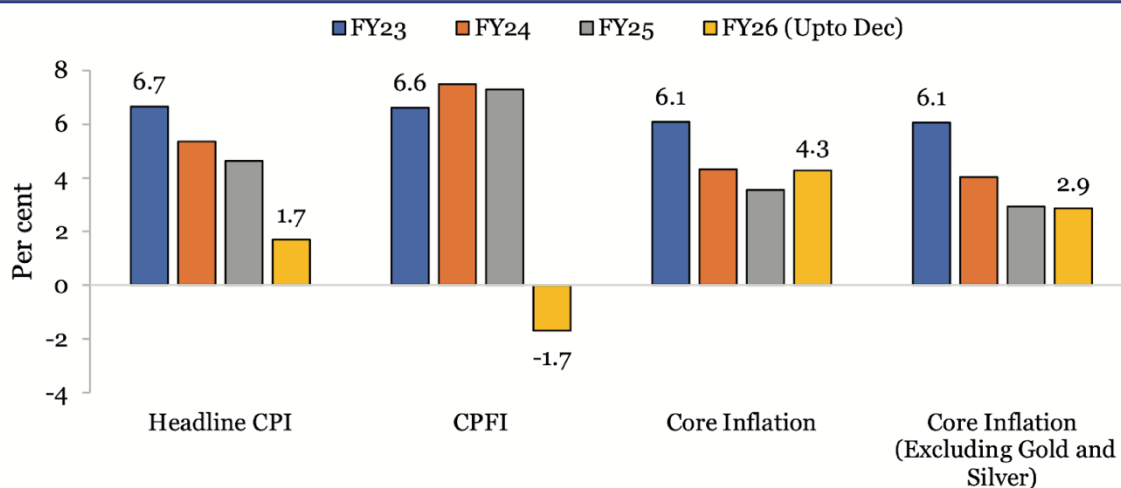
Source: MoSPI

ASSESSMENT OF DOMESTIC MACROECONOMIC FUNDAMENTALS

Inflation Dynamics in the Economy:

- In FY26 (April–December), **domestic inflation showed a clear decline**, driven mainly by a sharp drop in food prices.
 - Headline CPI inflation⁴ declined to 1.7 per cent.**
 - While **core inflation⁵ appears persistent**, this is largely due to **higher prices of precious metals**. Excluding these effects, inflationary pressures are relatively weak, indicating that demand in the economy is not overheating.

Chart: I.21: Trends in CPI inflation components



Source: MoSPI

Supportive Fiscal Policy Strategy Underpinning Domestic Demand:

- Between FY20 and FY25, the **share of capital spending in total central government expenditure increased** from about 12.5 per cent to **22.6 per cent**, while **effective capex⁶ as a share of GDP** rose from roughly 2.6 per cent to **4.0 per cent**.
- The **central government remains well on track to attain a fiscal deficit⁷ target of 4.4 per cent of GDP by FY26**.

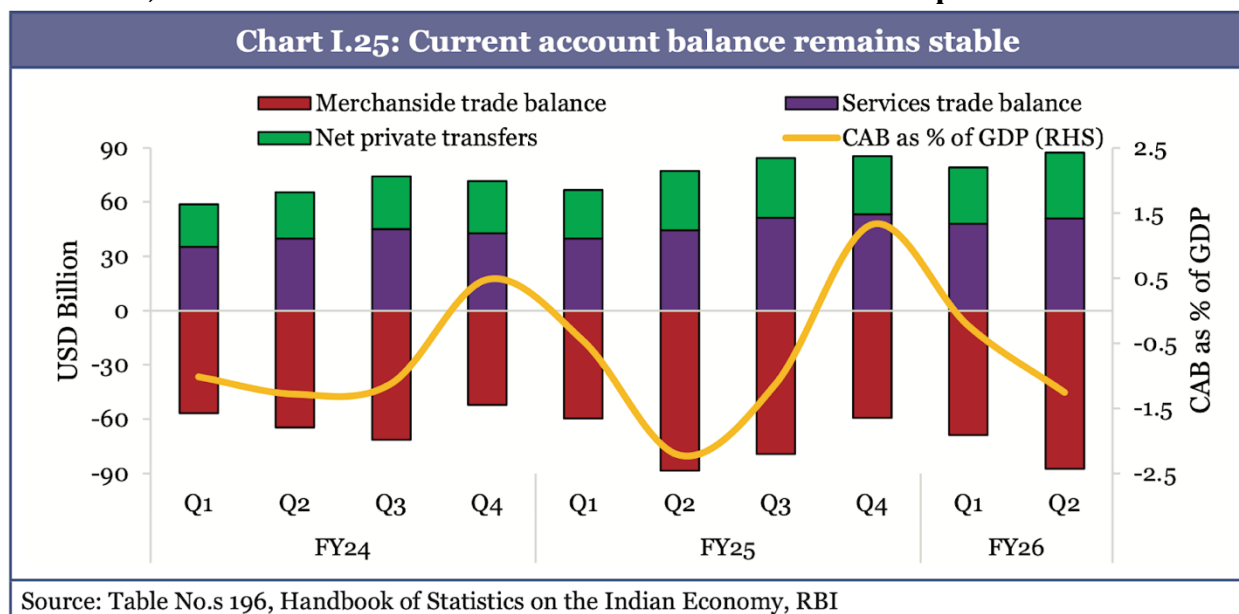


Monetary Transmission and the Changing Credit Mix:

- Alongside the fiscal stimulus, **monetary support** was delivered through a **cumulative reduction of 125 basis points in the policy repo rate** since February 2025.
- The **banking sector** has further **strengthened its balance sheets**, with **gross non-performing asset (NPA)⁸ ratios** declining to multi-decade lows of **2.2 per cent**.

External Sector Projected to be Stable, but Headwinds Persist:

- Against a backdrop of global trade uncertainty, **India's total exports** (merchandise and services) reached a **record USD 825.3 billion in FY25**, with **continued momentum in FY26**.
- Following the trends in previous years, the **rise in merchandise trade deficit** has been **counterbalanced by an increase in services trade surplus**, while the **growth in remittances has bolstered this balance**.
 - In **most years, remittances have surpassed gross FDI inflows**, underscoring their importance as a key source of external funding.
- As a result, the **current account deficit⁹ remains moderate at 0.8 per cent of GDP in H1 FY26**.



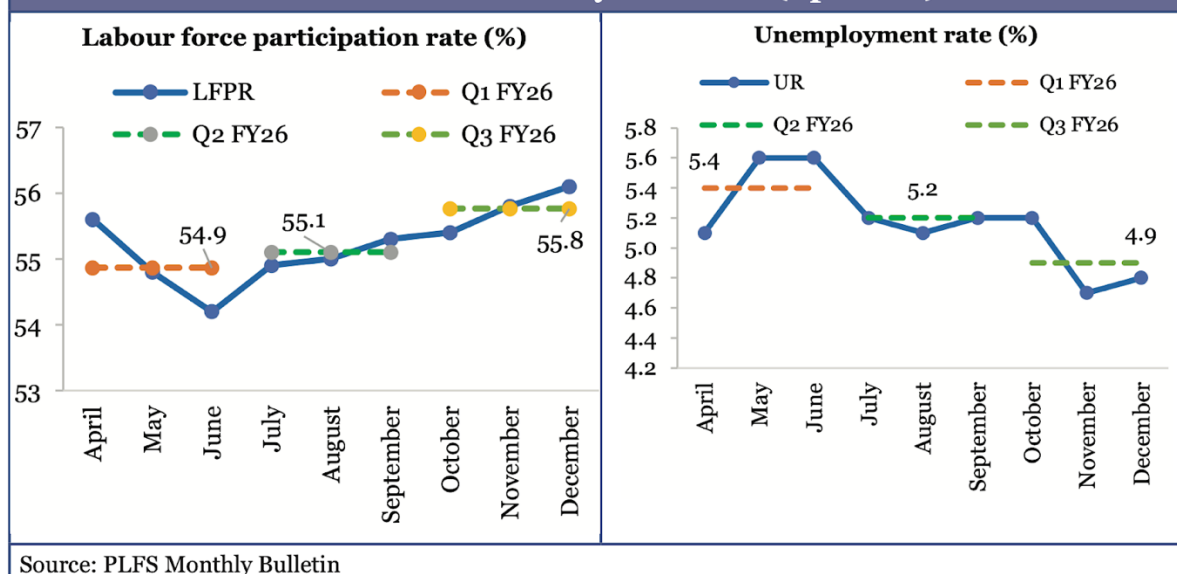
- Within the **capital account, gross FDI inflows continued to rise significantly**, growing by 16.1 per cent YoY in April-November 2025.
- **Foreign Portfolio Investments** have **experienced fluctuations**, resulting in a **net outflow of USD 3.9 billion** as of December 2025.
- As a result, there was a **Balance of Payments (BOP) deficit¹⁰ of USD 6.4 billion** in H1 FY26 compared to a surplus of USD 23.8 billion in H1 FY25.
- This **widened BOP deficit**, coupled with **market uncertainty over the outcome of a trade deal with the US**, has exerted **pressure on the Indian Rupee**, causing it to weaken.
 - Between April 1 and January 22, 2026, the **Indian rupee depreciated by approximately 6.5 per cent against the US dollar**.
- **Forex reserves cover over 11 months of imports and 94 per cent of the external debt outstanding**, offering a comfortable liquidity cushion.

Labour Market Developments:

- **Monthly Periodic Labour Force Survey (PLFS)¹¹ data** point to a **decline in the unemployment rate** and a **stabilising labour force participation rate**.



Chart I.26: Labour market dynamics for (Apr - Dec) FY26



- **Social sector initiatives**, supported by targeted welfare schemes, economic reforms, and expanded access to essential services, have contributed to a **reduction in poverty levels**.
 - In **June 2025**, the **World Bank revised the international poverty line** from USD 2.15 to **USD 3.00 per day (PPP, 2021 prices)**.
 - Based on the revised poverty line, **India's poverty rates in 2022-23** are estimated at **5.3% per cent for extreme poverty**.

OUTLOOK AND WAY FORWARD

- **Globally, economic growth is expected to stay moderate**, but several risks remain.
 - If the **AI-driven boom** does not result in the expected productivity gains, it could lead to a correction in overvalued financial assets and possibly spread stress across financial markets. **Prolonged trade conflicts** could also reduce investment and further slow global growth.
- For **India**, these global risks mainly create external uncertainty rather than immediate economic pressure. Since domestic factors continue to drive growth and macroeconomic fundamentals remain strong, the **overall risks to growth are broadly balanced**.
- In this context, the **Economic Survey projects India's real GDP growth for FY27** to be **between 6.8% and 7.2%**.

KEY TERMS DISCUSSED IN THE CHAPTER

1. **Real GDP** (also known as **GDP at constant-price**) is an **inflation-adjusted measure** that reflects the value of all goods and services produced by an economy in a given year, expressed in **base-year prices**.
 - a. Unlike **nominal GDP (GDP at current-price)**, real GDP accounts for changes in price levels and provides a more accurate figure of economic growth.
2. The **Private final consumption expenditure (PFCE)** is defined as the **expenditure incurred by the resident households and non-profit institutions serving households (NPISH) on final consumption of goods and services**, whether made within or outside the economic territory.



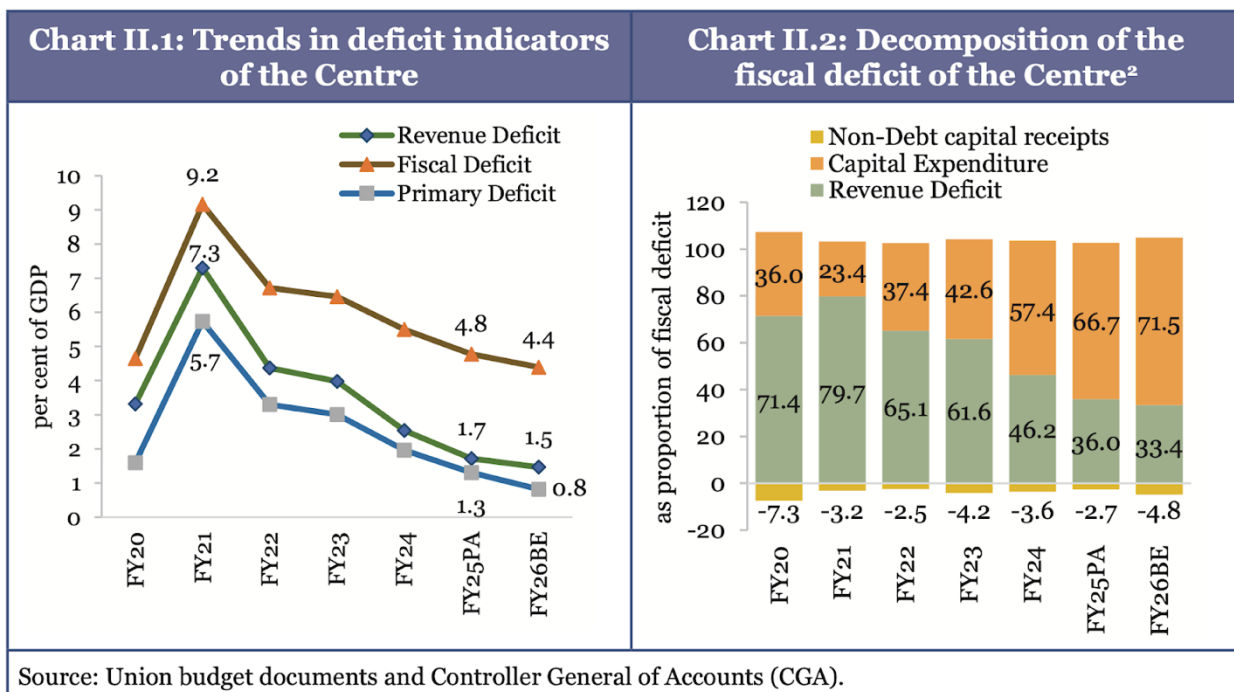
- a. NPISH are sports clubs, unions, churches, charities helping the poor and similar bodies. As the name suggests, to be in this sector, a group must be not-for-profit and must also be serving Households for free.
3. **Gross Fixed Capital Formation (GFCF)** refers to the **growth in the size of fixed capital** in an economy. Fixed capital refers to things such as buildings and machinery, for instance, which require investment to be created. So **private GFCF** can serve as a rough indicator of how much the private sector in an economy is willing to invest. **Overall GFCF** also includes capital formation as a result of **investment by the government**.
4. **Headline inflation** is the **measure of the aggregated inflation within an economy**, i.e., the **total inflation figure measured via the Consumer Price Index (CPI)**. This is inclusive of commodities like energy and food prices.
5. **Core inflation** is the change in the costs of goods and services but **does not include those from the food and energy sectors**. Food and energy prices are exempt from this calculation because their prices can be **too volatile or fluctuate wildly**.
6. **Effective Capital Expenditure (Eff-Capex)** refers to the **sum of Capital Expenditure and Grants-in-Aid for Creation of Capital Assets**.
7. **Fiscal Deficit (FD)** is the **difference between total expenditure and total receipts (excluding Debt Capital Receipts)**. FD is **reflective of the total borrowing requirement of the Government**.
8. **Gross non-performing assets (GNPA)** refers to the total value of gross NPAs for the bank in a particular year.
 - a. **Net Non-Performing Assets (NNPA)** subtracts the provisions made by the bank from the gross NPA. Therefore net NPA gives the exact value of non-performing assets after the bank has made specific provisions.
9. **Current account deficit** occurs when a **country's total imports of goods, services, and transfers exceed its total exports and transfers received**.
 - a. It encompasses not only **trade in goods and services** but also **interest payments, income received from investments abroad and unilateral transfers, such as remittances and foreign aid**.
10. A **Balance of Payments (BOP) deficit** occurs when a **country's total payments to the rest of the world** (imports, capital outflows) **exceed its total receipts** (exports, capital inflows) over a specific period.
11. The **Periodic Labour Force Survey (PLFS)** is published by the **Ministry of Statistics and Programme Implementation** to provide **quarterly and annual employment and unemployment data**.
 - a. PLFS defines major employment and unemployment indicators as follows:
 - i. **Labour Force Participation Rate (LFPR)**: LFPR is defined as the percentage of persons in the labour force (i.e. working or seeking or available for work) in the population.
 - ii. **Worker Population Ratio (WPR)**: WPR is defined as the percentage of employed persons in the population.
 - iii. **Unemployment Rate (UR)**: UR is defined as the percentage of persons unemployed among the persons in the labour force.



CHAPTER 02: FISCAL DEVELOPMENTS: ANCHORING STABILITY THROUGH CREDIBLE CONSOLIDATION

CENTRAL GOVERNMENT FINANCES

- The **Union Budget for FY22** articulated a **medium-term glide path**, targeting a **fiscal deficit below 4.5 per cent of GDP by FY26**, instead of binding annual targets, to ensure that growth-enhancing expenditure was not compromised.
- Accordingly, the **fiscal deficit declined** from 9.2 per cent of GDP in FY21 to **4.8 per cent of GDP in FY25** and is **budgeted at 4.4 per cent of GDP in FY26**.
- Over the same period, the **revenue deficit¹ as a proportion of GDP has narrowed steadily**, reaching its **lowest level since FY09**, thereby leaving a greater allocation for capex.
- The **decline in the primary deficit-to-GDP ratio²** during this period, further indicates that fresh borrowings are now increasingly being used to service past interest obligations rather than to finance current spending.



- **Revenue receipts increased** from an average of about 8.5 per cent of GDP during the pre-pandemic period (FY16-FY20) to around **9.1 per cent of GDP in the post-pandemic period (FY22-FY25 PA)**.
 - This improvement was driven primarily by **higher gross tax revenue**, which rose from an average of 10.8 per cent of GDP to about **11.5 per cent of GDP** over the same period.

Broadening of the Direct Tax Base:

- The **share of direct taxes in total taxes has increased** in the past years, from 51.9 per cent in the pre-pandemic period to **55.5 per cent** in the post-pandemic years, reaching **58.8 per cent in FY25**.



Table II.1: Trends in the components of direct taxes (₹ lakh crore)

	FY22	FY23	FY24	FY25 RE	FY26 BE
Gross Tax Revenue, of which	27.09	30.54	34.66	38.53	42.70
Corporate Tax	7.12	8.26	9.11	9.80	10.82
Non-Corporate Tax (Taxes on Income)	6.96	8.34	10.45	12.57	14.38
<i>of which</i>					
Personal Income Tax	6.69	8.04	10.07	11.99	13.57
Security Transaction Tax	0.23	0.25	0.34	0.55	0.78
Others	0.04	0.05	0.04	0.03	0.03
Nominal GDP	235.97	268.90	301.23	330.68	357.14

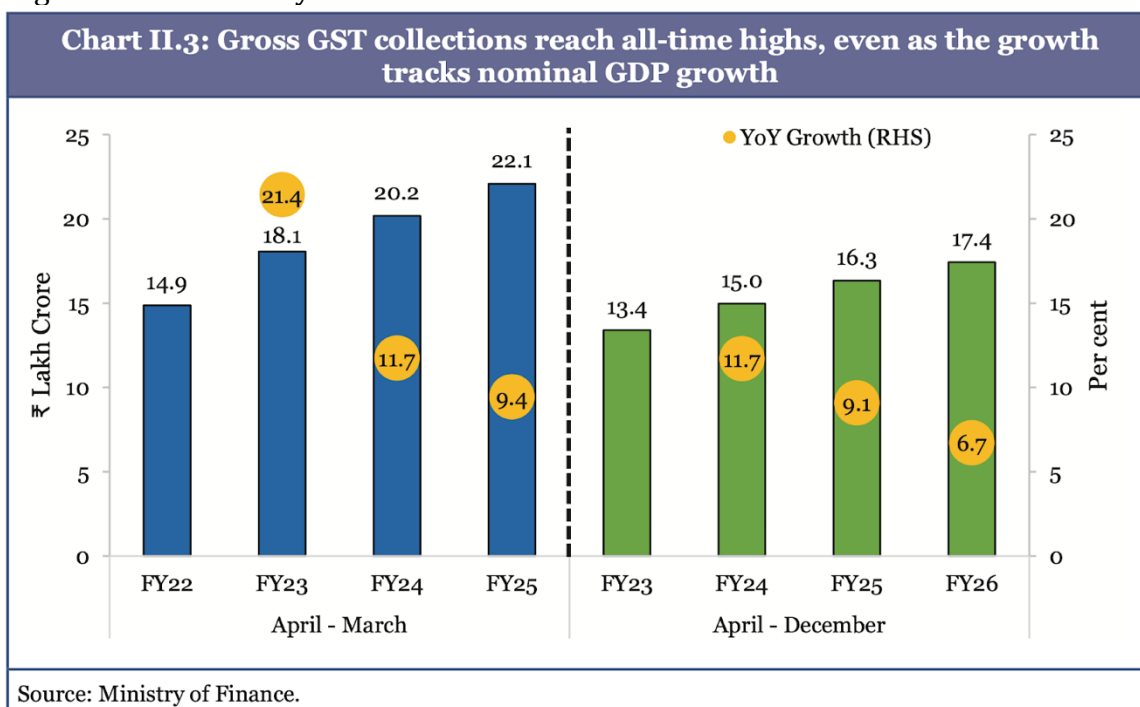
- This improvement has been supported by a **steady expansion of the tax base**. The **number of income tax returns filed increased** in the post-pandemic period, from 6.9 crore in FY22 to **9.2 crore in FY25**.
 - **Nudge-based interventions** have emerged as a powerful tool for improving tax compliance.

Nudging Compliance:

- Anchored in **behavioural economics**, the **NUDGE (Non-intrusive Usage of Data to Guide and Enable) approach** adopted by the Income Tax Department, focuses on **influencing taxpayer behaviour through timely information, gentle prompts, and data-driven insights rather than coercive enforcement**.

Goods and Services Tax:

- Gross GST revenue during April-December 2025 stood at ₹17.4 lakh crore, recording a YoY growth of 6.7 per cent. **Collections in absolute terms** have recorded **multiple all-time highs** during the current fiscal year.



- The **recent rationalisation of GST rates** is expected to **support demand** by lowering tax incidence and improving price competitiveness.

The **56th meeting of the GST Council** has brought in a **two-rate structure** with a **Standard Rate of 18 per cent**, a **Merit Rate of 5 per cent** and a **special de-merit rate or sin-good rate of 40 per cent** for a select few goods and services.

- The rationalisation has also **corrected inverted duty structure³** in key labour-intensive and agri-input sectors such as textiles and fertilisers.

Trends in Expenditure

Continued Rationalisation in Revenue Expenditure:

- The **revenue expenditure has moderated** from 13.6 per cent of GDP in FY22 to **10.9 per cent in FY25**, which is **lower than the pre-pandemic average** of 11.1 per cent of GDP.
- **Expenditure on major subsidies**, which rose during the pandemic, **declined** from 1.9 per cent of GDP in FY22 to **1.2 per cent in FY25** and is budgeted at **1.1 per cent of GDP in FY26**.

Table II.4: Revenue Expenditure (₹ lakh crore)

	FY22	FY23	FY24	FY25 PA	FY26 BE
Pay & Allowances	2.49	2.69	2.92	3.31*	3.52
Pension	1.99	2.42	2.38	2.74	2.77
Major subsidies	4.46	5.31	4.12	3.88	3.83
<i>of which</i>					
Fertilizer	1.54	2.51	1.88	1.74	1.68
Food	2.89	2.73	2.12	2.00	2.03
Petroleum	0.03	0.07	0.12	0.14	0.12
Interest payments	8.05	9.29	10.64	11.16	12.76
Defence services	2.29	2.56	2.90	2.91	4.92
Others	12.73	12.26	11.98	12.04	11.64
Total	32.01	34.53	34.94	36.04	39.44

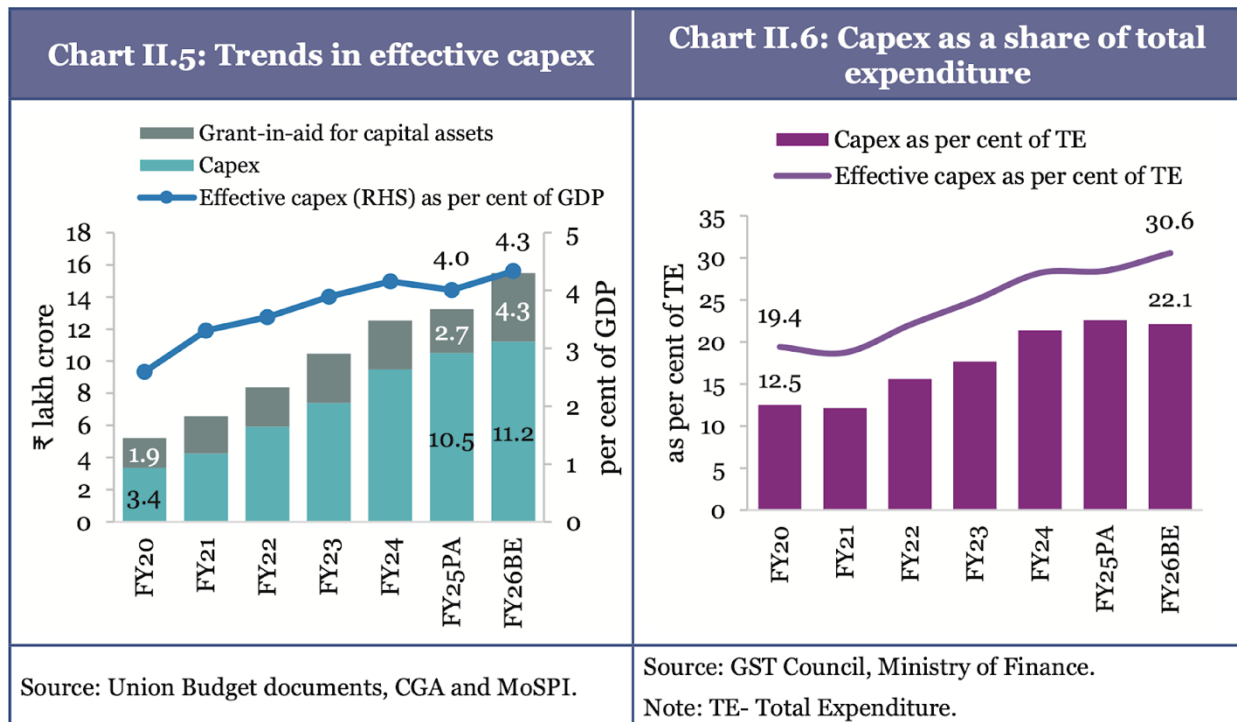
Source: Union budget documents and CGA.
 Note: *FY25RE.

- Efficiency gains from the **Direct Benefit Transfer (DBT) framework** have played a key role in reducing subsidy outlays by curbing fiscal leakages, estimated at **₹3.48 lakh crore over the past decade**.

Capital Expenditure:

- The Centre has **progressively scaled up capital expenditure** from an average of 1.7 per cent of GDP in the pre-pandemic period to an **average of 2.9 per cent of GDP** in the years after the pandemic.
- At the same time, **effective capex**, a broader measure which includes capital expenditure along with grants-in-aid for the creation of capital assets, increased from an average of 2.7 per cent of GDP to **3.9 per cent of GDP** over the same period.





OVERVIEW OF STATE GOVERNMENT FINANCES

Expanding Centre-State Transfers:

- The **total transfer of resources** from the Centre to the States has **increased significantly** in recent years, more than doubling between FY20 and FY26 (BE).
 - In **GDP terms**, total transfers rose from 5.7 per cent to **6.9 per cent** over the period, and in **absolute terms** from ₹11.5 lakh crore to **₹25.6 lakh crore**.

Table II.6: Details of transfers from Centre to States (₹ lakh crore)

	FY22	FY23	FY24	FY25RE	FY26 BE
States' share in Central taxes	9.0	9.5	11.3	12.9	14.2
Centrally Sponsored Schemes	3.4	4.1	4.3	4.0	5.3
Finance Commission Grants	2.1	1.7	1.5	1.3	1.3
Other Grants/Loans/Transfers	2.6	3.3	3.5	4.6	4.8

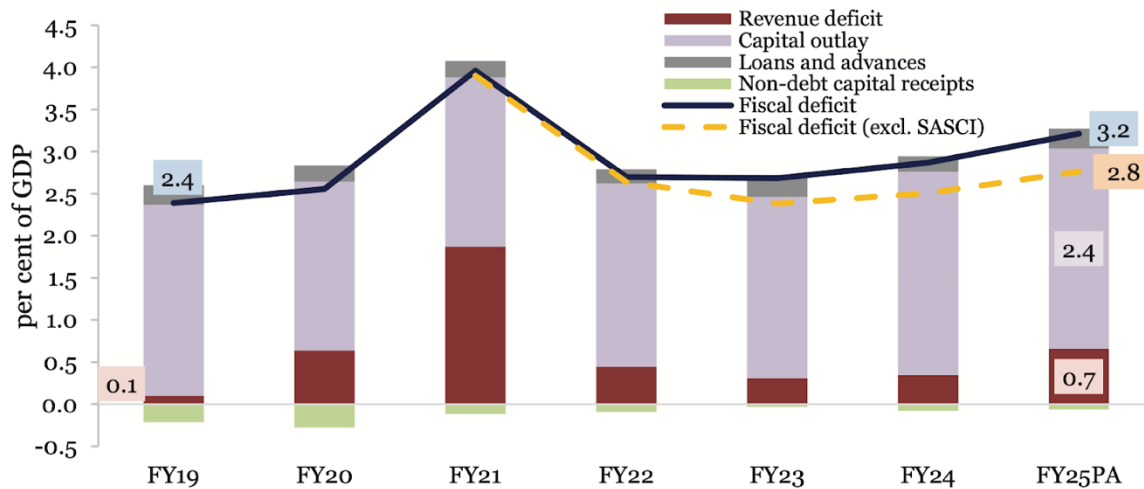
Source: Union budget documents.

Performance of State Finances:

- The **combined gross fiscal deficit of States** rose from 2.6 per cent of GDP in FY22 to **3.2 per cent** in FY25PA, while the **combined revenue deficit increased** from 0.4 per cent to **0.7 per cent of GDP**, indicating continued borrowing to finance revenue expenditure.
 - Excluding SASCI** - the **Scheme for Special Assistance to States for Capital Investment**, under which the **Centre provides 50-year interest-free loans to states exclusively for capital expenditure** - the **fiscal deficit is back in the range of 2.8 per cent**.



Chart II.9: Deficit indicators of States

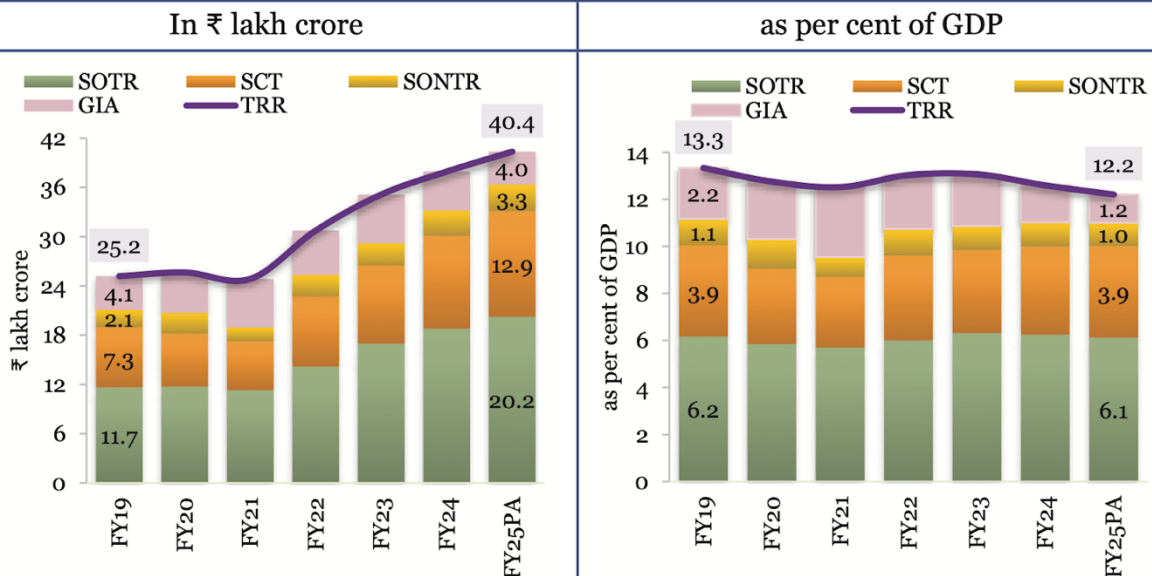


Source: RBI eSTATES database, States' Budget documents, Department of Expenditure and Comptroller and Auditor General of India (CAG) monthly provisional accounts.

Note: For FY25, data for Goa is of revised estimates.

- **States derive most of their revenues from their own tax sources.**
 - The **share of States' own tax revenue in total revenue receipts increased** from 46 per cent in FY22 to about **50 per cent** in FY25 (PA).
 - The **states' share in central taxes** constituted the **second-largest source**, at around **32 per cent**, followed by **grants-in-aid** and **non-tax revenues**.

Chart II.11: Trend in revenue receipts of States



Source: RBI eSTATES database, States' Budget documents, CAG monthly provisional accounts and CGA.

Notes:

1. For FY25PA, data for Mizoram, Sikkim, and Goa are FY25 Revised Estimates.
2. SOTR stands for States' Own Tax Revenue, SCT- Share in Central Taxes, SONTR- States' Own Non-Tax Revenue, GIA- Grants-in-Aid, TRR- Total Revenue Receipts.
3. For FY25PA, SOTR is calculated as total tax revenue minus share in central taxes.
4. Grants-in-aid also include GST compensation to States.



- **Unconditional cash transfers (UCTs)** have **expanded rapidly** across several States and now form a growing share of State-level welfare spending.
 - Aggregate spending on UCT programmes is estimated at approximately **₹1.7 lakh crore for FY26**.

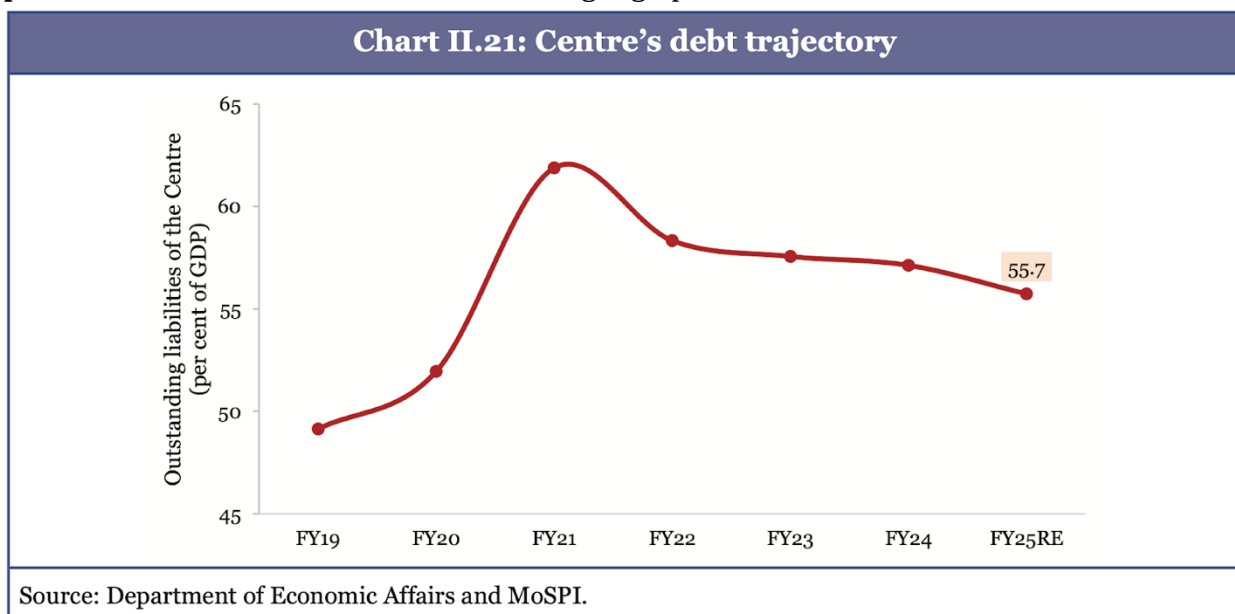
Unconditional Cash Transfers: Fiscal Trade-offs and Medium-term Implications:

- A recent study by the **National Bureau of Economic Research** across 72 UCT programmes in 34 low- and middle-income countries finds that while **UCTs improve consumption, food security, and short-term income stability**, they **do not consistently improve child nutrition, educational outcomes, or enable sustained exits from poverty**.
- **Such outcomes depend critically on complementary public services and employment opportunities**, underscoring that **UCTs are not substitutes for investments** in health, education, nutrition, childcare, or growth-enhancing public expenditure.
- Several countries have **linked cash transfers to clear, verifiable actions by beneficiaries**, rather than providing open-ended income support.
 - In **Mexico**, families received cash only if children attended school regularly and pregnant women and young children visited health clinics for check-ups and nutrition monitoring. Payments were stopped if these conditions were not met, and households were periodically reassessed.
 - In the **Philippines' Pantawid Pamilyang Pilipino Program**, benefits were time-limited and subject to regular reassessment, with families expected to "graduate" once conditions improved.
- These experiences show that cash support can be designed as **conditional, review-based, and time-bound**, reducing long-term fiscal rigidity while strengthening human capital outcomes—features largely absent in fully unconditional transfer schemes.

DEBT PROFILE OF THE GOVERNMENT

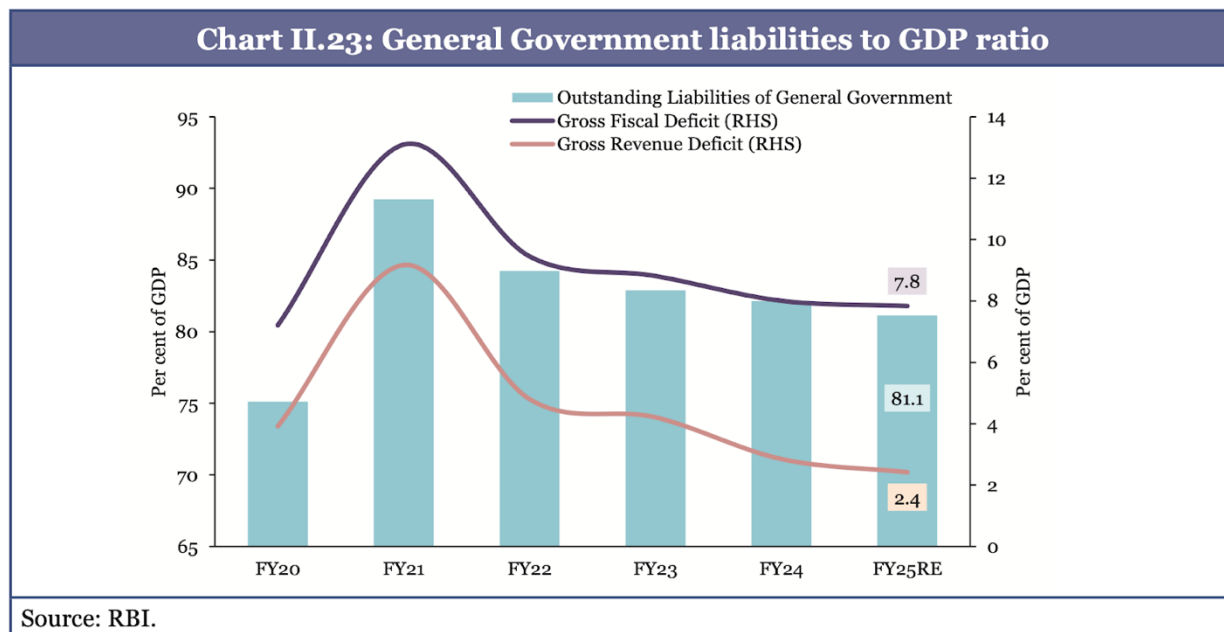
Central Government Debt:

- In the **FY26 Budget** announced in February 2025, the government outlined a **new fiscal glide path**, aiming to **reduce the Central Government's debt-to-GDP ratio to around 50 per cent by FY31**.
- Presently, the **debt-to-GDP ratio** stands at **55.7%** for FY25, a **reduction of 7.1 percentage points since 2020**, even while maintaining high public investment.



GENERAL GOVERNMENT FINANCES

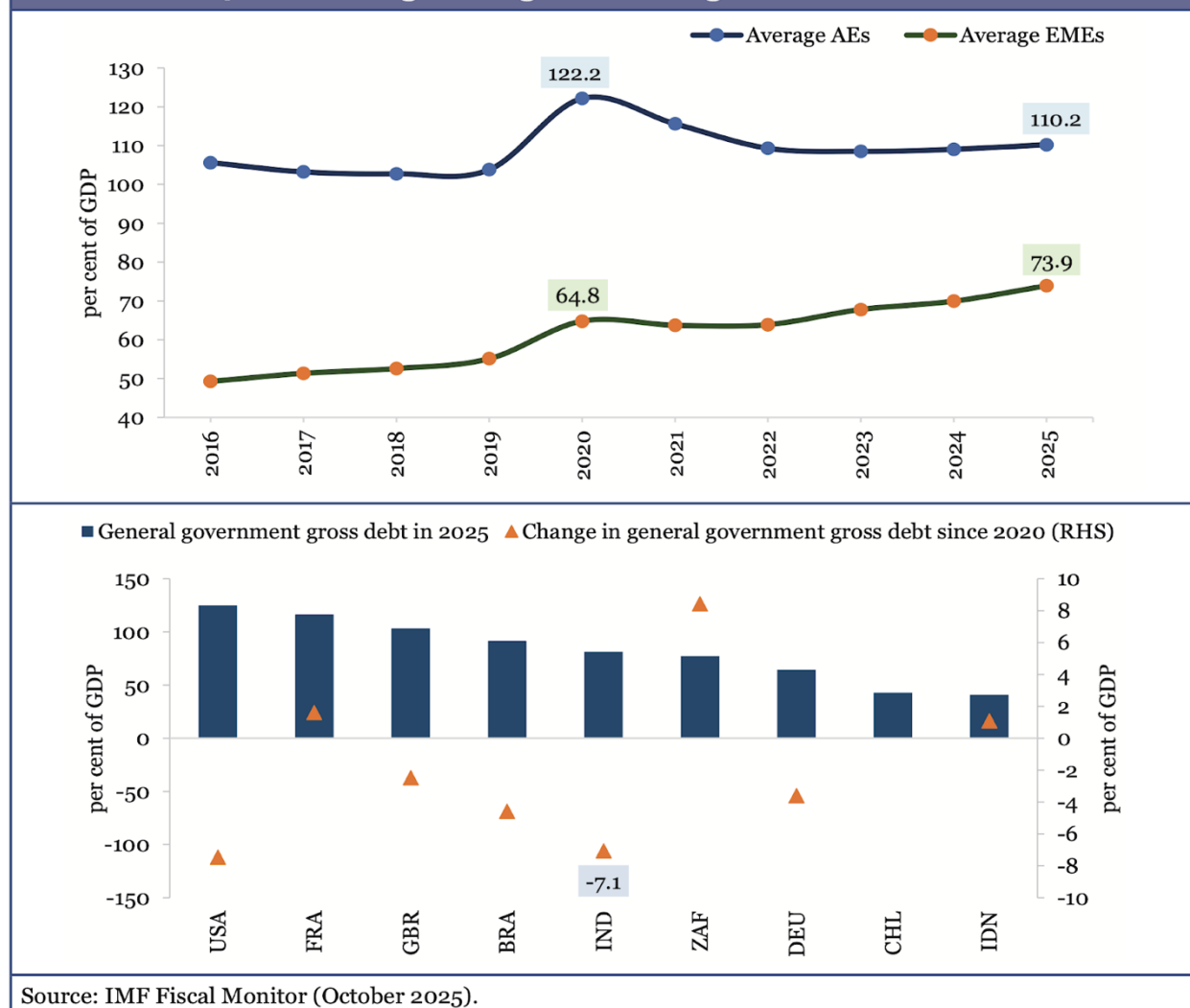
- **General government finances** provide an **overview of the fiscal position of the centre and states**, when taken together and after netting out certain central transfers.
- Mirroring trends in central government debt, **general government deficits and liabilities**, which remained above pre-pandemic levels, have followed a **consolidation path** in the post-pandemic period.



- **Globally, general government debt ratios remained elevated** in the post-pandemic period. Against this backdrop, **India stands out among large emerging economies**.
 - Despite starting from a higher-than-average Emerging Market Economies debt level, India has **reduced its general government debt-to-GDP ratio by about 7.1 percentage points since 2020**, even as growth momentum has been sustained.



Chart II.24: Trends in general government gross debt across the world ⁴⁶



CONCLUSION AND OUTLOOK

- India's recent fiscal performance reflects a **careful balancing of growth imperatives and fiscal prudence**.
- **State governments** have also made **progress** in recent years, particularly in scaling up capital expenditure and strengthening their own revenue mobilisation. However, **emerging trends in State-level debt and deficits** underscore the **need for continued calibration**.

KEY TERMS DISCUSSED IN THE CHAPTER

1. **Revenue Deficit** refers to the **excess of revenue expenditure over revenue receipts**.
2. **Primary Deficit (PD) = Fiscal Deficit (FD) – Interest Payments**; A zero primary deficit means the government's current revenues are sufficient to meet its non-interest expenditure; borrowing is only to service past debt.
3. An **Inverted Duty Structure** refers to a situation where the **import duty on finished goods is lower than the import duty on the raw materials or intermediate components** used to produce those goods.



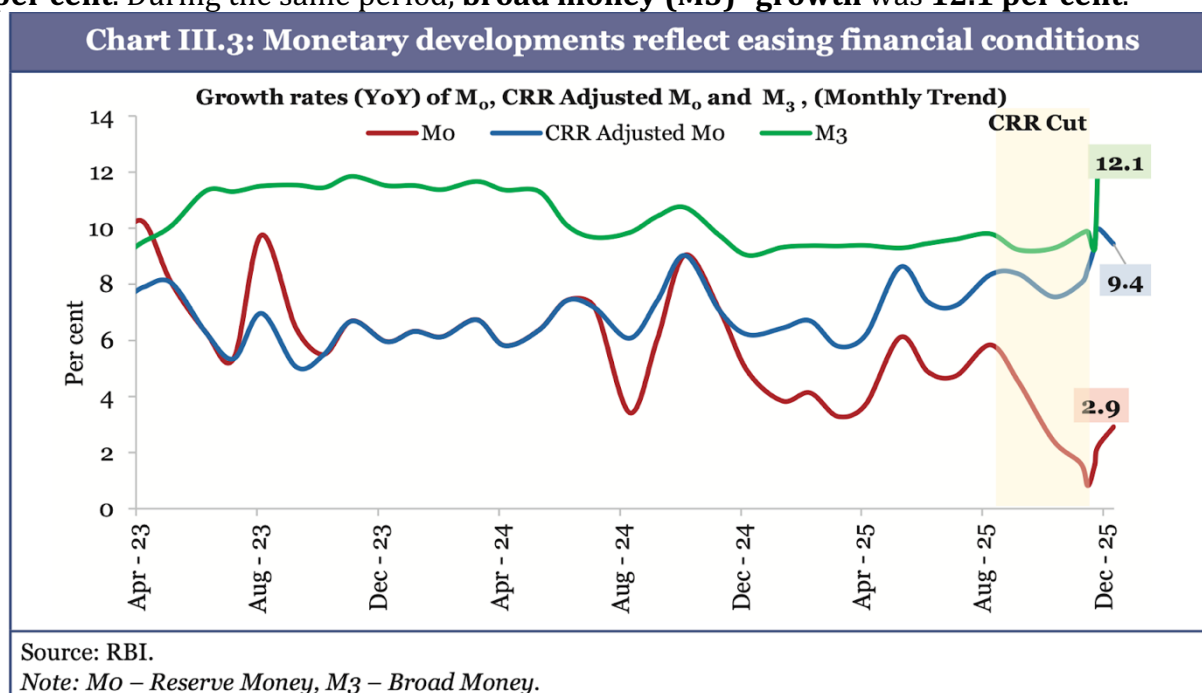
CHAPTER 03: MONETARY MANAGEMENT AND FINANCIAL INTERMEDIATION: REFINING THE REGULATORY TOUCH

MONETARY DEVELOPMENTS

- **Monetary management**, led by the **Reserve Bank of India (RBI)**, involves **regulating the money supply, interest rates, and liquidity** to ensure price stability while supporting **sustainable economic growth**.
- In response to the easing inflation, the **RBI's Monetary Policy Committee¹ (MPC)** **cumulatively reduced the repo rate by 100 basis points** during its meetings from April to December 2025.
- The MPC's stance was changed from **accommodative to neutral²** in June 2025, allowing the MPC the flexibility to respond to economic conditions as necessary.
- The RBI also announced a **100-bps reduction in the cash reserve ratio³ (CRR)** to **3.0 per cent** of net demand and time liabilities.
 - This decision is expected to **release approximately ₹2.5 lakh crore** into the banking system by December 2025.

MONETARY AGGREGATES

- As of December 2025, the **reserve money (M₀)⁴ growth**, i.e., the **monetary base**, stood at **2.9 per cent**. During the same period, **broad money (M₃)⁵ growth** was **12.1 per cent**.



- The **money multiplier (MM)⁶**, i.e., the **ratio of M₃ to M₀**, stood at **6.21**.

LIQUIDITY CONDITIONS

- The **RBI injected durable liquidity of ₹2.39 lakh crore** through nine **Open Market Operations (OMO)⁷** purchases during April-May 2025.
- Reflecting surplus liquidity conditions, banks' recourse to the **Marginal Standing Facility (MSF)⁸** **declined** while their deployment of surplus funds under the **Standing Deposit Facility (SDF)⁹** **increased**.



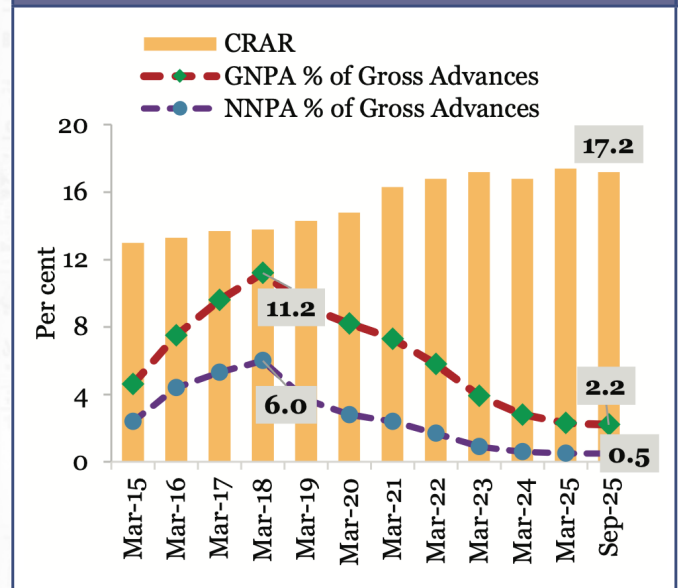
PERFORMANCE OF THE BANKING SECTOR

- A **significant improvement** has been observed in the **asset quality of Scheduled Commercial Banks (SCBs)**, as evidenced by their **gross non-performing asset (GNPA)¹⁰ ratio** and **net NPA ratio**, having reached a **multi-decadal low level and record low level**, respectively.
- The **capital-to-risk-weighted-asset ratio (CRAR)¹¹ of the SCBs** remained strong at **17.2 per cent** as of September 2025.

FINANCIAL INCLUSION

- India has achieved a **transformative shift in financial inclusion**, with **adult bank account ownership** rising from 35% in 2011 to **89%** in 2021.
- This progress is driven by digital infrastructure innovation and targeted government interventions like **Pradhan Mantri Jan Dhan Yojana¹² (PMJDY)**, which has opened over 55 crore accounts.
- **Credit-focused schemes** such as **Stand-Up India¹³**, **PM SVANidhi¹⁴**, and **Pradhan Mantri Mudra Yojana¹⁵ (PMMY)** have further extended formal lending to underserved segments.
- These systemic improvements are reflected in the **RBI's Financial Inclusion (FI) Index¹⁶**, which climbed to **67.0** in March 2025, showing steady gains across the dimensions of **access, usage, and quality**.

Chart III.6: Trends in GNPA of SCBs and CRAR



PERFORMANCE OF THE INSOLVENCY AND BANKRUPTCY CODE

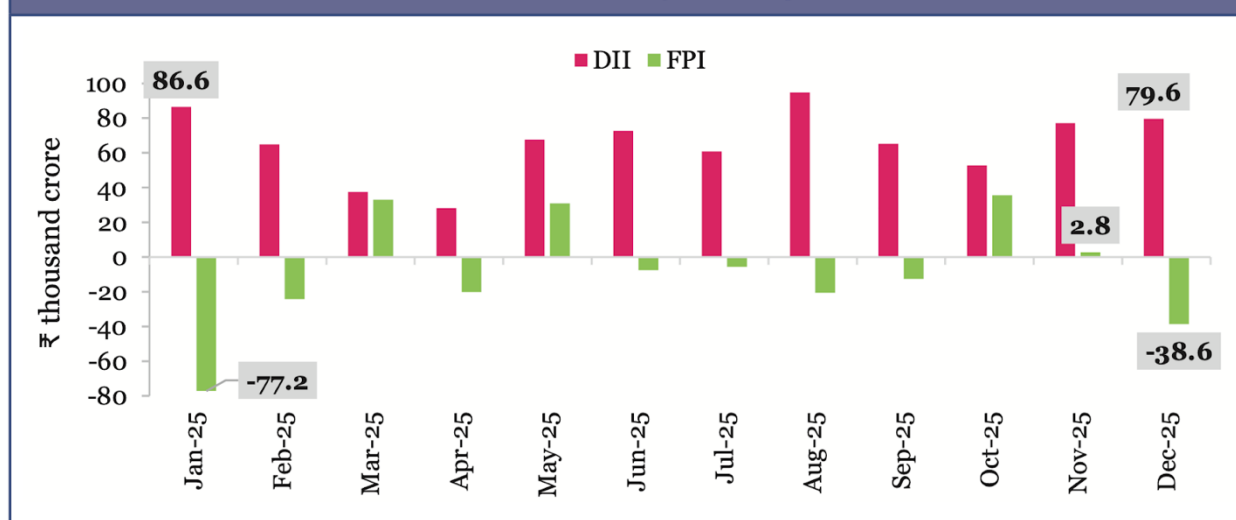
- The **Insolvency and Bankruptcy Code, 2016** was brought in to **address the financial stress of honest debtors** and get them back into the business or **provide an honourable exit**.
- While creditors recovered 94% of the fair value of resolved businesses, the system faces **critical institutional bottlenecks**.
 - **Insolvency proceedings now average 713 to 853 days**, far exceeding the **330-day statutory limit**.
- In light of the extended insolvency timelines, the **Pre-Packaged Insolvency Resolution Process (PPIRP)** was introduced in 2021 to provide a **simpler, faster, and less costly resolution**.
 - However, PPIRP has seen **only 14 admissions in four years** due to procedural complexity, lack of awareness among MSME promoters and lenders and trust deficits.
- The procedural delay compounded by **high pendency at the National Company Law Tribunal (NCLT) risks value erosion**, highlighting the need for **more NCLT benches and Resolution Professionals** to restore the Code's intended efficiency.

DEVELOPMENT IN THE CAPITAL MARKETS

- Capital markets have matured into vital engines for wealth creation, with the **Nifty 50 and BSE Sensex consolidating gains of over 10%** during April-December 2025.
- A defining post-pandemic trend is the **surge in domestic retail participation**, with **total demat accounts exceeding 21.6 crore**.
- This **domestic base**, alongside **Domestic Institutional Investors (DIIs)**, now acts as a **formidable counter-balance to volatile FPI flows**.
 - In a historic shift, the **share of DII holdings (18.3%) surpassed that of FIIs in FY25**, providing much-needed stability to the Indian equity markets.



Chart III.20: Net Purchases/Sales by FIIs and DIIs



GIFT CITY

- The **Gujarat International Finance Tec-City (GIFT City), India's first operational International Financial Services Centre¹⁷ (IFSC)** located in **Gandhinagar, Gujarat**, has emerged as a **premier hub for global capital**, regulated by the unified **International Financial Services Centres Authority (IFSCA)**.
 - With over 1,000 registered entities by late 2025, it provides an enabling ecosystem to attract international investment.

PERFORMANCE OF THE PENSIONS SECTOR

- With **India's old-age population projected to reach 14.9% by 2036**, the pension sector is expanding to ensure long-term social security.
- The landscape is a multi-tiered system led by the **National Pension System (NPS)** and the government-backed **Unified Pension Scheme (UPS)** launched in 2025.
 - The **NPS architecture** caters to a wide range of demographics: **central and state government employees, private sector workers, corporate entities, minors under the NPS Vatsalya and individuals from the unorganised sector.**
 - The UPS aims to **blend the best features of previous systems by guaranteeing a minimum pension** and allowing **investment-based growth**, providing stability and flexibility for retirees.
- Furthermore, the **Atal Pension Yojana (APY)¹⁸** fosters a widespread culture of retirement planning across the country.

PERFORMANCE OF THE INSURANCE SECTOR

- **India's insurance sector** is navigating a transition toward the vision of "**Insurance for All by 2047.**"
- **Insurance density¹⁹ has risen to USD 97**, but **insurance penetration²⁰ has stagnated at 3.7%**, indicating that the sector is deepening revenue from existing customers rather than widening the risk pool.
- **High distribution costs** remain a barrier; however, the **GST exemption on life and health premiums** introduced in late 2025 is expected to improve affordability and attract new policyholders from the "**missing middle.**"

CONCLUSION

- In an era of geopolitical flux, India's financial regulators must master a strategic "tightrope" walk, balancing aggressive growth with systemic stability.
- By institutionalizing proactive governance, the state can effectively insulate the domestic economy from global shocks while fostering a resilient, inclusive financial architecture.



KEY TERMS DISCUSSED IN THE CHAPTER

1. The **Monetary Policy Committee (MPC)** is a committee of the RBI which is entrusted with the **task of fixing the benchmark policy interest rate (repo rate) to contain inflation within the specified target level.**
 - a. The MPC has **six members: RBI Governor (Chairperson)**, RBI Deputy Governor in charge of monetary policy, one official nominated by the RBI Board and remaining 3 members would represent the Government.
2. After each meeting, the MPC announces a **monetary policy stance**, such as accommodative, neutral, or hawkish, to **signal its future approach to interest rates.**
 - a. **Accommodative Stance** (also known as "dovish" or "expansionary"): It means the RBI is willing to expand the money supply and **reduce interest rates** to boost economic growth.
 - b. **Neutral Stance:** It signifies that the RBI is balancing the objectives of controlling inflation and supporting growth and is **flexible to move policy rates in either direction** (up or down) depending on the evolving economic conditions.
3. The **Cash Reserve Ratio (CRR)** is the proportion of demand and time deposits (Net Demand and Time Liabilities) that **every scheduled commercial bank has to keep with the RBI as cash reserves.**
4. **Reserve Money (Mo)** = Currency in circulation + Banker's deposits with RBI + Other deposits with RBI.
5. **Components of Broad Money (M3)** = Currency with the Public + Aggregate Deposits (Demand Deposits with Banks + Time Deposits with banks + 'Other' deposits with Reserve Bank).
6. **Money multiplier** measures the maximum amount of money that a banking system generates with each unit of central bank money.
7. OMOs are the **market operations conducted by the Reserve Bank of India (RBI)** by way of **sale/purchase of G-Secs to/from the market** with an objective to **adjust the liquidity conditions in the market.**
 - a. When the RBI feels that there is **excess liquidity** in the market, it resorts to **sale of securities** thereby sucking out the rupee liquidity. Similarly, when the **liquidity conditions are tight**, RBI may **buy securities** from the market, thereby releasing liquidity into the market.
8. MSF is the **penal rate** at which **banks can borrow, on an overnight basis, from the RBI by dipping into their Statutory Liquidity Ratio (SLR) portfolio up to a predefined limit (2 per cent).** This provides a **safety valve against unanticipated liquidity shocks** to the banking system.
 - a. The MSF rate is placed at **25 basis points above the policy repo rate.**
9. SDF is the rate at which the **Reserve Bank accepts uncollateralised deposits, on an overnight basis, from all LAF participants.** The SDF is also a **financial stability tool** (by absorbing excess liquidity, preventing banks risky lending) in addition to its **role in liquidity management.**
 - a. The SDF rate is placed at **25 basis points below the policy repo rate.**
10. **Gross non-performing assets (GNPA)** refers to the total value of gross NPAs for the bank in a particular year.
 - a. **Net Non-Performing Assets (NNPA)** subtracts the provisions made by the bank from the gross NPA. Therefore net NPA gives the exact value of non-performing assets after the bank has made specific provisions.
11. **Capital-to-risk-weighted assets ratio (CRAR)** measures a bank's capital in relation to its risk-weighted assets. It ensures that a bank can absorb a reasonable amount of loss and complies with statutory capital requirements.



12. In 2014, the government launched **Pradhan Mantri Jan Dhan Yojana (PMJDY)** to bring about **comprehensive financial inclusion in the country**.
 - a. PMJDY envisages **universal access to banking facilities with at least one basic banking account for 'every adult', financial literacy, access to credit, insurance and pension facility**.
13. The **Stand-Up India Scheme** offers **bank loans ranging from ₹10 lakh to ₹1 crore to SC, ST, and women entrepreneurs for establishing greenfield enterprises**.
14. The **PM Street Vendor's Atmanirbhar Nidhi (PM SVANidhi)** scheme, launched in 2020, provides **collateral-free working capital loans to street vendors**.
15. The **Pradhan Mantri Mudra Yojana (PMMY)**, operational since 2015, **finances micro and small enterprises in manufacturing, trading, services, and allied agricultural activities**.
16. The **FI-Index** has been conceptualised as a **comprehensive index** incorporating details of banking, investments, insurance, postal, as well as the pension sector, in consultation with the Government and respective sectoral regulators.
 - a. The index **captures information on various aspects of financial inclusion** in a **single value ranging between 0 and 100**, where 0 represents complete financial exclusion, and 100 indicates full financial inclusion.
 - b. The FI-Index comprises **three broad parameters** (weights indicated in brackets), namely **Access (35%), Usage (45%), and Quality (20%)**, each consisting of various dimensions that are computed based on a number of indicators.
17. An **IFSC** is a jurisdiction that provides **world class financial services to non-residents and residents in a currency other than the domestic currency** (Indian Rupee) of the location where the IFSC is located. Such centres deal with flows of finance, financial products and services across borders.
18. **Atal Pension Yojana (APY)** is an **old age income security scheme** for a savings account holder in the **age group of 18-40 years who is not an income tax-payee**.
19. **Insurance density** is calculated as the ratio of insurance premium to population (calculated in USD for international comparison).
20. **Insurance penetration** is calculated as the percentage of insurance premiums paid in a year to the country's gross domestic product.



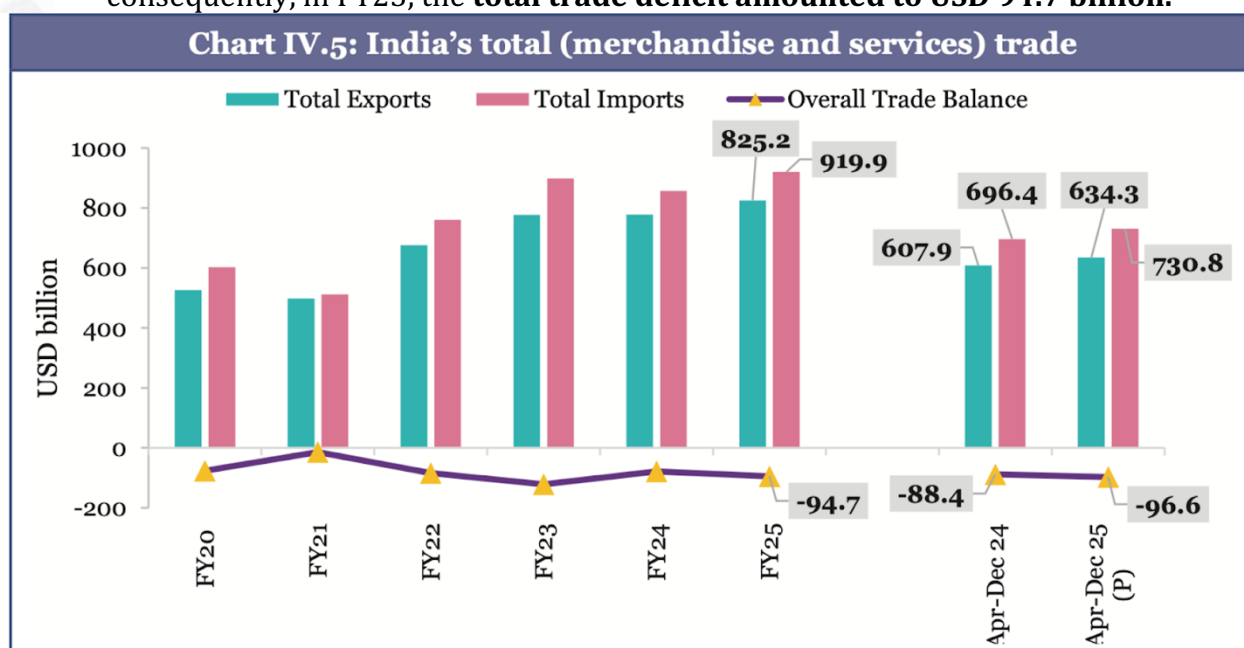
CHAPTER 04: EXTERNAL SECTOR: PLAYING THE LONG GAME

INTRODUCTION

- The global economy is going through a major shift, marking the **end of a phase dominated by seamless globalisation and trade liberalisation**.
- These changes point to a move away from unrestricted global integration towards “**geostrategic globalisation**”, a world where countries remain interconnected but exercise greater caution regarding whom they trade with, how they source inputs, and which partners they depend upon.
 - In 2025, **friendshoring**¹ and **nearshoring** have seen a revival after a slight decline in 2024.
- As a result, the **IMF's World Economic Outlook** projected that **global trade volume** (goods & services) will grow at an average rate of 3.6 per cent during Calendar Year (CY) 2025 and then **decrease to 2.3 per cent** in CY 2026.

TRENDS IN INDIA'S TRADE PERFORMANCE

- Between CY 2005 and CY 2024, **India's share of global merchandise exports has nearly doubled**, rising from 1 per cent to **1.8 per cent**.
- In **FY25**, the **total exports amounted to USD 825.3 billion**, the **highest levels of exports ever recorded**. The **country's total imports** also increased by 7.4 per cent (YoY) and stood at **USD 919.9 billion**.
 - The **surplus in services trade cushioned the merchandise trade deficit**, and consequently, in **FY25**, the **total trade deficit amounted to USD 94.7 billion**.

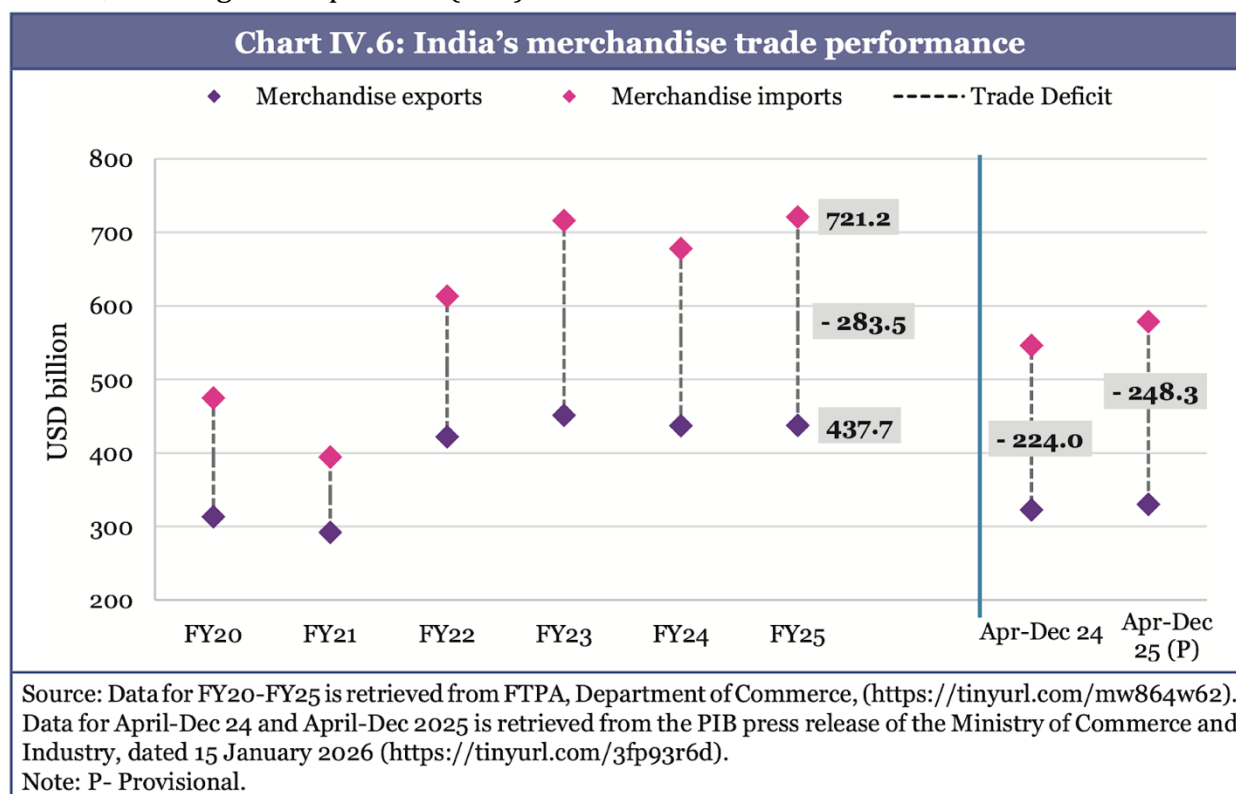


Merchandise Trade:

- In **FY25**, **India's merchandise exports totalled USD 437.7 billion**, maintaining similar levels to those observed in FY24.
 - The **export composition was predominantly concentrated in petroleum products, telecom instruments, drug formulations and biologicals**. Collectively, these sectors account for **approximately a quarter of the total exports**.
- **Merchandise imports increased by 6.3 per cent (YoY) in FY25**, amounting to **USD 721.2 billion**.
 - India's **import composition** continues to be **dominated by petroleum crude, gold and petroleum products**, with these sectors accounting for **over one-third of total imports**.



- This has resulted in a **widening of the merchandise trade deficit**, which reached **USD 283.5 billion**, marking a 17.6 per cent (YoY) increase in FY25.



Performance of Agricultural Exports:

- Agricultural exports** increased from USD 34.5 billion in FY20 to **USD 51.1 billion** in FY25, registering a CAGR of 8.2 per cent.
- India is the world's second-largest agricultural producer by value.** However, the **country's share in global agricultural exports** has increased only modestly from 1.1 per cent in 2000 to **2.2 per cent in 2024**.
- The country has the **potential to reach USD 100 billion of combined exports of agriculture, marine products and food and beverage** in the next four years.

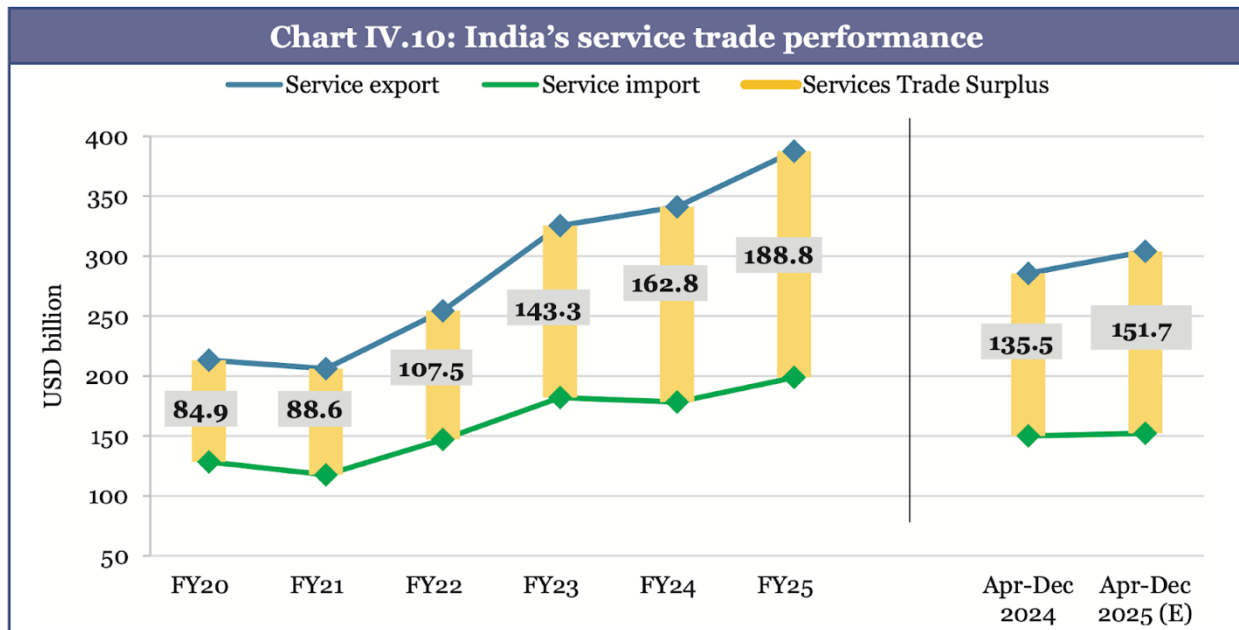
Diversification of India's Export Destinations:

- To sustain the momentum in India's trade performance amidst global uncertainty, the country is actively pursuing a **diversified trade strategy**.
- This includes the recently concluded **India-UK Comprehensive Economic and Trade Agreement (CETA)**, and the **India-Oman Comprehensive Economic and Partnership Agreement (CEPA)**, as well as **engagements in free-trade agreement (FTA) negotiations with the US, Chile, and Peru**. The **negotiations of an FTA with New Zealand** were concluded in December 2025.

Services Trade:

- In **FY25, services exports** reached an **all-time high of USD 387.5 billion**, reinforcing India's position as a global hub for technology, business, and professional services. **Services imports** amounted to **USD 198.7 billion**.
 - As a result, in FY25, the **services trade surplus increased to USD 188.8 billion**, reaching the **highest level ever recorded**.
- Effectively, the **surplus in services trade covered two-thirds of the merchandise trade deficit**.





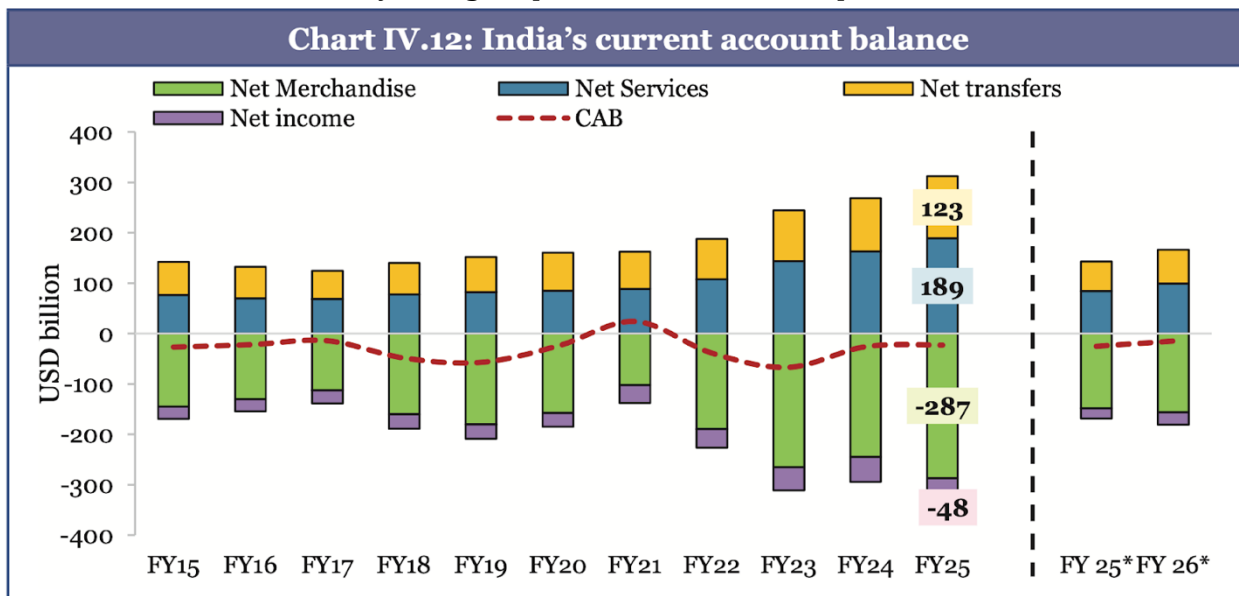
- While the US remains the largest destination for software exports from India, its share has decreased from 54.1 per cent to 52.9 per cent between FY24 and FY25. Europe's share has increased from 30.8 per cent to 32.8 per cent during the same period.

INDIA'S BALANCE OF PAYMENTS

- The Balance of Payments (BoP) statement provides a consolidated record of India's transactions with the rest of the world, capturing developments in the current account and capital account and offering a comprehensive view of the economy's external sector.

Developments in the Current Account:

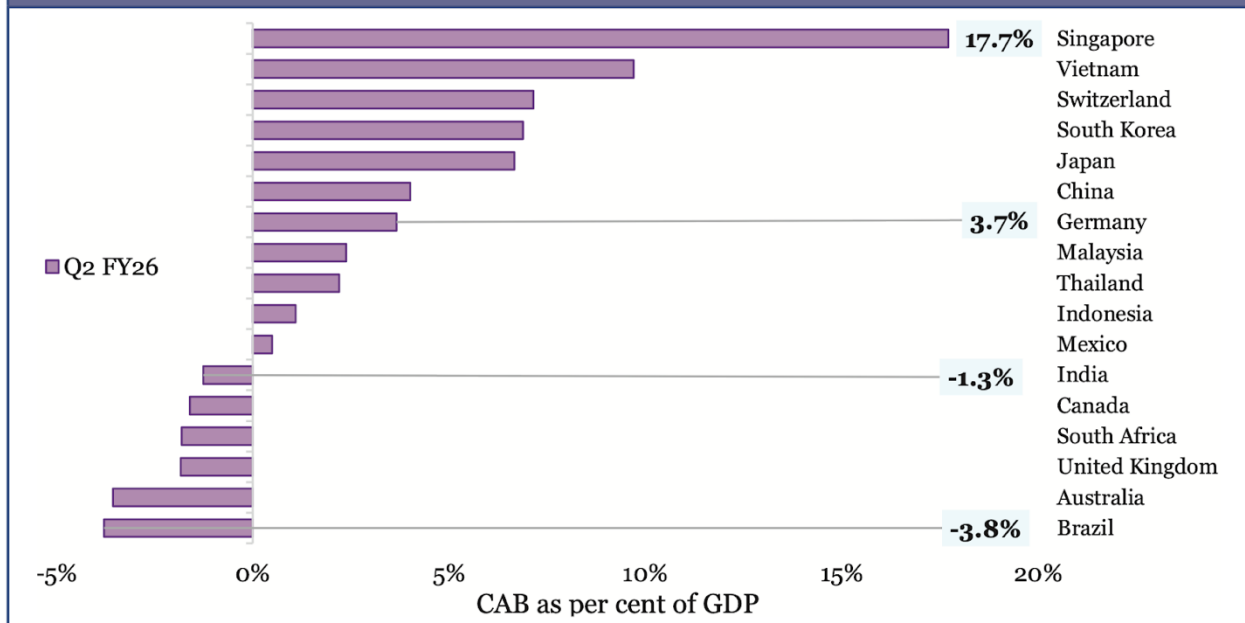
- India's current account structure reflects a merchandise trade deficit offset by strong net inflows of invisibles, led by rising surpluses in services and private transfers.



- These components have collectively kept the current account deficit (CAD) within manageable levels. India's modest CAD of about 1.3 per cent of GDP places it among economies with modest and sustainable deficits.



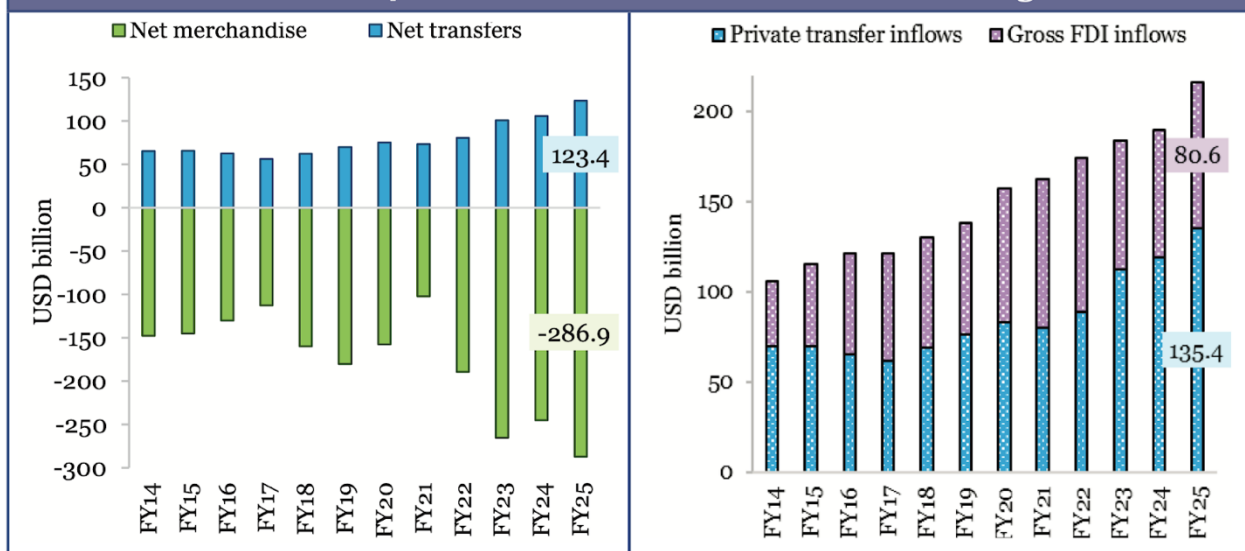
**Chart IV.13: Current account balance (as per cent of GDP)
(India vs select countries)**



Remittances:

- **Private transfer receipts**, mainly representing **remittances** by Indians employed overseas, remained a **key source of external-sector strength**.
- **Remittance inflows increased steadily** from USD 55.6 billion in FY11 to **USD 135.4 billion** in FY25, accounting for approximately **3.5 per cent of GDP** and solidifying **India's longer-term position** as the **world's largest recipient of remittances**.
- In **most years, remittances (private transfer receipts) have surpassed gross FDI inflows**, highlighting their importance as a **dependable source of external funding**.

Chart IV.14: Role of remittance in external financing



- While **Gulf Cooperation Council countries** have **historically dominated India's inward remittances**, **Advanced Economies** now contribute more, indicating a **shift towards skilled and professional workers**.
 - **The US** is the **top contributor** with 27.7 per cent, followed by **the UAE** (19.2 per cent), **the UK** (10.8 per cent), and **Singapore** (6.6 per cent).

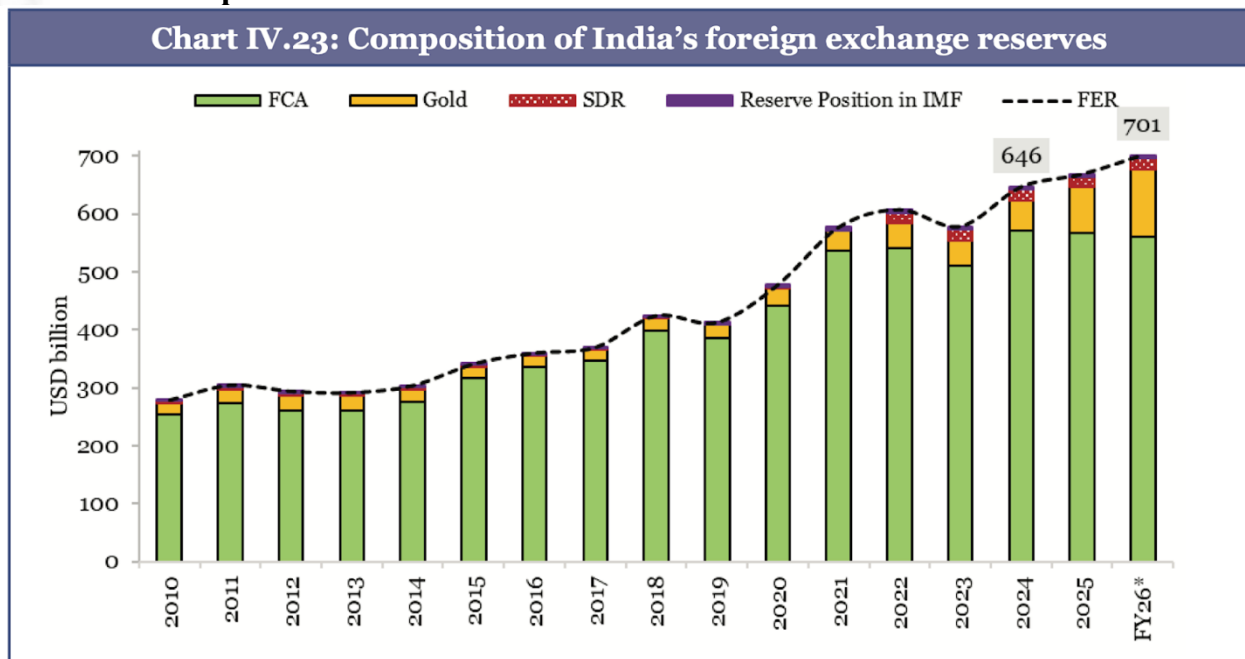


Capital Account Development:

- The **capital account** records **how India interacts with global financial markets** through cross-border investments, external borrowings and other capital transactions and is central to understanding **how the economy finances its current account needs**.
- In FY25, **gross FDI inflows into India** stood at **USD 81.0 billion**, representing a 13 per cent increase from FY24.
 - Of these gross FDI inflows, **equity inflows** accounted for **USD 51 billion**, and approximately **60 per cent of these flows** were directed towards **services, computer software and hardware, trading, non-conventional energy, construction, and the automobile sector**.

FOREIGN EXCHANGE RESERVES

- **India's foreign exchange reserves** increased to **USD 701.4 billion** as of 16 January 2026, up from USD 668.3.4 billion as of the end of March 2025.
- The reserves are **sufficient to cover around 11 months of goods imports** and about **94 per cent of the external debt outstanding**, providing a comfortable liquidity buffer.
 - **Foreign Currency Assets (FCA)**, which form the liquid core of reserves, stands at **USD 560.5 billion**.
 - The **gold component rose sharply** to USD 117.5 billion, compared with USD 78.2 billion at the end of March 2025, aligning with a **broader international pattern** where many emerging markets have increased gold holdings amid geopolitical uncertainty.
 - **Special Drawing Rights (SDRs)² remained stable** at USD 18.7 billion, while **India's reserve position³ in the IMF** increased to USD 4.7 billion.



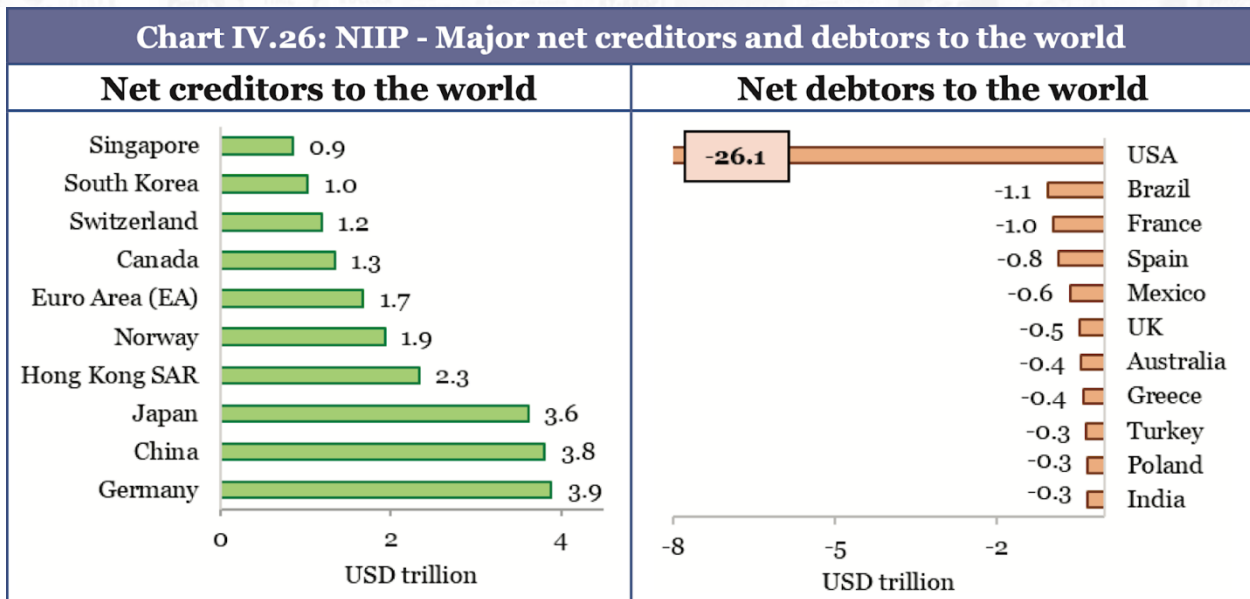
EXCHANGE RATE

- Between 1 April 2025 and 15 January 2026, the **Indian rupee (INR) depreciated** by approximately **5.4 per cent against the US dollar**, making INR **one of the most depreciated currencies** alongside the Japanese Yen (-5.5).

INTERNATIONAL INVESTMENT POSITION

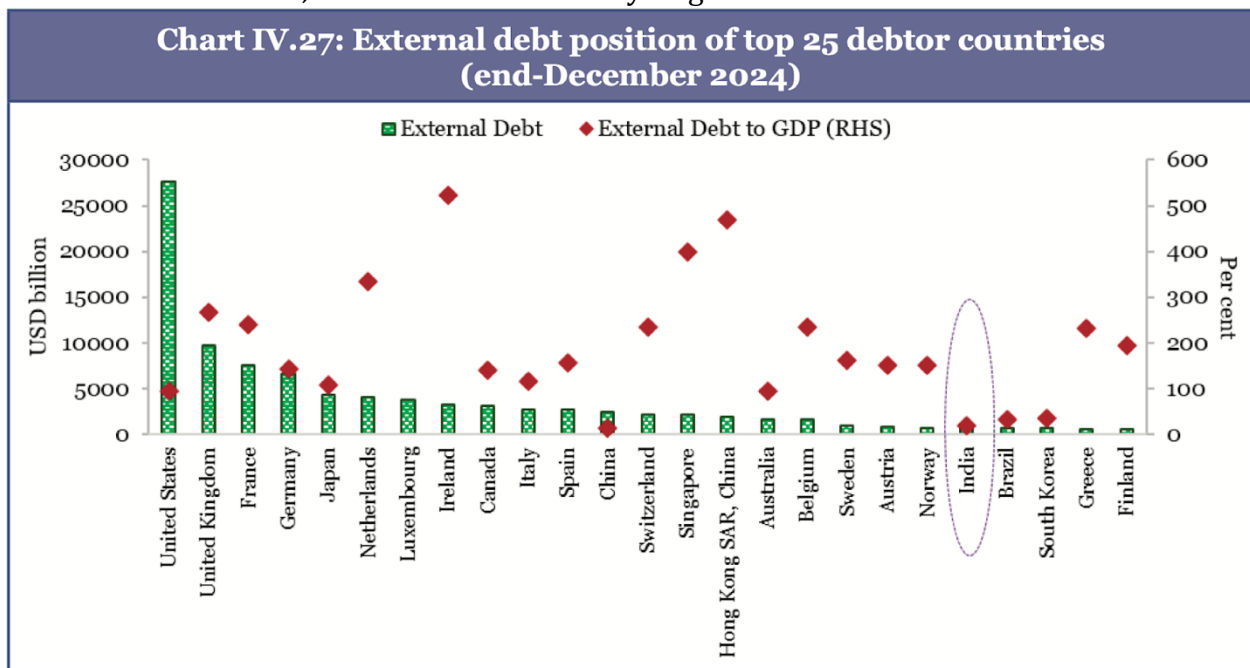
- **India ranked as the 11th largest debtor globally**, with a **negative Net International Investment Position (NIIP)⁴ of USD 0.3 trillion** as of Q2 CY 2025.
 - **India historically has a net debtor status**.





EXTERNAL DEBT

- **India's external debt** stood at **USD 746 billion** at end-September 2025.
- The **external debt-to-GDP ratio** has remained **broadly stable**, averaging around **20.2 per cent** over the last decade, well below that of many large economies.



CONCLUSION AND OUTLOOK

- India's external sector **remains strong**, with deepening global integration driven by robust exports, resilient services trade, and expanding trade networks.
- The current environment highlights the **importance of achieving strong export growth**, making an export-oriented policy a pressing necessity. A **robust and stable currency** can only be achieved through **export competitiveness**.



KEY TERMS DISCUSSED IN THE CHAPTER

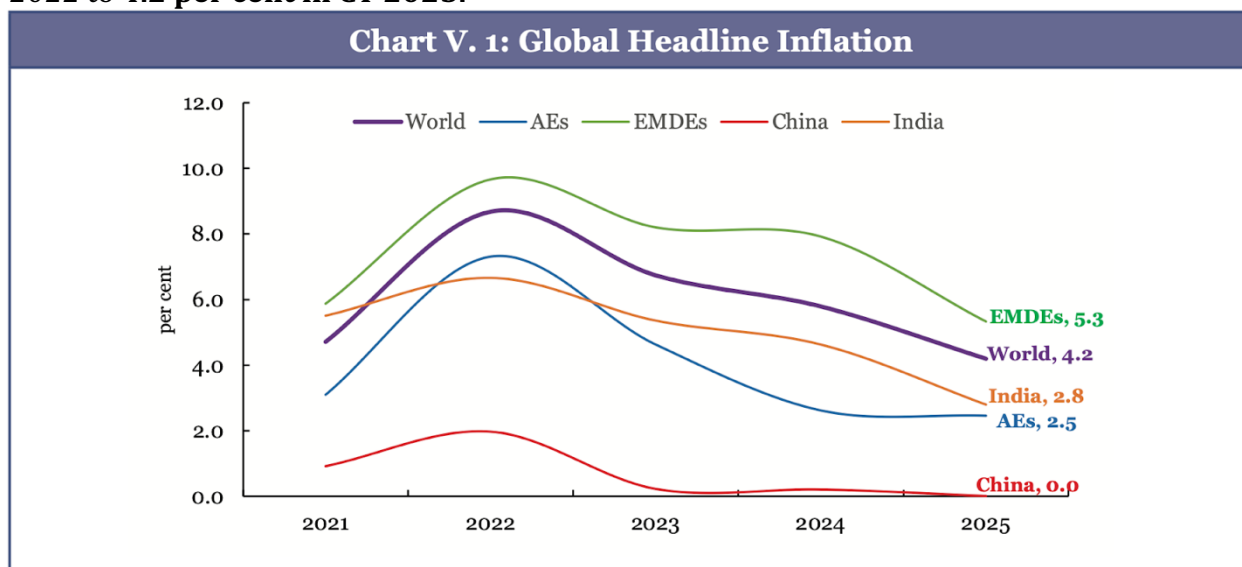
1. **"Friendshoring"** refers to relocating supply chains to countries considered geopolitical allies, while **"nearshoring"** involves moving operations closer to the end market.
2. **Special Drawing Rights** is an international reserve asset, created by the **International Monetary Fund (IMF)** in 1969 to supplement its member countries' official reserves.
 - a. The value of the SDR is based on a basket of **five** currencies—the **U.S. dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling**.
3. **Reserve tranche** is the portion of the required quota of currency each member country must provide to **IMF** that can be **utilized for its own purposes—without a service fee or economic reform conditions**.
4. **Net International Investment Position (NIIP)** shows the **difference between a country's external assets and liabilities** at a specific time.
 - a. If assets exceed liabilities (positive NIIP), the country is a **net creditor**. This usually indicates a **history of current account surpluses** (e.g., Japan or Germany).
 - b. If liabilities exceed assets (negative NIIP), the country is a **net debtor**. This is common for countries that have **persistent current account deficits and rely on foreign capital to fund growth** (e.g., India).



CHAPTER 05: INFLATION: TAMED AND ANCHORED

GLOBAL INFLATION DEVELOPMENTS

- The world has seen a **broad-based and sustained moderation in inflation** across advanced, emerging, and developing economies this year.
- The **global headline inflation has declined** from a peak of 8.7 per cent in calendar year (CY) 2022 to **4.2 per cent in CY 2025**.



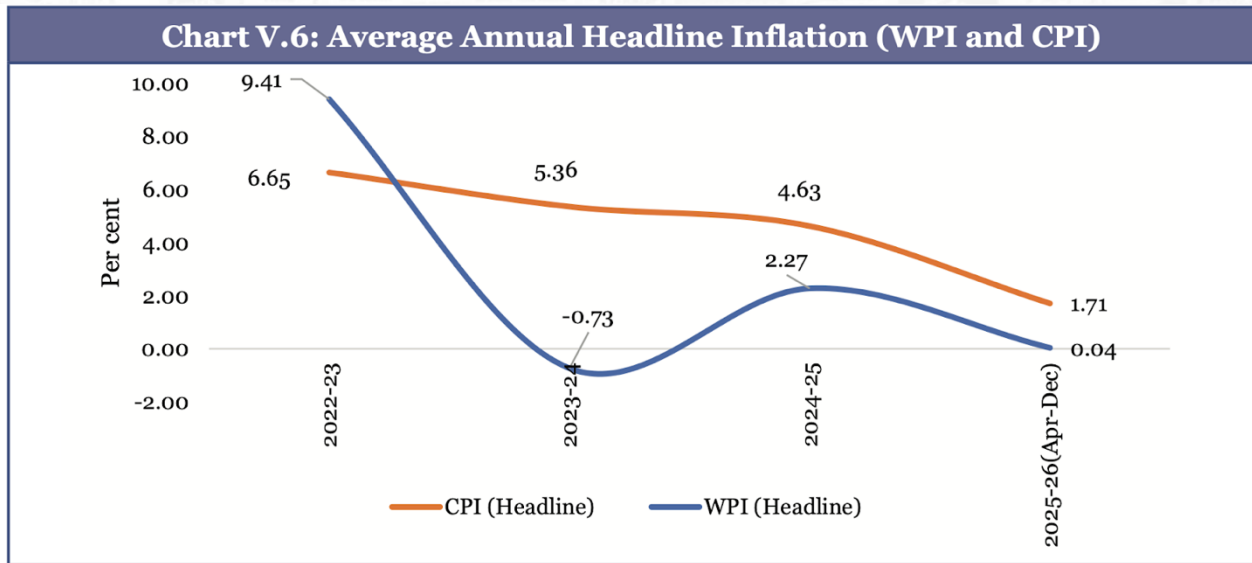
- In response to easing or moderate inflationary pressures, **central banks in advanced economies (AEs) have continued to reduce policy rates** during the current year, with cumulative cuts ranging from 75 to 100 basis points in the UK, the Euro Area, and the United States.
- The **Reserve Bank of India**, during the same period, **reduced the policy rate by 125 basis points**.

DOMESTIC INFLATION

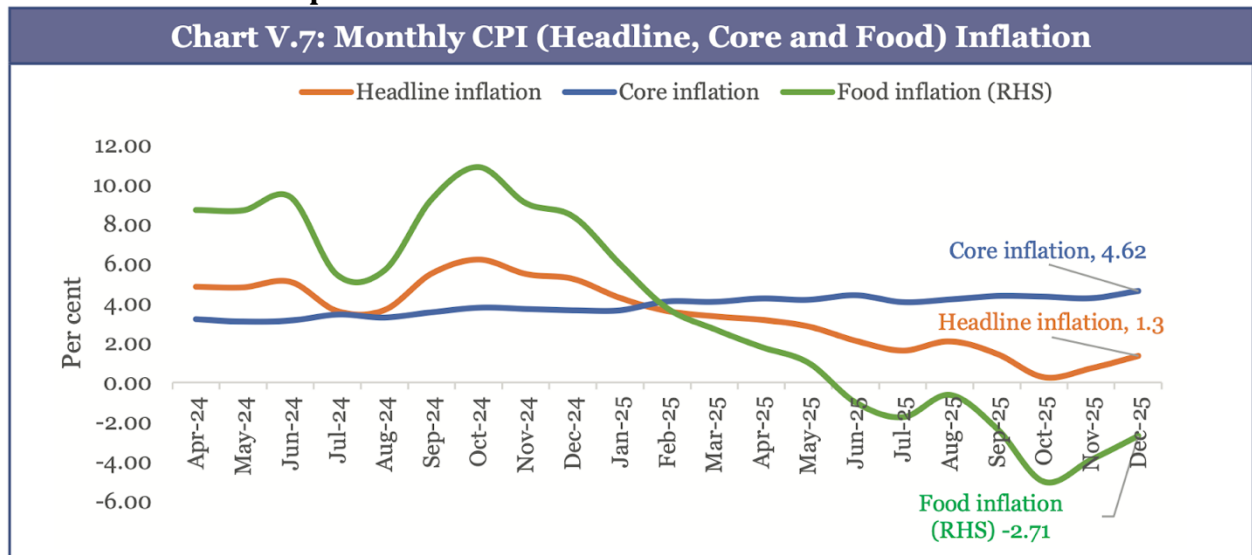
Sustained Moderation in Retail Inflation:

- Over the **past four years, average retail inflation**, as measured by the Consumer Price Index (CPI), has followed a **clear downward trajectory**, declining steadily from 6.7 per cent in the financial year (FY) 2022–23 to **1.7 per cent in 2025–26** (up to December).
- The **factory-gate basic price for producers**, as measured by the **Wholesale Price Index (WPI)-based inflation**, has **consistently been lower than CPI inflation** in these years and has **mirrored the broad disinflationary trend**.





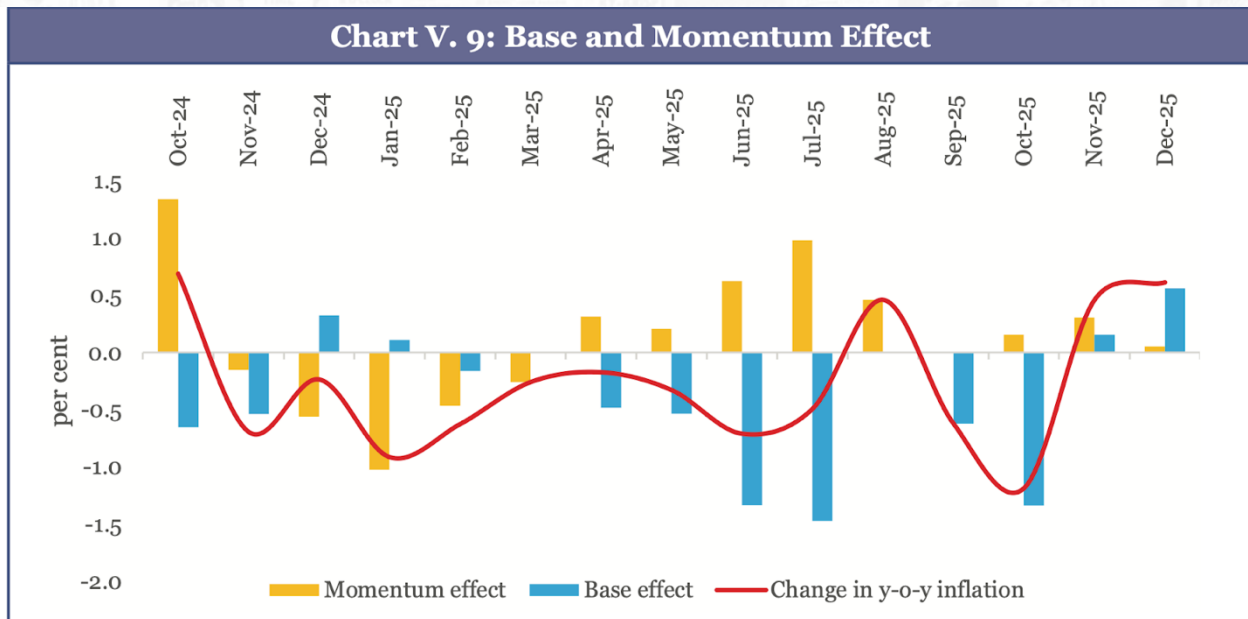
- **Core inflation**—which excludes volatile components such as food and fuel—remained **relatively stable** and has shown a **modest uptick** during this period, rising from 3.8 per cent in October 2024 to **4.62 per cent** in December 2025.



Dominance of the Base Effect:

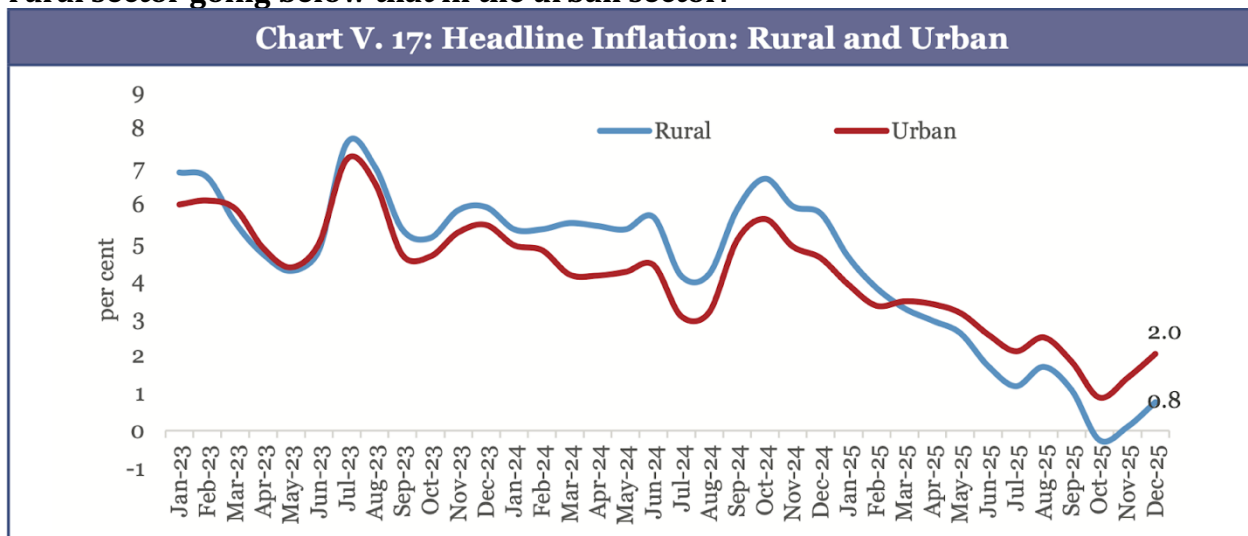
- **Inflation** can be decomposed into **two components**: the **momentum effect** and the **base effect**.
 - The **momentum effect** captures the **month-on-month price changes** in the current year, while the **base effect** reflects the **influence of price movements in the corresponding months of the previous year** on year-on-year inflation.
- In FY26, the **base effect played a dominant role** in shaping the inflation trajectory, with its downward influence outweighing the momentum effect, thereby exerting significant disinflationary pressure.





INFLATION: REGIONAL PICTURE

- Throughout much of 2023 and 2024, rural inflation remained above urban inflation. This pattern reflects **differences in consumption weights** across rural and urban baskets, particularly the **larger share of food items in rural consumption**, which renders rural inflation more responsive to movements in food prices.
- As **food inflation eased** in 2025, inflation declined across both sectors, with inflation in the rural sector going below that in the urban sector.



OUTLOOK FOR INFLATION

- To conclude, the RBI and IMF have projected a **progressive increase in headline inflation in the upcoming fiscal**, bringing the levels within the targeted range of 4 per cent (± 2 per cent)¹.
- The IMF has projected an inflation rate of 2.8 per cent in FY26 and 4.0 per cent in FY27.

KEY TERMS DISCUSSED IN THE CHAPTER

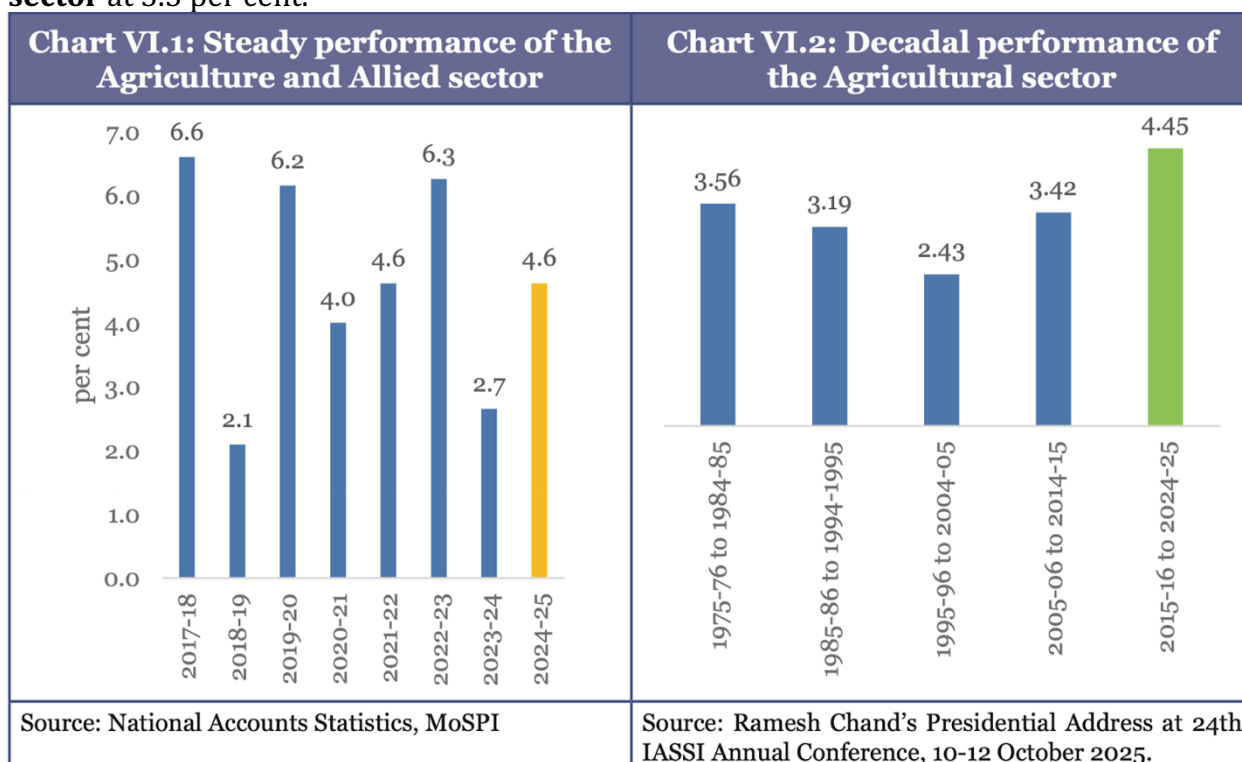
1. Under the **Flexible Inflation Targeting (FIT) framework** introduced in 2016, the RBI targets maintaining CPI inflation at 4 per cent with a tolerance band of ± 2 percent.



CHAPTER 06: AGRICULTURE AND FOOD MANAGEMENT: RAISING PRODUCTIVITY, SECURING INCOMES AND ENSURING FOOD SECURITY

OVERVIEW OF AGRICULTURAL AND ALLIED SECTOR PERFORMANCE

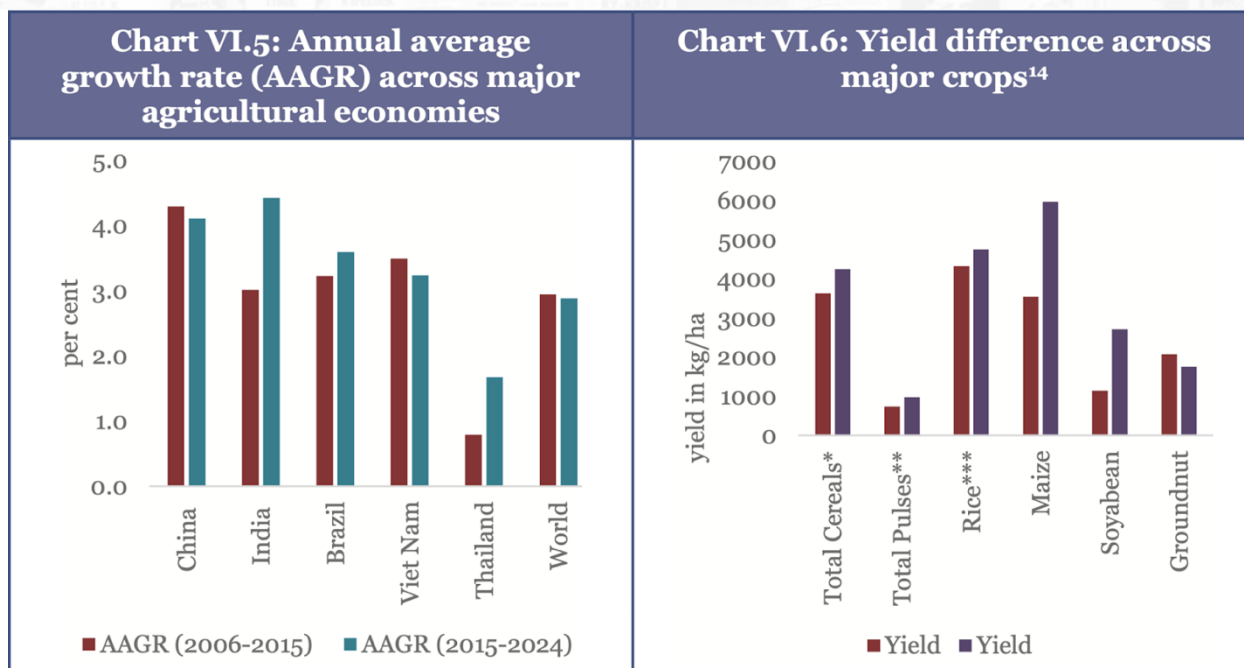
- **Agriculture and allied activities** contribute nearly **one-fifth of India's national income** at current prices, but account for **46.1 per cent of the country's workforce**.
- The **decadal growth of 4.45 per cent (FY16-FY25)** in the **agriculture and allied sector**, the **highest** in comparison to previous decades, has primarily resulted from the **strong performance in livestock (7.1 per cent)** and **fishing and aquaculture (8.8 per cent)**, followed by the **crop sector at 3.5 per cent**.



Productivity Trends:

- While the **average annual growth rate (AAGR)** in agriculture and allied activities has **shown improvement, exceeding the global average of 2.9 per cent**, there remains **substantial potential to enhance agricultural productivity**.
 - Yields across several crops, including cereals, maize, soybeans, and pulses, continue to **trail global averages**.
 - However, the **yield in groundnuts is an exception**, reflecting the concentration of groundnut production in agro-climatically suitable semi-arid regions and a few high-performing states.





DRIVERS OF PRODUCTIVITY IMPROVEMENT

- The **growth in the agricultural sector** can be achieved through **either area expansion or increased productivity**. Given that **land and water resources are increasingly constrained**, **yield improvements have become central** to enhancing output and farm incomes.

Policy & Institutional Interventions:

- The government has been implementing the **National Food Security Mission (NFSM)** since 2007 to **enhance productivity and production** of Rice, Wheat, Pulses, Coarse Cereals, Commercial Crops, and Nutri-Cereals (Shree Anna).
 - In FY25, the scheme was **renamed the National Food Security and Nutrition Mission (NFSNM)**.
- The **National Mission on Edible Oils-Oilseeds (NMEO-OS)** and the **National Mission on Edible Oils-Oil Palm (NMEO-OP)** are also being implemented to achieve **self-sufficiency in oilseed production**, aiming for nearly **70 million tonnes by 2030-31** through productivity enhancement, improved varieties, good agricultural practices, private sector participation, cluster-based interventions, and assured procurement.
 - Additionally, the schemes aim to **reduce import dependence substantially**.
- To **reduce import dependency on pulses** by increasing productivity, the scheme '**Mission for Atmanirbharta in pulses**', aimed at achieving self-sufficiency in pulses, was approved in October 2025.
 - These combined interventions have led to a **significant expansion in oilseed and palm oil cultivation and production**. Between 2014-15 and 2024-25, the area under oilseeds increased by over 18 per cent, production by nearly 55 per cent, and productivity by about 31 per cent.
 - This has **lowered the share of imported edible oil**, reducing it from 63.2 per cent in 2015-16 to 56.25 per cent in 2023-24, despite increasing domestic demand and consumption.
- The Government of India, in its Union Budget for 2025, announced the **development of 100 Aspirational Agricultural Districts** under "**PM Dhan Dhaanya Krishi Yojana (PM-DDKY)**."
 - The Scheme aims to **enhance agricultural productivity, increase adoption of crop diversification and sustainable agricultural practices, augment post-harvest storage**



at the panchayat and block levels, **improve irrigation facilities**, and **facilitate availability of long-term and short-term credit**.

- The **districts have been identified** based on **three key indicators: low productivity, low cropping intensity, and limited credit disbursement**.

Soil Health and Balanced Nutrient Management:

- While high-yielding varieties and assured irrigation initially made heavy nitrogen application (primarily through **urea**) profitable, **continued divergence between nitrogen and other nutrients** has now begun to **undermine soil quality, crop response and environmental stability**.
- In **2009–10**, the **N:P:K ratio** stood at **4:3.2:1**, close to recommended levels for most Indian soils. By **2019–20** it had **deteriorated to 7:2.8:1**, and by **2023–24** had **worsened further** to about **10.9:4.1:1**. **Agronomic benchmarks** for most crops and soil types suggest a ratio closer to **4:2:1**.
 - Excess nitrogen **reduces soil organic matter, accelerates micronutrient depletion, weakens soil structure and increases nitrate leaching** into groundwater.
 - Over time, **crops require progressively larger quantities of fertiliser** to maintain yields, raising input intensity without commensurate output gains.
- The Government has taken steps to address this through the **Soil Health Card (SHC) scheme** which provides **information to farmers on nutrient status of their soil** along with **recommendations on appropriate dosage of fertiliser**.

Infrastructure and Marketing Support:

- To **strengthen farm-gate infrastructure and engage private players**, the **Agriculture Infrastructure Fund (AIF)** was launched with a financing facility of **₹1 lakh crore**, offering medium-term debt for post-harvest management and community farming projects with interest subvention and credit guarantees.
- To **improve price discovery and competitive access** to buyers, the Government launched **e-NAM** in 2016 as a **pan-India virtual market platform**.
 - e-NAM has registered around 1.79 crore farmers, 2.72 lakh traders, and 4,698 FPOs, covering 1,522 mandis across 23 states and 4 UTs.
- In addition, the Government approved the **Digital Agriculture Mission** in 2024, which envisages the **creation of a Digital Public Infrastructure for agriculture**, including AgriStack, the Krishi Decision Support System, a comprehensive soil fertility and profile map, and other IT initiatives to enable a robust digital agriculture ecosystem.
 - This is expected to **catalyse reliable, farmer-centric digital innovations and ensure timely access to crop-related information** for farmers.
- In the **livestock sector**, the **Animal Husbandry Infrastructure Development Fund (AHIDF)** was launched in 2020 to enhance value addition, minimise post-production losses, and strengthen market linkages.

PRICE AND INCOME SUPPORT

- To **ensure remunerative prices** for farmers, the government announces **Minimum Support Prices** for 22 mandated crops.
 - The **Union Budget for 2018-19** announced the **predetermined principle of keeping the MSP at 1.5 times the cost of production**.
- Furthermore, income support is provided through the **Pradhan Mantri Kisan Samman Nidhi (PM-KISAN)**, under which **direct payments of ₹6,000 per year** are made into the Aadhaar-linked bank accounts of eligible landholding farmer families, in **three equal installments**.
- To enhance **social security for vulnerable farmers**, the Government implements the **Pradhan Mantri Kisan Maandhan Yojana (PMKMY)**, which has 24.92 lakh farmers enrolled.



- PMKMY is a **contributory pension scheme for small and marginal farmers** between the **age of 18 to 40 years** and with a **monthly income of up to Rs.15,000**. The subscriber receives a **monthly pension of minimum Rs. 3000 per month after 60 years of age**.

CROP INSURANCE SUPPORT

- The **Pradhan Mantri Fasal Bima Yojana (PMFBY)** provides **farmers with essential protection against crop losses** resulting from natural calamities, pests, diseases, and adverse weather conditions throughout the crop cycle.

FOOD PROCESSING

- The food processing industry is **among the largest employers in India's organised manufacturing sector**, accounting for **12.91 per cent of total organised manufacturing employment**.
- To support the sector's growth, the Government of India is implementing the **Pradhan Mantri Kisan Sampada Yojana** that focuses on **strengthening modern infrastructure and improving farm-to-retail supply chains** to reduce post-harvest losses, expand processing capacity, and boost exports.
- In addition, the **Production Linked Incentive Scheme for Food Processing**, launched in 2021, aims to **build globally competitive food processing enterprises** by supporting branding and marketing in international markets.
- To provide **comprehensive support including technical, financial, and business assistance for establishing or upgrading micro food processing enterprises**, the **Pradhan Mantri Formalisation of Micro Food Processing Enterprises scheme** was launched in 2020.

CONCLUSION

- Indian agriculture is entering a **phase of new opportunity**, supported by **advances in irrigation, digital extension, improved storage, and the strengthening of cooperatives and value chains**.
- Yet, **structural challenges** such as **small landholdings, climate risks, productivity gaps, and weak market integration** continue to weigh on farm incomes.
- The **way forward** lies in **deepening ongoing reforms, promoting climate-resilient technologies, empowering FPOs, strengthening cooperatives, improving markets and logistics, and improving risk management**.



CHAPTER 07: SERVICES: FROM STABILITY TO NEW FRONTIERS

GLOBAL SERVICES TRENDS

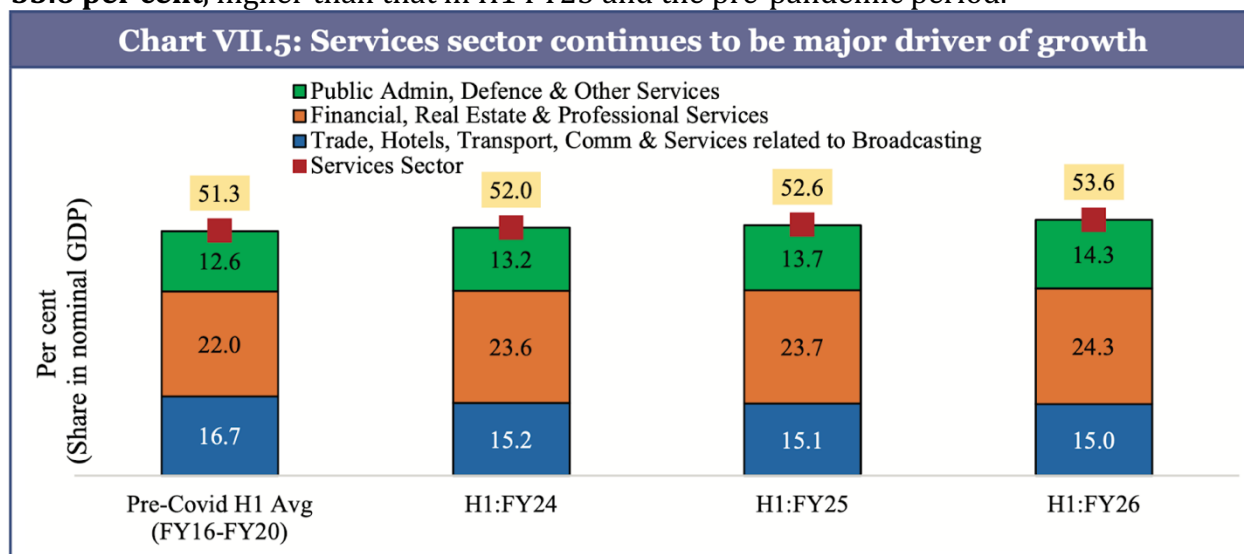
- The **global economy** is undergoing a **structural shift** marked by the **ascendancy of the services sector as the principal engine of growth, resilience, and cross-border integration.**
- While **global goods trade has stagnated, services trade has continued to expand,** reinforcing its role as a **critical buffer against external shocks and volatility.**

INDIA'S EXPERIENCE

- In contrast to the **typical manufacturing-led growth paths** followed by other countries at a comparable stage of development, **India has experienced service-led growth** at a significantly lower level of per capita income.
- Currently, **India's services sector contributes more than half of the Gross Value Added** and serves as a **major driver of exports and employment** in the country.
- **India is the world's seventh-largest exporter of services,** with its **share in global services trade** more than doubling from 2 per cent in 2005 to **4.3 per cent** in 2024, and the sector continues to be the **largest recipient of foreign direct investment inflows.**
 - **Services-sector FDI inflows** accounted for an average **80.2 per cent of total FDI** during FY23-FY25.
 - These inflows remain **highly concentrated,** led by **information and communication services** (25.8 per cent) and **professional services** (23.8 per cent).

RECENT TRENDS IN INDIA'S SERVICE SECTOR PERFORMANCE

- The **services sector in India gained momentum** in H1 FY26, with its **share in GDP rising to 53.6 per cent,** higher than that in H1 FY25 and the pre-pandemic period.



- **Services account for around 30 per cent of total employment, substantially higher than manufacturing and construction,** which employ about 11-12 per cent each.
- Over 2011-2024, **employment elasticity¹ in services stood at 0.43,** compared with 0.22 in manufacturing, 0.41 in agriculture, and 0.60 in construction.
- **Services employment** in India remains **predominantly urban,** with **over 60 per cent of urban workers engaged in services,** compared with **less than 20 per cent in rural areas.**
- **Gender disparities persist,** particularly in **rural services employment,** where **only 10.5 per cent of women are engaged in services,** compared with **nearly 60 per cent in urban areas.**

Purchasing Managers' Index:

- The **PMI Services Index²** remained firmly in the **expansionary territory,** marked by a **reading above 50,** averaging 58.9 during Q3 of FY26.



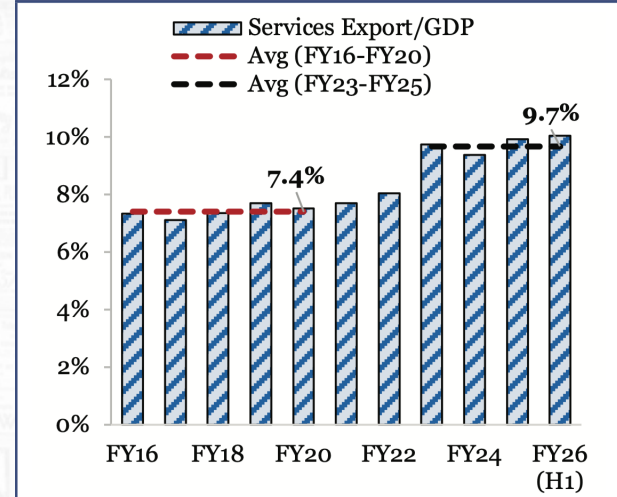
Services Exports as a Buffer amid Global Uncertainty:

- Mirroring global trends, **services exports have become a central pillar of India's external sector** and a **key driver of growth**.
 - Their **share in GDP averaged 9.7 per cent** during FY23-FY25, up from 7.4 per cent in the pre-pandemic period.
 - Amid subdued global goods trade due to **policy uncertainty and geopolitical disruptions**, services exports have provided a **critical buffer**.
- **Software services**, accounting for **over 40 per cent of total services exports**, remain the primary growth driver. **Professional and management consulting services** have emerged as the **second-largest contributor**.

Servicification of Manufacturing:

- **Services are increasingly integrated into manufacturing** through activities such as design, R&D, logistics, software development, and professional services, reflecting the **growing servicification of production systems**.
 - Eg: Products such as **smart devices**, whose value is driven by software ecosystems; **automobiles**, which are increasingly described as software on wheels.
- As **manufacturing becomes increasingly technology and data-intensive**, services such as **ICT, finance, compliance, and after-sales support** account for a growing share of value creation.

Chart VII.10a: Step up in services export contribution post pandemic

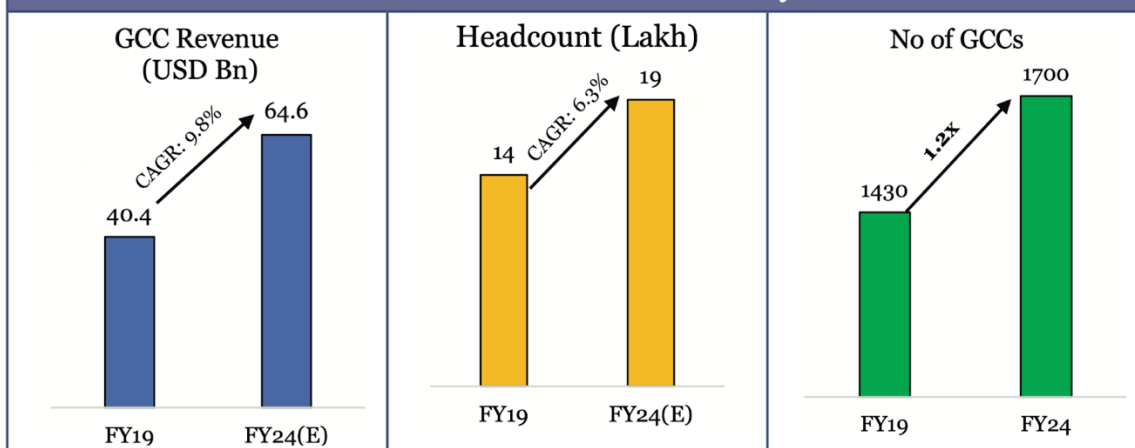


SUB-SECTORAL PERFORMANCE AND DRIVERS

IT and IT-enabled Services:

- In FY25, the **IT and IT-enabled services sector reinforced India's position as a global technology and innovation hub**, supported by continued revenue growth and a rising role of **Global Capability Centres (GCCs)**.
 - GCCs are **offshore units established by multinational firms** to undertake technology development, engineering, analytics and business operations for their global activities.
 - As of FY24, **India hosts over 1,700 GCCs, employing over 19 lakh professionals**, making it the **largest global hub for captive centres**.

Chart VII.12: Growth of GCCs Ecosystem



- **Rising digitalisation, cloud adoption, and data-intensive technologies have increased the demand for cybersecurity**, including threat detection, risk management, compliance, and managed security services.
- **India's cybersecurity market** is estimated at about USD 6.0 billion in 2023, **growing at about 30 percent**.
 - **India's strengthening capabilities** are also evident in its **Tier-1 ranking** on the **International Telecommunication Union's Global Cybersecurity Index** in **2024**, with a **score of 98.49**, placing it among the world's most cyber-resilient countries.

Cargo Transport Services at Ports:

- **Port capacity has expanded** in recent years through **modernisation, digitisation, and greater private participation**.
 - As a result, **cargo handled at Indian ports increased** from about 1052 million tonnes in FY15 to around **1603 million tonnes** in FY25.
- Alongside higher volumes, **operational efficiency has also improved**, with the **average turnaround time³ of container vessels at major ports declining** from approximately 43 hours in FY15 to **nearly 30 hours** in FY25.

Railway Freight Services:

- **Rail freight services, a 50 per cent cost-effective cargo route compared to road transport**, continue to play a critical role in supporting the bulk and long-distance movement of goods.
 - In FY25, freight loading by Indian Railways exceeded 1.6 billion tonnes, witnessing a slight expansion over FY24.

Orange Economy:

- The **Orange Economy** refers to the **part of the economy driven by creativity, culture, and intellectual property**, comprising activities where value comes primarily from ideas, knowledge, artistic expression, and cultural content, rather than from physical goods.
- The **Orange Economy in India's Media and Entertainment (M&E) sector** is valued at **approximately ₹2.5 trillion** (2024). This growth reflects the sector's immense potential, propelled by rising disposable incomes, rapid internet penetration, and a vast, diverse domestic market.

Commercialising Space and Ocean Services:

- **India's space sector** has emerged as a **fast-growing, technology-intensive and increasingly commercial segment** of the services economy.
- Valued at about **USD 8.4 billion, around 2 per cent of the global space market**, it is projected to expand to **USD 44 billion** over the next decade, driven by launch services, satellite communications, earth observation, navigation and a rapidly growing private ecosystem.
 - **Commercial launches** have been a **key export source**, with India launching 393 foreign satellites for 34 countries between 2015 and 2024.

CONCLUSION

- Despite **global uncertainty and evolving geopolitical dynamics, India's service sector has sustained strong performance** in output, employment, and exports.
- At the same time, **rapid technological advancements** are transforming service delivery and boosting productivity. However, the **speed of change is exceeding the capacity of workers and firms to adjust**. This has led to **widening skill gaps worldwide**.
- India's ability to maintain and strengthen its position in the services market will depend on **improving productivity, fostering innovation, investing in future-ready skills, and streamlining regulatory frameworks**.



KEY TERMS DISCUSSED IN THE CHAPTER

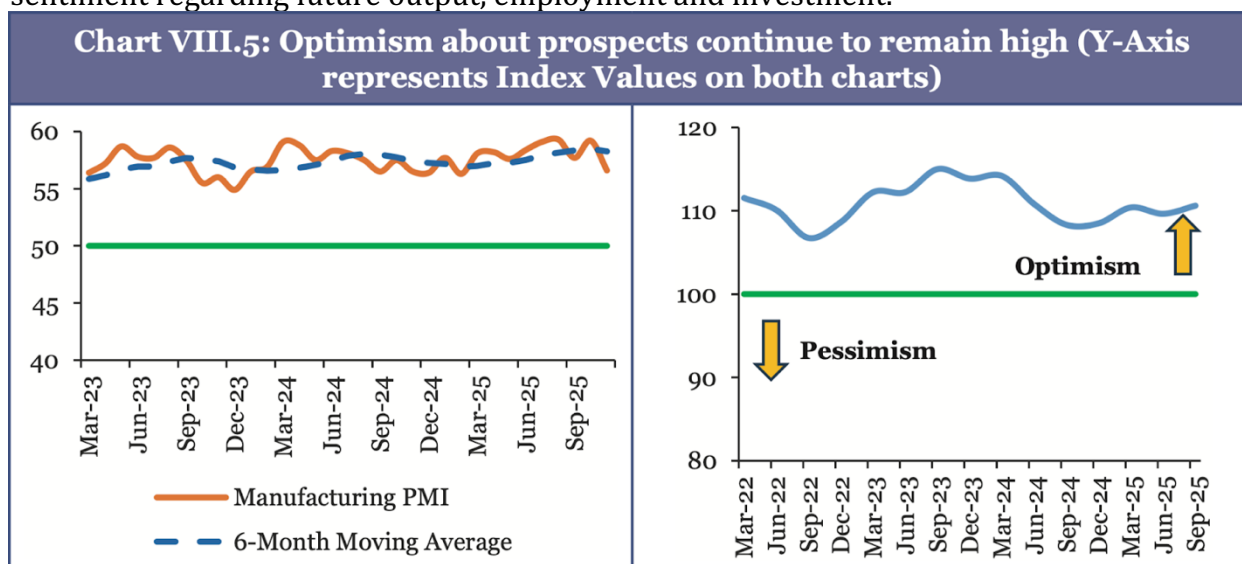
1. **Employment elasticity** of a sector measures **how sensitive employment is to changes in that sector's economic output**. It calculates the **percentage change in jobs for every 1% change in sectoral output**. **High elasticity** indicates a **job-intensive sector**, while **low or negative elasticity** suggests **"jobless growth"**.
2. **Purchasing Managers' Index** is an economic indicator which indicates the **business activity & economic health of both the manufacturing and service sectors**.
 - a. PMI of India is compiled by **S&P Global**, a financial information and analytics business company.
 - b. While **PMI >50** implies an **expansion** of business and economic activity, **PMI <50** means **contraction**.
3. **Average turnaround time (TAT)** for container vessels is the **total time a ship spends in port**, measured from arrival at the anchorage to departure after loading/unloading. It acts as a **key performance indicator of port efficiency**, with **lower, faster times indicating better operational speed**.



CHAPTER 08: INDUSTRY'S NEXT LEAP: STRUCTURAL TRANSFORMATION AND GLOBAL INTEGRATION

GLOBAL MANUFACTURING & DOMESTIC DEVELOPMENTS

- **Globally**, the **industrial sector** in 2025 continued to face **macroeconomic challenges** stemming from **evolving geopolitics, inflationary pressures and supply chain realignments** among other factors.
- Against this backdrop, **India's industrial performance remains robust. Industry Gross Value Added grew by 7.0 per cent year-on-year** in the first half of FY2025-26.
- **Medium and high-technology activities** now account for **46.3 per cent of India's total manufacturing value added**.
 - This positions India among a relatively small group of middle-income industrialising economies that are **steadily moving towards sophisticated production structures**.
- The **Manufacturing Purchasing Managers' Index** has remained **well above the expansion threshold of 50** between March 2023 and the present.
- A similar trend is seen in the **RBI's Business Expectations Index**, which has **consistently stayed above the neutral benchmark of 100** through FY25 and into Q2 FY26, signalling positive sentiment regarding future output, employment and investment.



CORE INPUT INDUSTRIES

Cement:

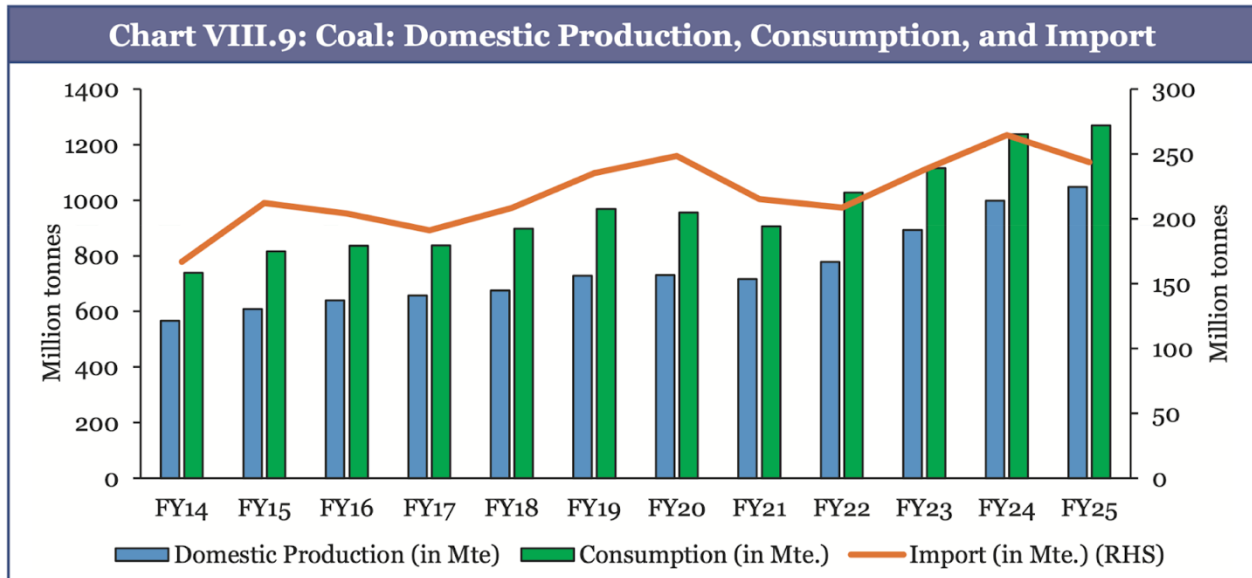
- **India is the second-largest cement producer** in the world after **China**.
 - The current annual installed capacity is about 690 million tonnes, with production of around 453 million tonnes in FY25.
- **Most cement plants are located near raw material sources**. About **85 per cent of the industry is concentrated in Rajasthan, Andhra Pradesh, Telangana, Karnataka, Madhya Pradesh, Gujarat, Tamil Nadu, Maharashtra, Uttar Pradesh, Chhattisgarh and West Bengal**.

Steel:

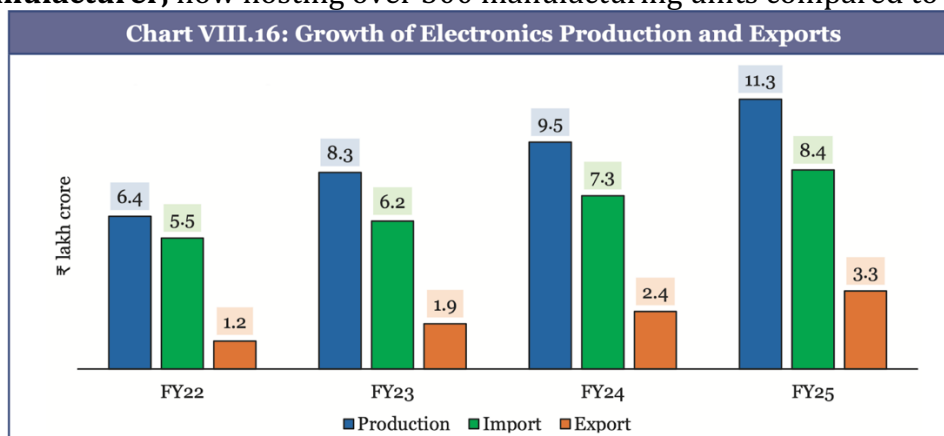
- The steel sector serves as the **backbone of industrialisation and infrastructure**, securing India's position as the **world's second-largest crude steel producer**.
- To sustain robust growth and foster self-reliance, the Government launched the **Production-Linked Incentive Scheme for Specialty Steel** in 2021, aimed at promoting high-value niche products.



- Coal:**
- With the **fifth-largest coal reserves** and as the **second-largest consumer**, coal remains crucial, contributing **55 per cent to the national energy mix** and fuelling over **74 per cent of total power generation**.
 - **India's coal industry reached historic heights in FY25**, producing 1,047.52 million tonnes, a 4.98 per cent increase from the previous year.
 - **Driven by strong domestic output, imports declined by 7.9 per cent** from 264.53 million tonnes in FY24 to 243.62 million tonnes in FY25.



- Electronics:**
- **India's electronics sector** has undergone a **structural transformation** in recent years, rising from the **seventh-largest export category** in FY22 to the **third-largest and fastest-growing** in FY25.
 - In the **first half of FY26**, electronics exports reached **USD 22.2 billion**, positioning the sector to become the **second-largest exported item**.
 - This growth is underpinned by a **surge in domestic production and exports**. The **mobile manufacturing segment** witnessed a **nearly 30-fold increase in production value**, rising to ₹5.45 lakh crore in FY25.
 - **India** has transitioned from a **net importer to the world's second-largest mobile phone manufacturer**, now hosting over 300 manufacturing units compared to just two in 2014.



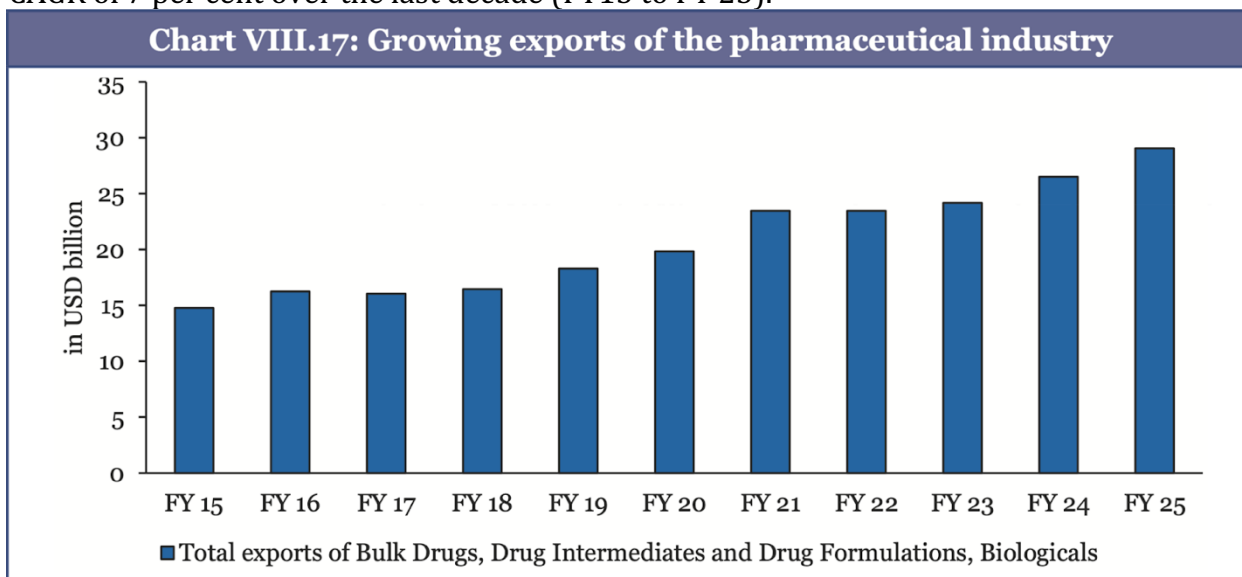
- The **Production Linked Incentive Scheme for Large Scale Electronics Manufacturing**, launched in 2020 and **PLI Scheme 2.0 for IT Hardware**, launched in 2023, played a crucial role in catalyzing growth in the sector.



- In addition to these, the **Electronics Component Manufacturing Scheme**, notified in April 2025, aims to **develop a robust component manufacturing ecosystem by integrating domestic industry with global value chains through turnover-linked and capex incentives.**
- The **Electronics Manufacturing Clusters (EMC and EMC 2.0) Schemes** provide "**plug-and-play**" infrastructure to attract global firms.

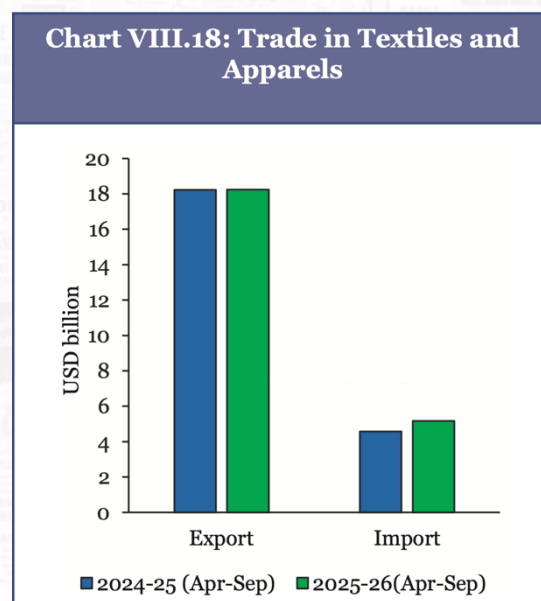
Pharmaceuticals:

- The **Indian pharmaceutical industry** is the **world's third-largest by volume**, meeting approximately **20 per cent of global generics demand** and **exporting to 191 countries** in FY25.
 - Beyond generics, India is also a **global leader in low-cost vaccine supply.**
- **India ranks 11th globally in pharmaceutical exports by value** with a **3 per cent share.**
- In FY25, the **sector's annual turnover reached ₹4.72 lakh crore**, with exports growing at a CAGR of 7 per cent over the last decade (FY15 to FY 25).



Textiles:

- The **Indian apparel and textile industry**, valued at about USD 179 billion, **contributes close to 2 per cent of GDP** and accounts for about **11 per cent of manufacturing GVA.**
- **India is the world's largest cultivator of cotton by acreage and the largest producer of jute**, as well as the **second-largest producer of silk and cotton.**
- It is also a **major global hub in man-made fibres**, ranking **second globally** and being the **second-largest producer of polyester and viscose fibres.**
- **India is the sixth-largest global exporter of textiles and apparel** with about 4 per cent share in world exports.
- However, the sector faces **challenges** such as, **small scale and fragmentation of the value chain, heavy reliance on cotton** [which contrasts with the global market's focus on **Man-Made Fibres (MMF)**], **limited FDI and technology adoption.**
- To drive a structural transformation, the Government has taken several initiatives such as the launch of the **PM-Mega Integrated Textile Region and Apparel Parks (PM-MITRA) Scheme** to facilitate economies of



scale and reduce logistics costs; revision to the **Production Linked Incentive (PLI) Scheme for MMF and Technical Textiles** in October 2025 to encourage fresh investments.

- Besides, the technical textiles segment has been supported by the **National Technical Textile Mission (NTTM)**, which focuses on R&D, market development, and skill development to position India as a global leader in technical textiles.

KEY INITIATIVES TO PROMOTE MANUFACTURING

Performance Linked Incentive (PLI) Scheme:

- The **PLI scheme** was launched in 2020 and now spans **14 key sectors**, with the objective of providing companies incentives on incremental sales from products manufactured in domestic units.
 - The core purpose of these schemes is to **attract investments** in key sectors and **introduce cutting-edge technology, ensure efficiency, and achieve economies of size and scale**, thereby making Indian companies and manufacturers globally competitive.
 - The PLI scheme adopts a **sector-specific approach**, avoiding a "one size fits all" methodology.
- Till September 2025, under the PLI scheme, an **actual investment of over ₹2.0 lakh crore** has been realised, leading to **incremental production/sales of over ₹18.70 lakh crore** and **employment generation of over 12.60 lakhs (direct and indirect)**.

National Manufacturing Mission:

- Complementing PLI, the **National Manufacturing Mission (NMM)**, was announced in **Union Budget 2025–26**.
- It sets **ambitious targets for 2035**, aiming to **double the manufacturing sector's contribution to GDP from 12.9 per cent (2023) to 25 per cent** and **generate 143 million jobs**, along with **boosting merchandise exports to USD 1.2 trillion** by deepening integration into GVCs.
- The NMM aims to **boost innovation, raise competitiveness, and expand manufacturing capacity across priority sectors**, complementing Make in India and the Atmanirbhar Bharat push.

India Semiconductor Mission:

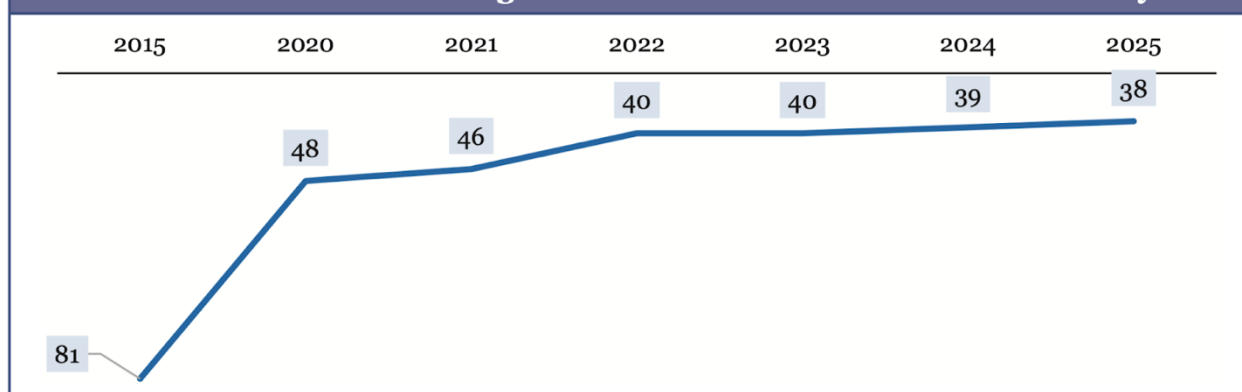
- The **India Semiconductor Mission (ISM)**, launched in **2021**, aims to **build domestic capacity across design, manufacturing, and innovation in semiconductors** and is a first step towards achieving self-sufficiency and technological sovereignty.

INNOVATION AND R&D

- **India's research and innovation ecosystem** has, over the years, **strengthened significantly**, as its standing in **scientific research output** has risen sharply from the 7th position in 2010 to the **3rd position globally currently in terms of scholarly publications**.
- The country's **ranking in the Global Innovation Index (GII)¹** improved from 66th in 2019 to **38th in 2025**.
 - This places **India at the top of the rankings within the lower-middle-income country group** and **first in the Central and Southern Asia region**.



Chart VIII.20: India's Ranking in the Global Innovation Index over the years



- **Bengaluru, Delhi and Mumbai** feature among the **top 50 most innovation-intensive clusters in the world**.
- Emerging as a significant global player in Intellectual Property (IP), **India ranks 4th in trademarks, 6th in patents, and 7th in industrial designs in global filings in 2024**.

Challenges:

- Despite notable progress in research and development, **challenges remain**, primarily concerning **R&D expenditure intensity**.
 - **India's Gross Expenditure on R&D (GERD) as a percentage of GDP** stands at a modest **0.64 per cent, substantially below the global average**.
 - Leading economies, such as the US (3.48 per cent), China (2.43 per cent), and South Korea (4.91 per cent), invest significantly more.
- Low expenditure in R&D is **partly due to low investment in R&D from business sector**, which **accounts for only 41 per cent of the total expenditure**.
 - This is in stark contrast to countries such as China (77 per cent), United States (75 per cent), and South Korea (79 per cent), where business sector contributions to R&D are significantly higher.

Government Measures:

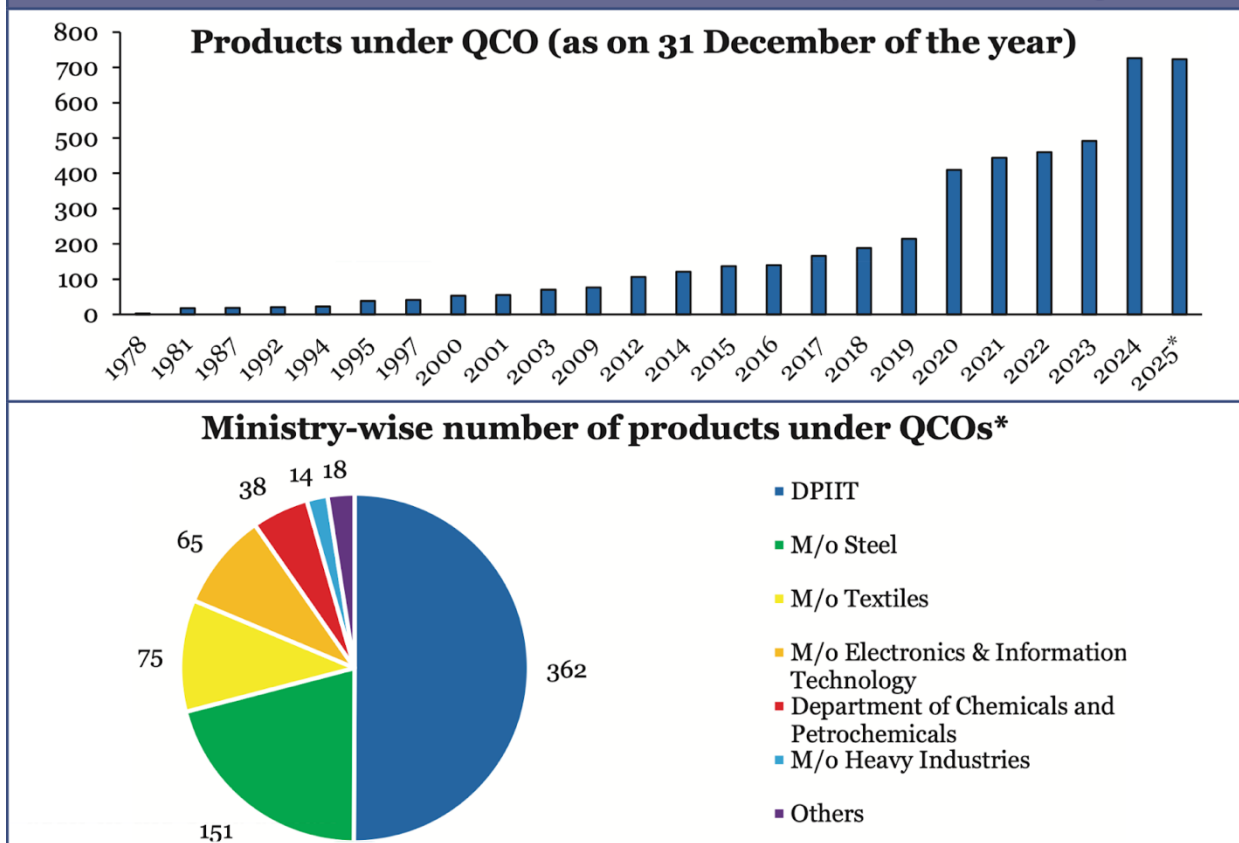
- A major institutional reform driving India's R&D and aimed at addressing the challenges highlighted above is the establishment of the **Anusandhan National Research Foundation (ANRF)** under the **ANRF Act, 2023**.
 - The ANRF is intended to **provide strategic direction, competitive funding opportunities and collaboration pathways** across industry, academia and government.
- To **finance innovation at scale**, the Government also announced a **new Research, Development and Innovation (RDI) Fund** with a **total outlay of ₹1 lakh crore over six years**.
 - The Fund is designed to **catalyse private investment** in high-tech R&D, **support projects** at advanced technological readiness levels, **enable acquisition of strategically important technologies**, and **operationalise a Deep-Tech Fund of Funds**.

Quality Control: Enhancing Global Competitiveness:

- With the goals of the National Manufacturing Mission seeking to position India as an indispensable part of GVCs, the **quality aspect is as critical as cost competitiveness**.
- In this context, **Quality Control Orders (QCOs)** are **regulatory instruments that mandate conformity with the desired quality standards**.
- The Government of India has significantly augmented mandatory quality assurance in India.
 - As of 31 December 2025, a total of **143 QCOs covering 723 products** have been notified by various ministries, more than tripling the coverage from 214 products in 2019.
- The **purpose of QCOs** is to **ensure that products meet stipulated quality standards, while avoiding market distortions and protecting consumer requirements**.



Chart VIII.25: Growth in terms of number of QCOs and coverage



SCALING UP MSMEs

- **Micro, Small, and Medium Enterprises (MSMEs)** form the **backbone of India's industrial economy**, accounting for approximately **35.4 per cent of manufacturing**, around **48.58 per cent of exports**, and **31.1 per cent of GDP** in the country.
- With over 7.47 crore enterprises **employing over 32.82 crore persons**, the sector holds its position as the **second-largest employer after agriculture**.
- Despite expanding credit footprints and rising digital integration, **access to formal credit remains a binding constraint** for many micro-enterprises due to **limited collateral and documentation readiness**.
 - This challenge was also highlighted in the **World Bank's Financial Sector Assessment Report for India (2025)**, which noted that **27 per cent of MSMEs identify finance as their biggest obstacle**.
- To **strengthen credit linkages**, the **Credit Guarantee Scheme (CGS) for Micro and Small Enterprises (MSEs)** was **revamped in 2023**, following a **corpus infusion of ₹9,000 crore** in the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and **enhancing the ceiling for guarantee coverage** from ₹2 crore to ₹5 crore.
- Additionally, the **Prime Minister's Employment Generation Programme (PMEGP)** assists micro-entrepreneurs by providing **margin money subsidies on bank loans**.

CONCLUSION

- **India** accounted for an estimated **2.9 per cent of the global manufacturing GVA** and **1.8 per cent of global merchandise exports** in 2024, indicating **considerable potential for expanding its global manufacturing footprint**.
- The **next phase of industrialisation** will require a **calibrated shift** from a **model centred mainly on import substitution** towards one **focused on scale, competitiveness, innovation and deeper integration into GVCs**.



- With **sustained reform momentum, investment in innovation and human capital, and dynamic private sector participation**, the industrial sector can emerge as a central pillar and contribute even more significantly in the journey towards Viksit Bharat@2047.

KEY TERMS DISCUSSED IN THE CHAPTER

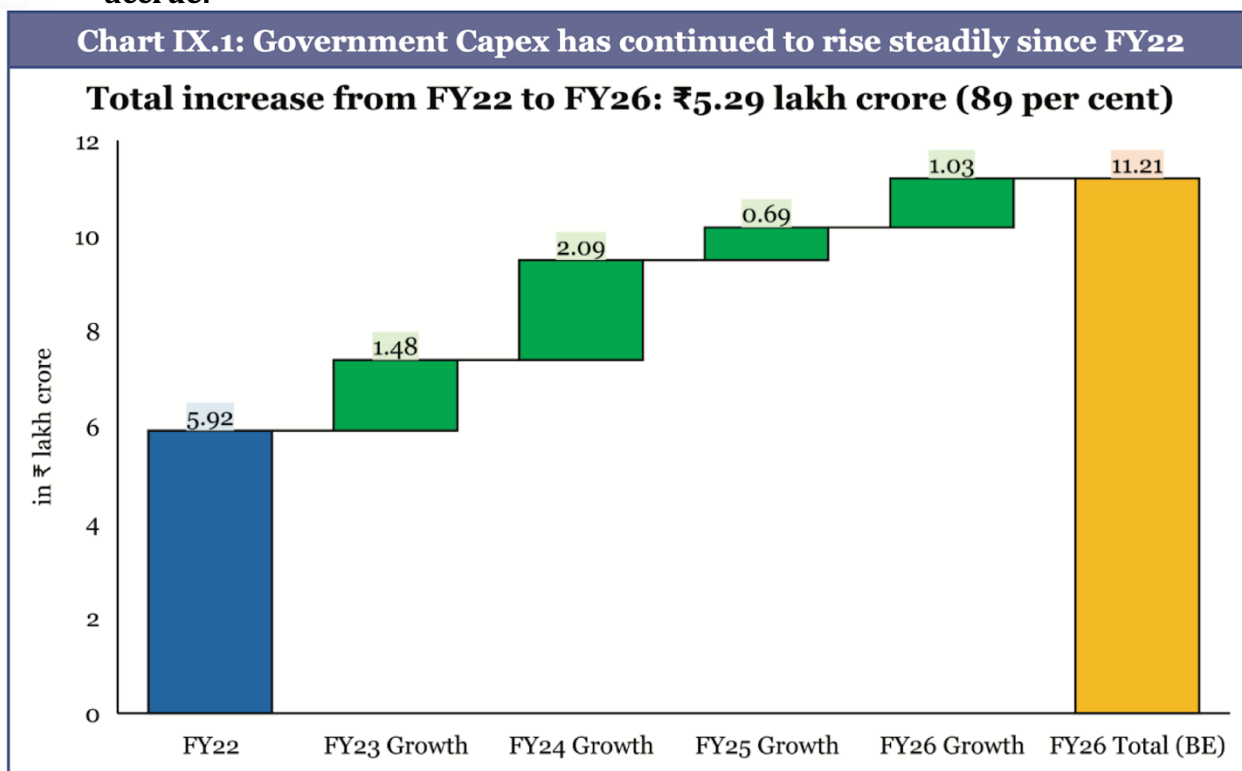
1. Global Innovation Index (GII) is published **annually** by the **World Intellectual Property Organization (WIPO)**, a specialized agency of the United Nations.
 - a. GII ranks global economies according to their innovation capabilities, using 80+ indicators.



CHAPTER 09: INVESTMENT AND INFRASTRUCTURE: STRENGTHENING CONNECTIVITY, CAPACITY AND COMPETITIVENESS

INFRASTRUCTURE AS THE ENGINE OF GROWTH

- The **decisive role of infrastructure investment** in India's growth strategy has been a defining feature in recent years.
- The **Government of India's capital outlay** has **increased by nearly 89 per cent**, from ₹5.92 lakh crore in FY22 to a budgeted allocation of **₹11.21 lakh crore for FY26**, recognising the **strong multiplier effects that infrastructure generates** on the economy.
 - **Public expenditure on infrastructure** has a **high multiplier effect**, estimated by studies to be around **2.5 to 3.5 times the GDP** over the medium term. This means, for **every rupee spent by the government in creating infrastructure, GDP gains worth ₹2.5-₹3.5 accrue**.



- The **PM GatiShakti National Master Plan**, launched in **2021**, has successfully institutionalised multimodal, GIS-enabled planning.
 - This digital platform is designed to **bring various Ministries to ensure integrated planning and coordinated execution** of infrastructure projects.

PUBLIC-PRIVATE PARTNERSHIPS

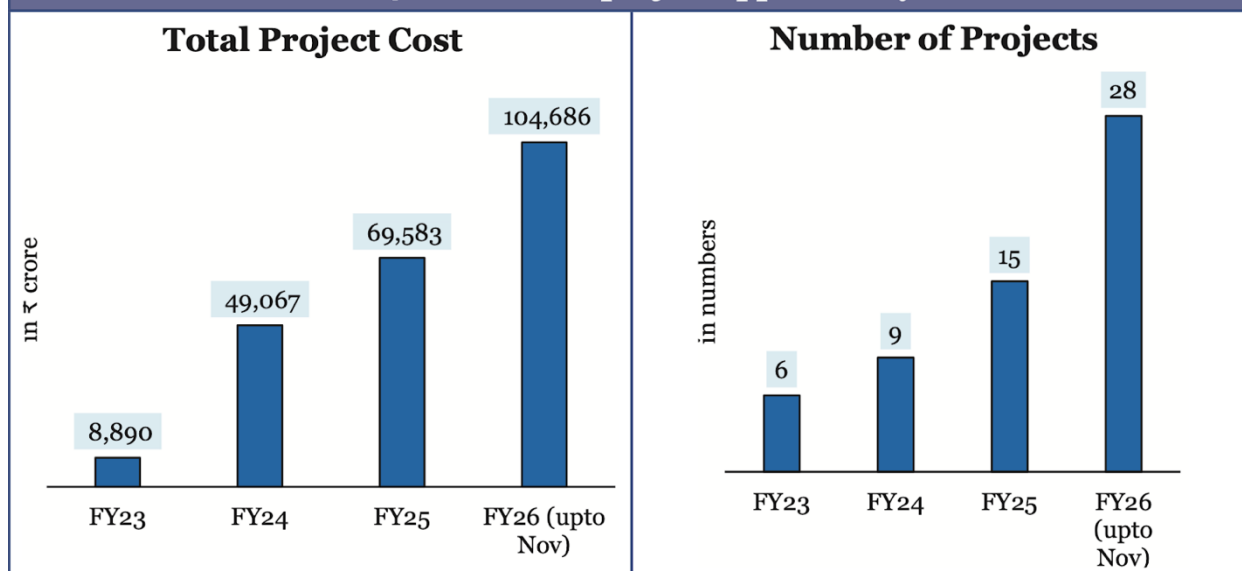
- PPPs are vital mechanisms through which **governments can leverage private sector expertise and resources to address critical infrastructure needs**.
- India's infrastructure programs support a **variety of PPP models**, including **Build-Operate-Transfer (BOT), Design-Build-Finance-Operate-Transfer (DBFOT), Hybrid Annuity Model (HAM), and Toll-Operate-Transfer (TOT)**.
 - Within the **BOT framework**, two variants exist—**BOT (Toll)** and **BOT (Annuity)**—distinguished by the allocation of traffic risk.



Key Institutional Mechanisms to Support PPPs in India:

- **Public Private Partnership Appraisal Committee (PPPAC):** It is Apex body for appraising and recommending central sector PPP projects. Chaired by the Secretary, Department of Economic Affairs (DEA), its members include Secretaries from the Department of Expenditure, Department of Legal Affairs, the sponsoring ministry/department, and the CEO of NITI Aayog.

Chart IX.4: Increase in project approvals by PPPAC



- **Viability Gap Funding (VGF) Scheme:** Provides financial assistance to projects that are economically desirable but commercially unviable. Economic sector projects may receive up to 40 per cent of capital expenditure as a VGF grant, while social sector projects are eligible for grant up to 80 per cent of Capex and 50 per cent of operational expenditure for five years post-commercial operations.

CORE PHYSICAL INFRASTRUCTURE

Roadways & Highways:

- Over the past decade, sustained investment and policy reforms have significantly expanded the **National Highway (NH) network** and improved construction pace.
- The **Pradhan Mantri Gram Sadak Yojana (PMGSY)**¹ has achieved **near-universal rural connectivity**, with over 99.7 per cent of eligible habitations connected.
- The programme has been strengthened through **focused initiatives**, including a **dedicated road connectivity vertical** under **PM-JANMAN (Pradhan Mantri Janjati Adivasi Nyaya Maha Abhiyan)**² to serve **Particularly Vulnerable Tribal Groups (PTVGs)**, targeting 8,000 km of roads over the period 2023-28.

Railways:

- Indian Railways continue to play a pivotal role in India's infrastructure landscape by expanding network capacity, modernising assets, and strengthening multimodal connectivity.
 - The rail network has expanded to 69,439 Rkm.

Civil Aviation:

- **India** has emerged as the **world's third-largest domestic aviation market**.
 - The **number of airports increased** from 74 in 2014 to **164** in 2025.
- Under the **Regional Connectivity Scheme- Ude Desh ka Aam Nagrik (RCS-UDAN)**, 657 routes connecting 93 airports have been operationalised, including heliports and water aerodromes to **make air travel affordable while improving access to remote and aspirational regions**.



Ports and Shipping:

- **India's ports** have demonstrated strong growth momentum, driven by **accelerated capacity creation and a substantial increase in cargo throughput**.
- India's growing competitiveness is reflected in global rankings, with **two Indian ports** now featuring **among the top 30** and **seven among the top 100** in the **World Bank's Container Port Performance Index 2024**.
- India has further strengthened the **landlord port model**³ to catalyse private investments in port development and operations.

Recent Legislative Reforms in Ports and Shipping Sector:

- **Merchant Shipping Act, 2025:** It aligns Indian maritime laws with global standards and International Maritime Organisation (IMO) conventions, **promotes ease of doing business, ensures seafarer welfare and training, and enhances safety, environmental protection and emergency preparedness**.
- **Coastal Shipping Act, 2025:** Promotes coastal shipping as an economical and eco-friendly mode, **removes licensing requirements for Indian vessels in coasting trade** and introduces strategic planning for coastal and inland waterways integration and improves transparency through a **National Coastal Shipping Database**.
- **Indian Ports Act, 2025:** Establishes a **comprehensive framework for long-term integrated port development**, promotes **collaboration between the Centre and States** for strategic planning, **mandates data sharing for transparency**, and **ensures compliance with international conventions on pollution prevention, safety and security**, along with introduction of **Maritime Single Window System** to reduce logistics costs and strengthen competitiveness.
- **Bills of Lading Act, 2025:** Simplifies legal provisions on bills of lading, clearly defining transfer of rights and liabilities among carriers, shippers, and consignees to reduce disputes and improve trade efficiency.
- **Carriage of Goods by Sea Act, 2025:** Aligns India's sea trade laws with international norms, especially the **Hague-Visby Rules**⁴, by defining carrier–shipper responsibilities and immunities, and enhancing global maritime trade competitiveness.

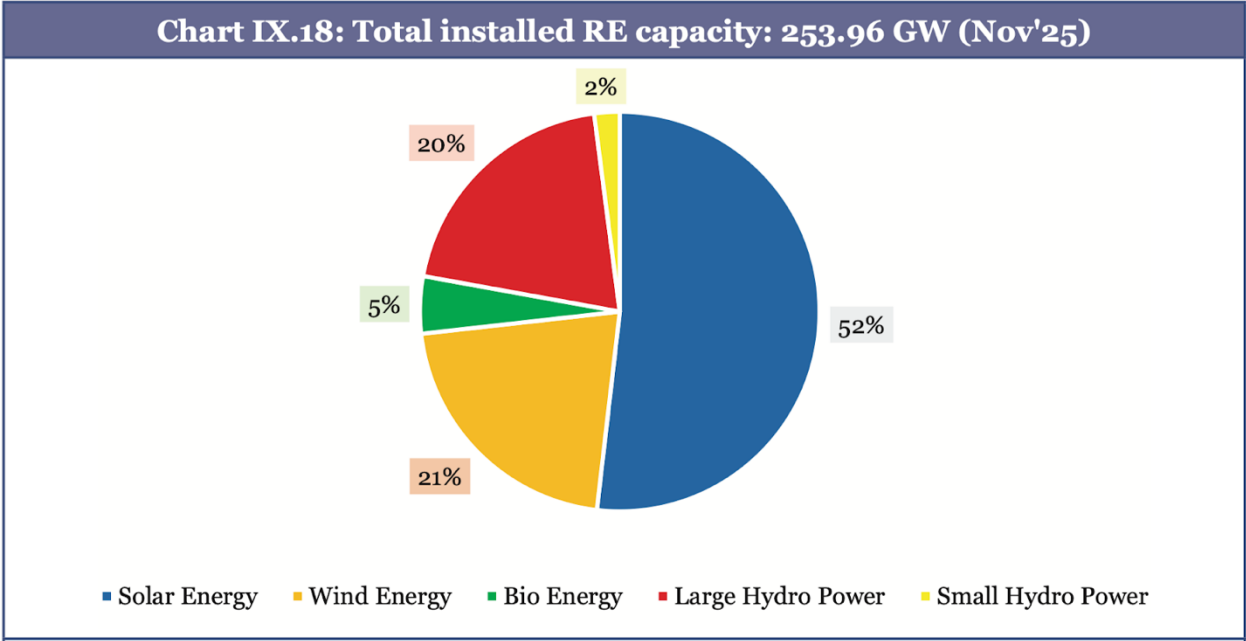
Inland Water Transport:

- Inland Water Transport (IWT) in India holds **massive, underutilized potential**, with roughly **14,500 km of navigable waterways** (rivers, canals, backwaters) offering a **cost-effective, eco-friendly alternative to road/rail**.
 - As of November 2025, **32 National Waterways (NWs)** are operational, spanning 5,155 km.
 - **Cargo movement** through IWT has risen significantly from 18 MMT in 2013-2014 to **146 MMT** in 2024-2025.
- India aims to **increase the Inland Water Transport modal share from 2 per cent to 5 per cent** and **raise cargo traffic to 200+ MMT by 2030**.

RENEWABLE ENERGY:

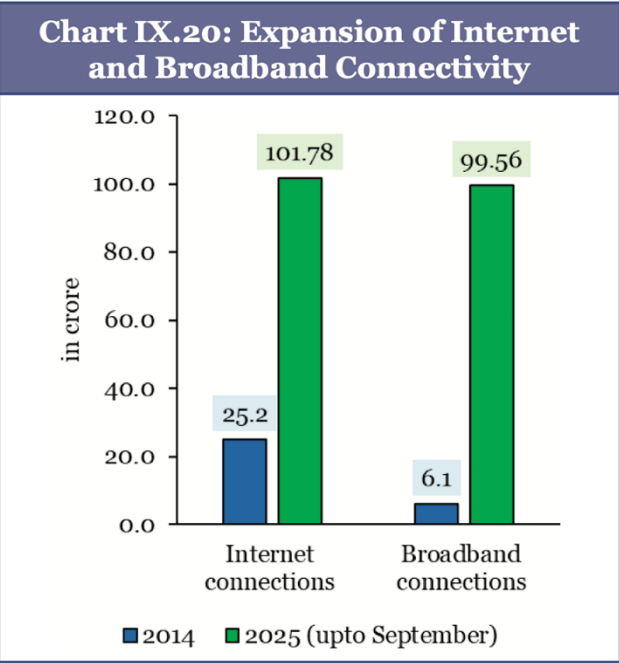
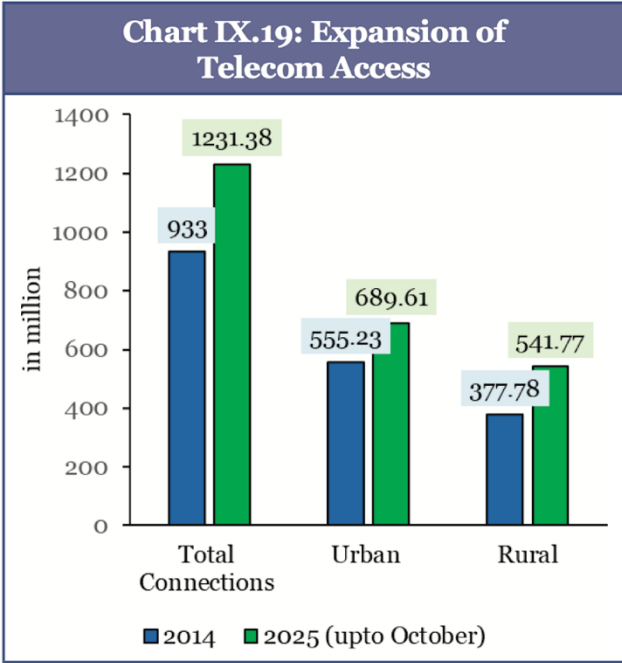
- India's energy landscape is undergoing a **structural transformation**, with **renewable energy (RE) now constituting around 49.83 per cent of the total installed power generation capacity**.
- The country maintains a dominant global presence, ranking **third in overall RE capacity and installed solar capacity** and **fourth in installed wind capacity**.
- **Total RE capacity** witnessed a more than threefold increase over the last decade, surging from 76.38 GW in 2014 to **253.96 GW** by November 2025.





TELECOMMUNICATIONS

- India’s telecommunications sector expanded rapidly over the last decade, accompanied by a **sustained improvement in tele-density⁵** from 75.23 per cent to **86.76 per cent**.
- **Growth in rural telephone connections outpaced urban growth**, indicating a **narrowing digital access divide**.
 - **Sharp declines in wireless data prices** were associated with an **exponential rise in average monthly data consumption**, highlighting the role of affordability in driving mass digital adoption.

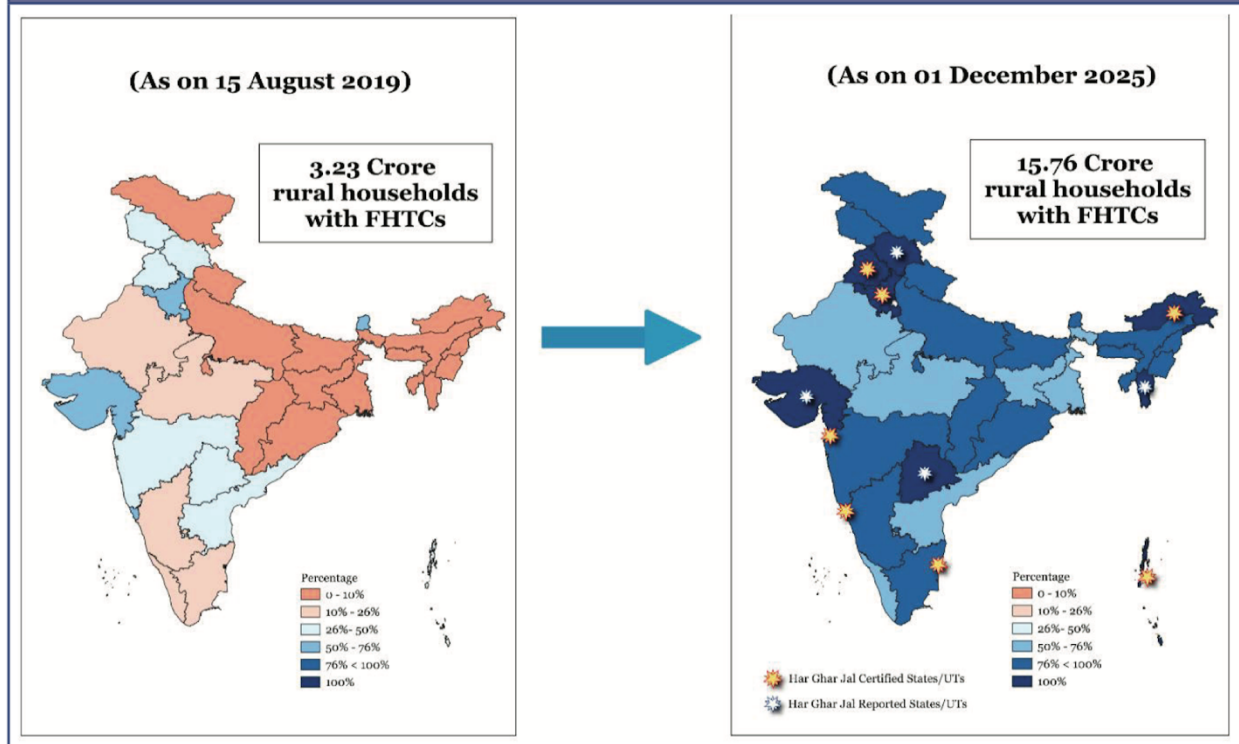


RURAL DRINKING WATER AND SANITATION

- India has attained a significant milestone under the **Jal Jeevan Mission⁶**, with **over 81 per cent of rural households now having access to clean tap water**.
- To **achieve 100 per cent coverage**, the Mission has been **extended until 2028**.



Chart IX.23: Status of tap water supply in rural homes under JJM



TOURISM

- The Government of India has revamped the **Swadesh Darshan scheme as Swadesh Darshan 2.0 (SD 2.0)**, aimed at **developing sustainable and responsible tourism destinations**.
- The **National Mission on Pilgrimage Rejuvenation and Spiritual, Heritage Augmentation Drive (PRASHAD)** has been launched as a **Central Sector Scheme** to support integrated development of selected pilgrimage and heritage sites.

SPACE SECTOR

- The year **2025** has witnessed a **significant achievement of India's space program**, characterized by **indigenous technological breakthroughs** and **expanded global footprints**.
- **India** became the **fourth nation to achieve autonomous satellite docking** via the **SpaDeX (Space Docking Experiment) mission**.
- **Global collaboration** reached new heights with the successful completion of the **Axiom-04 mission** in July 2025, which saw an **Indian astronaut conduct microgravity experiments aboard the International Space Station**.
- This synergy was further reinforced by the launch of **NASA ISRO Synthetic Aperture Radar Mission (NISAR)**, a global, microwave imaging mission, in July 2025.
- In December 2025, the **LVM3-M6 vehicle successfully injected the BlueBird Block-2 communication satellite** in the intended orbit —the **heaviest payload to be placed into the Low Earth Orbit (LEO) in Indian space history**, bolstering the nation's strategic infrastructure.

Enhancing Private Participation in the Space Sector:

- The **Space Sector Reforms of 2020**, followed by the **Indian Space Policy-2023**, have created a structured and forward-looking framework to enable **private-sector participation and enhance India's role in the global space economy**.
- **IN-SPACE** is functioning as a **single-window agency to promote, regulate, and authorize activities of Non-Governmental Entities (NGEs)**, ensuring streamlined governance.
- **Liberalised FDI policy** allows up to **100 per cent foreign investment** through the **automatic route in less sensitive categories**, with **graded caps (up to 74 per cent or 49 per cent) for sensitive segments**.



CONCLUSION

- The concept of infrastructure is evolving beyond physical networks to encompass digital public infrastructure, clean energy systems, resilient water management and future-ready technologies.
- Looking ahead, maintaining investment momentum, deepening private participation and aligning infrastructure development with emerging priorities—such as decarbonisation, digitalisation and resilience—will be critical.

KEY TERMS DISCUSSED IN THE CHAPTER

1. **Pradhan Mantri Gram Sadak Yojana (PMGSY)** was launched in 2000 with the objective of providing all-weather road connectivity to unconnected habitations in rural areas.
2. **Pradhan Mantri Janjati Adivasi Nyaya Maha AbhiyaN (PM JANMAN)** was launched in 2023 for socio-economic development of 75 PVTG communities residing in 18 states and one UT.
 - a. The mission aims to provide basic facilities to improve their socio-economic conditions such as safe housing, clean drinking water and improved access to education, health and nutrition, road and telecom connectivity, electrification of unelectrified households and sustainable livelihood opportunities.
3. In line with the **Major Port Authorities Act, 2021**, the **landlord port model** provides for port authorities to retain ownership of port land and core infrastructure while awarding long-term concessions to private operators for terminal development and operations, with an aim to enhance operational efficiency and modernize infrastructure through private investment.
4. **Hague-Visby Rules** is a globally accepted maritime standard for the international carriage of goods by sea.
5. **Tele-density** is the number of active telephone connections for every 100 people within a specific geographic area, representing the level of telecommunications penetration.
6. **Jal Jeevan Mission (JJM)** was launched in 2019 with the ambitious goal of providing tap water supply to every rural household by 2024.



CHAPTER 10: ENVIRONMENT AND CLIMATE CHANGE: BUILDING A RESILIENT, COMPETITIVE AND DEVELOPMENT-DRIVEN INDIA

INTRODUCTION

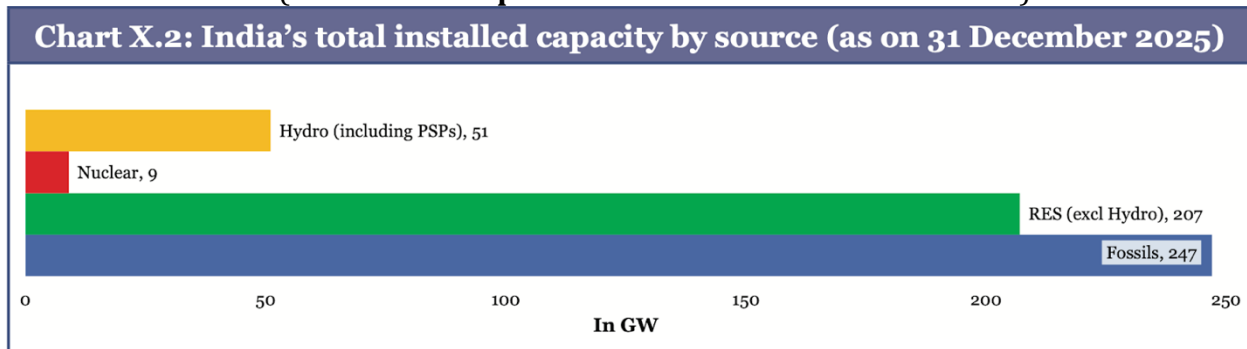
- **India** aims to become a **developed nation by 2047**, which requires achieving **high, inclusive, and environmentally sustainable growth**.
- Although **India's per capita emissions remain well below the global average**, climate change poses risks to livelihoods, infrastructure, and economic stability.
- The **2025 Adaptation Gap Report¹** estimates that **developing countries will require between USD 310 billion and USD 365 billion annually by 2035**, whereas the **current flow of international public adaptation finance to developing countries remains only USD 26 billion**.
- In the face of this **systemic inertia from the global North**, India has taken a decisive inward turn. By **scaling its domestic resilience spending from 3.7% of GDP in 2016 to 5.6% by 2022**, the Indian state has signaled that waiting for international capital is a luxury it cannot afford.

PUBLIC INVESTMENT-LED CLIMATE ADAPTATION IN INDIA

- **India's climate adaptation strategy** is predominantly advanced through a **development-led approach**, utilising **domestic public investment** in core development sectors.
- The **National Action Plan on Climate Change (NAPCC)** spearheads climate action through **nine missions** – on **solar energy, energy efficiency, sustainable habitats, water management, the Himalayan ecosystem, green India, sustainable agriculture, and strategic knowledge for climate change and health** - implemented by the respective nodal ministry/department. Many of these are focused on adaptation.
- Complementing this, the **Mangrove Initiative for Shoreline Habitats & Tangible Incomes (MISHTI)** envisages the **restoration and reforestation of mangroves** over approximately 540 square kilometres across nine coastal States and four Union Territories over a five-year period (2023–2028).
- Together with **Mission LiFE - Lifestyle for Environment**, which was introduced in **2021 at COP26 in Glasgow** and promotes **behavioural adaptation and mindful resource use**, these initiatives reflect a shift toward ecosystem-led, development-integrated climate resilience.

MITIGATION: TRANSITION TO A LOW-CARBON ECONOMY

- On the **mitigation front**, India is adopting a **multifaceted approach to mitigate global warming** by **diversifying its energy sources and enhancing access** while also **increasing the share of non-fossil fuels, improving energy efficiency, and promoting stability** across its energy systems.
- The country has already **surpassed the goal of 50 per cent installed power capacity from non-fossil fuel sources** (stood at **51.93 per cent** at the end of December 2025).



- According to the **International Renewable Energy Agency (IRENA)'s Renewable Energy Statistics 2025**, **India now ranks fourth globally in total installed renewable energy capacity** (after China, the USA, and Brazil).



- Additionally, **new measures** are being taken to **support other clean sources of energy**, including the **National Nuclear Mission, the Green Hydrogen Mission, and the Bio Energy Programme.**

CARBON CREDIT TRADING SCHEME

- The government adopted the **Carbon Credit Trading Scheme (CCTS)** in **2023**, operating through a **dual mechanism** that incorporates **mandatory compliance** and **voluntary offset approaches.**
- The **compliance mechanism targets energy-intensive industrial sectors** through an **emission intensity-based baseline-and-credit system**, initially covering sectors such as cement, iron and steel etc.
- **Entities that exceed their emissions intensity targets earn Carbon Credit Certificates (CCCs), denominated in tonnes of CO₂ equivalent (tCO₂e), which they can trade on power exchanges.** Those that **fall short must buy and surrender equivalent credits.**

BRIDGING THE FINANCE GAP IN THE INDIAN CONTEXT

- India has adopted a **multi-pronged strategy** to bridge the climate finance gap, moving beyond traditional funding to create a robust, market-driven ecosystem.
- A cornerstone of this strategy is the issuance of **Sovereign Green Bonds**, are **debt instruments issued by the Government of India to raise money for green projects** to reduce carbon emissions.
 - A defining feature of these instruments is the **'Greenium'**—the **yield advantage** green bonds hold over comparable conventional bonds.
- To **further deepen the pool of available capital**, **100% FDI has been permitted under the Automatic Route for renewable energy projects.**

EVOLUTION OF ENVIRONMENTAL REGULATIONS IN INDIA

- **Environmental policymaking in India gained momentum** in the aftermath of the **1972 Stockholm Declaration.**
- This led to the enactment of the **Water (Prevention and Control of Pollution) Act, 1974**, which laid the **institutional foundation for pollution control** by establishing **State-level Pollution Control Boards (SPCBs).**
 - These Boards were vested with the authority to **initiate suo-motu action against violations of environmental laws.**
- To complement this framework, the **Water (Prevention and Control of Pollution) Cess Act, 1977**, was introduced, enabling the **levy of a cess** on polluting and water-intensive industries.
- The **Bhopal Gas Tragedy of 1984** marked a critical turning point in India's environmental governance with the enactment of the **Environment (Protection) Act, 1986 (EPA).**
 - The EPA functions as an **umbrella legislation** that confers **powers on the central government to regulate environmental pollution.**
- The **three core statutes**, i.e., the **Water Act, the Air (Prevention and Control of Pollution) Act, 1981, and the EPA**, established the command and control framework for environmental regulation in India.
- In addition, the introduction of the **Environmental Impact Assessment (EIA) Notification, 1994**, and its replacement by the **EIA Notification, 2006**, institutionalised environmental regulation. The EIA regime requires **prior environmental clearance** for specified categories of projects, incorporating **screening, scoping, public consultation, and expert appraisal.**
- **Judicial intervention** has played a significant role in shaping environmental regulation in India.
 - The establishment of the **National Green Tribunal (NGT)** in **2010** strengthened enforcement but also increased regulatory scrutiny and litigation risks.



RECENT REFORMS

- The **PARIVESH (Pro-Active and Responsive facilitation by Interactive, Virtuous, and Environmental Single Window Hub) 3.0** is a nationwide **single-window digital platform for environmental clearances and post-approval compliance monitoring**.
- To **address plastic pollution, 12 identified single-use plastics (SUPs)** having high littering potential and low utility were **banned from 1 July 2022**.

CONCLUSION

- As climate risks intensify and global transitions accelerate, India's experience offers a **development-centric framework**, one that integrates resilience, competitiveness, and sustainability, demonstrating that economic growth and environmental stewardship can advance together rather than in opposition.

KEY TERMS DISCUSSED IN THE CHAPTER

1. The **Adaptation Gap Report** is an **annual UN Environment Programme (UNEP) publication** that evaluates the difference between the current, actual level of climate change adaptation and the necessary, planned levels needed to address growing climate risks.



CHAPTER 11: EDUCATION AND HEALTH: WHAT WORKS AND WHAT'S NEXT

INTRODUCTION

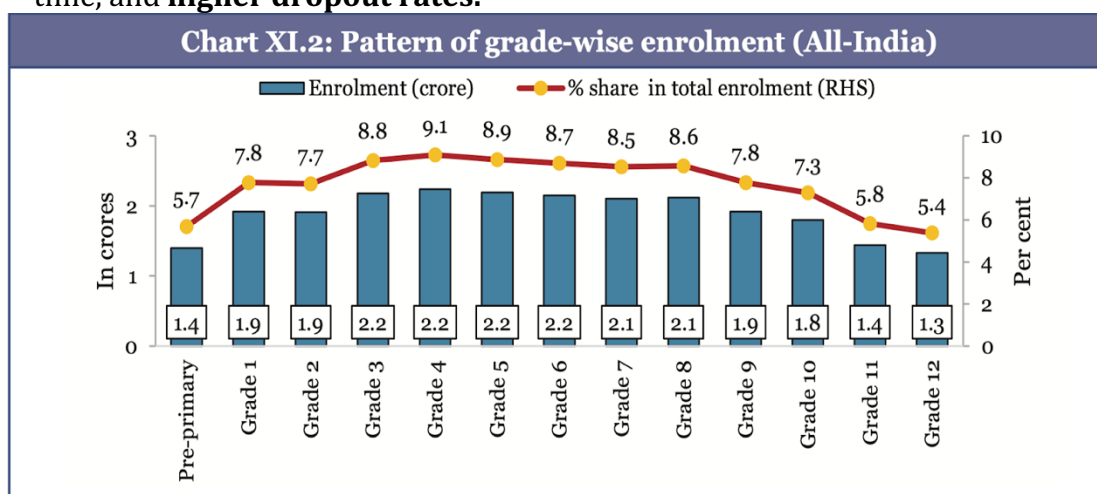
- Public health and education are mutually reinforcing pillars of human capital development, social well-being, and economic growth.

EDUCATION: ENHANCING QUALITY AND ACCESS

- India continues to enjoy a **strong demographic advantage**.
 - In 2024, nearly **27% of India's population was in the school-going age group (3–18 years)**.
- To fully convert its vast human resource base into high-quality human capital, the **National Education Policy (NEP), 2020**, aims to transform India's education system.
- It presents a **flexible, inclusive, and learner-centric education approach**, focusing on **Foundational literacy and numeracy (FLN)** and **higher-order capacities** such as critical thinking, problem-solving, and social and emotional intelligence.

School Infrastructure and Enrolment:

- India** today operates **one of the world's largest school systems**, serving 24.69 crore students across 14.71 lakh schools, supported by over 1.01 crore teachers (UDISE+ 2024-25).
 - Government schools constitute 69% of all schools, enrolling nearly half of all students**, while private schools account for 26% of schools and 41% of total enrolment.
- Aligned with the **NEP goal of achieving a 100% gross enrolment ratio (GER) from pre-primary to secondary education by 2030**, steady progress has been observed across all school levels.
 - GER scores are **41.4 at the foundational stage** (Pre-Primary to Grade II), **95.4 at the preparatory stage** (Grade III to Grade V), **90.3 at the middle stage** (Grade VI to Grade VIII), and **68.5 at the secondary stage** (Grade IX to Grade XII).
- While India has improved enrolment at early levels, the **secondary age-specific net enrolment (NER) remains low at 52.2%**, highlighting the need to retain students beyond Grade VIII.
- A key issue is the **uneven distribution of schools**: 54% of schools offer only foundational-preparatory education, while **just 17.1% provide secondary education in rural areas**.
 - Urban areas have a higher share of secondary schools (38.1%). This **disparity limits rural students' access to higher-level classes**, resulting in transition losses, increased travel time, and **higher dropout rates**.

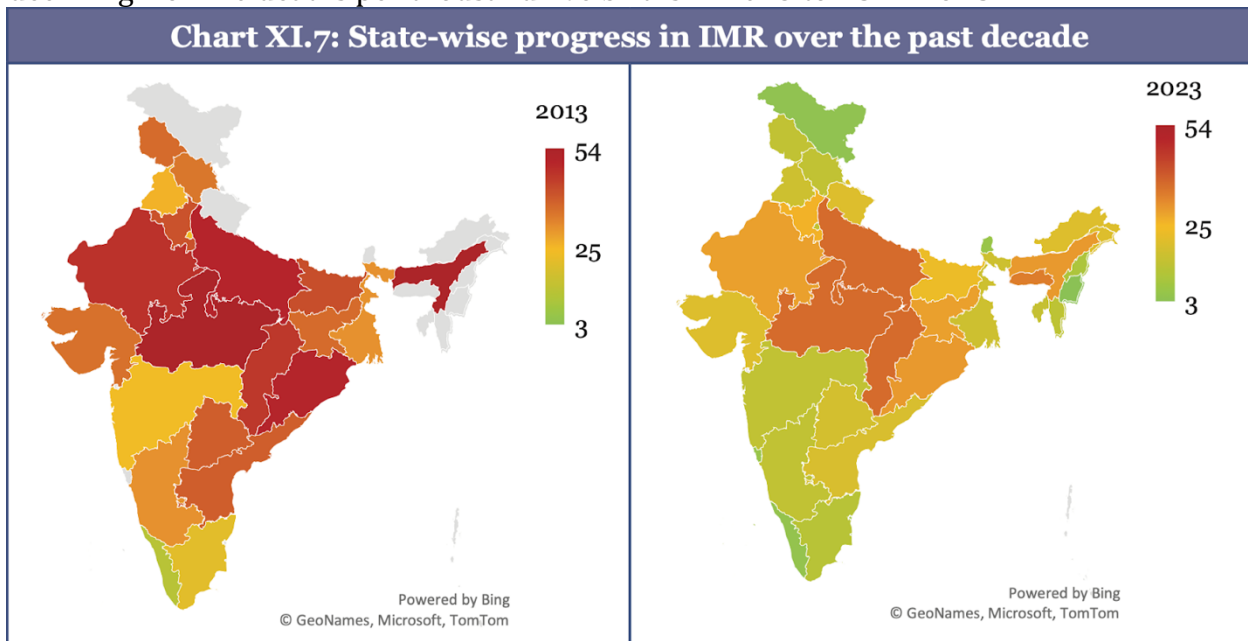


Improvement in Learning Outcomes:

- The **PARAKH (Performance Assessment, Review, and Analysis of Knowledge for Holistic Development) Rashtriya Sarvekshan 2024** was launched with the main objective is to **evaluate students' learning outcomes, competency, and holistic progress** across key grades.
- The PARAKH 2024 findings inform that **Grade III results show promising recovery post-COVID**.
 - Compared to 2021 and 2017, **Grade III proficiency levels have rebounded significantly**, with 65 per cent of students proficient in Mathematics (up from 42 per cent in 2021) and 57 per cent in Language (up from 39 per cent).

HEALTH: STRENGTHENING PUBLIC AND PREVENTIVE HEALTHCARE

- India has made **significant gains in healthcare** over the last decade, **improving life expectancy, reducing fertility rates, and decreasing maternal and child mortality rates** through the implementation of effective strategies and policies.
- **Since 1990**, India has **reduced its maternal mortality rate (MMR)¹ by 86%**, far exceeding the global average of 48%. Similarly, a **78% decline in the under-five mortality rate (U5MR)²** was achieved, surpassing the global reduction of 61% and a **70% decline in the neonatal mortality rate (NMR)³** compared to 54% globally during 1990-2023.
- The **infant mortality rate (IMR)⁴** marked a **drop of more than 37% over the past decade**, declining from 40 deaths per thousand live births in 2013 to **25 in 2023**.



India's Epidemiological Transition:

- **India is in a critical and complex stage of the epidemiological transition⁵**. While the **classical model of transition** describes a **linear shift from infectious to non-communicable diseases (NCDs)**, **India's path is more nuanced and overlapping**.
- Over the past few decades, the country has experienced a **substantial decline in mortality from infectious diseases** and an **increase in life expectancy at birth** from 49.7 years in 1973 to **70.3 years in 2023**.
- However, it still faces a **double burden: persistent communicable diseases (CDs)** (e.g., tuberculosis, vector-borne infections) coexist with **rapidly rising NCDs** like cardiovascular diseases, diabetes, and cancers.
 - Recent data show that **NCDs account for more than 57% of all deaths** in the country.



TACKLING THE OBESITY CHALLENGE

- The **2019-21 National Family Health Survey (NFHS)** reports that **24% of Indian women and 23% of Indian men are overweight or obese.**
- More troubling still, the **prevalence of excess weight among children under five** has risen from 2.1% in 2015-16 to **3.4%** in 2019-21.
- Recognizing obesity as a critical public health concern, the government has launched comprehensive, multi-pronged initiatives.
 - These include **POSHAN Abhiyaan & Poshan 2.0, Fit India Movement, Khelo India, Eat Right India, and the Nationwide Awareness Campaign – ‘Aaj Se Thoda Kam’.**

DIGITAL ADDICTION: COGNITIVE AND PSYCHOLOGICAL IMPACTS

- **Internet connections in India** grew from 25.15 crore (2014) to **96.96 crore (2024)**, supported by nationwide 5G deployment and BharatNet fiber connectivity to 2.18 lakh Gram Panchayats.
 - **85.5% of households own at least one smartphone (2025)**, reflecting near-ubiquitous access.
- While access fuels learning, **compulsive and high-intensity use can impose real economic and social costs**, ranging from lost study hours and reduced productivity to healthcare burdens and financial losses resulting from risky online behaviours.

Global & National Response to Digital Addiction:

- The **World Health Organisation (WHO)** recognised **online gaming addiction** as a **mental health condition**, defined by impaired control over gaming, prioritisation of gaming over other activities, and continued play despite negative consequences.
- In India, the **Ministry of Education’s Pragyatah framework** guides digital education planning with attention to screen time.
- **Tele-MANAS (Tele Mental Health Assistance and Networking Across States)**, launched by the **Ministry of Health and Family Welfare** in 2022, offers a **24/7 toll-free mental health helpline (14416)** across all states and UTs.
- The **Online Gaming (Regulation) Act, 2025**, represents a major step to address digital addiction and financial harm among youth.
 - It **bans online money games involving wagering, restricts advertising**, and introduces a **licensing framework for permissible skill-based games** to curb compulsive use, debt, and related mental health concerns.

OUTLOOK

- India's health and education sectors require unwavering focus to unlock the nation's true potential, especially in addressing **interconnected new emerging issues** such as the **double burden of CDs and NCDs, increasing digital addiction, concerning mental health issues, and increasing obesity.**
- Together, they **threaten the demographic dividend** by perpetuating cycles of unemployment, inequality, and lost productivity.
- **Prioritising education, skilling, digital wellness, health, nutrition, and dietary habits** through open dialogue, feedback surveys, success stories, and relatable role models will forge resilient citizens. This holistic approach would ensure a healthier, educated, skilled, thriving India.



KEY TERMS DISCUSSED IN THE CHAPTER

1. **Maternal Mortality Rate** is defined as the number of maternal deaths during a given time period per 100,000 live births.
2. **Under-Five Mortality Rate** refers to the probability a newborn would die before reaching exactly 5 years of age, expressed per 1,000 live births.
3. **Neonatal Mortality Rate** is defined as the number of deaths during the first 28 completed days of life per 1000 live births in a given year.
4. **Infant Mortality Rate** is measured as the number of deaths among infants under one year of age per thousand live births.
5. While the **demographic transition** refers to the shift from high to low birth and death rates as societies modernise, the **epidemiological transition** describes the change in leading causes of death from infectious diseases to chronic, non-communicable conditions.



CHAPTER 12: EMPLOYMENT AND SKILL DEVELOPMENT: GETTING SKILLING RIGHT

INTRODUCTION

- According to the **UN projections, India's demographic dividend is expected to peak around 2030**, when **nearly 65 per cent of the population will fall within the 15-59 years group**.
- To fully harness the demographic dividend, **creating quality jobs with sustainable livelihoods is essential**.

EMPLOYMENT OVERVIEW

- The labour market continues to show **steady activity with improving labour force participation, falling unemployment, and strong job creation** in both the organised and unorganised sectors.
 - A total of **56.2 crore people** (aged 15 years and above) were employed in Q2 FY26, reflecting a creation of 8.7 lakh new jobs in Q2 compared to Q1 of FY26.

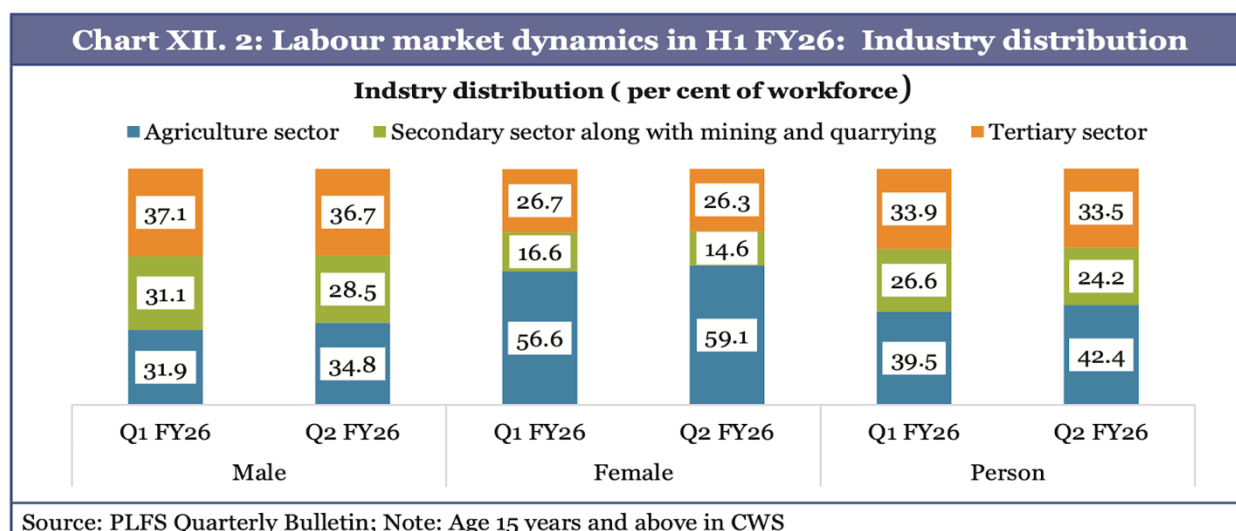
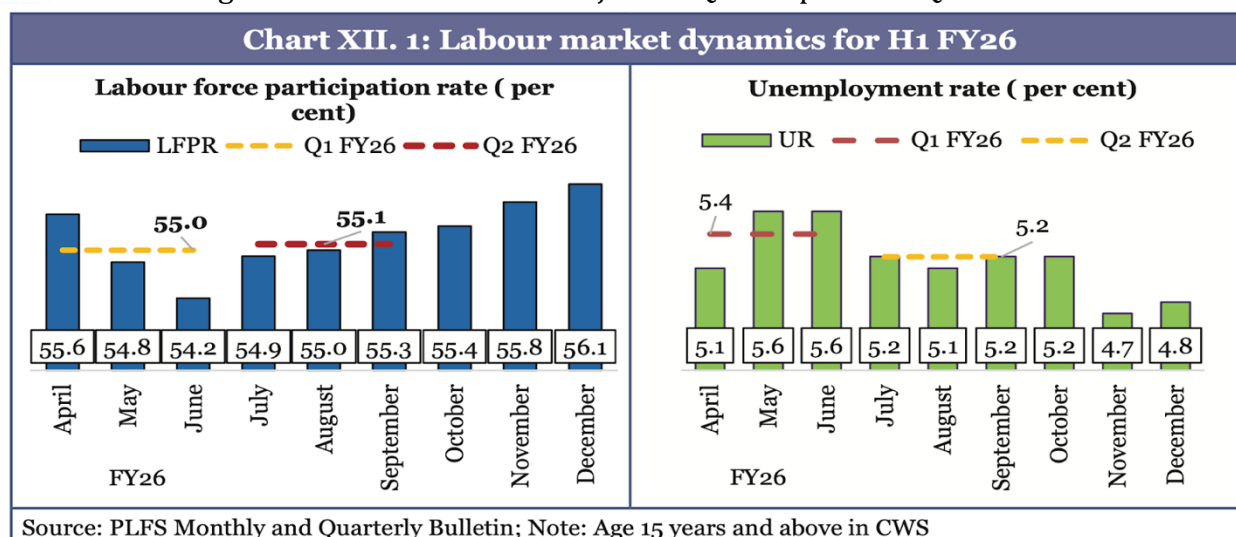
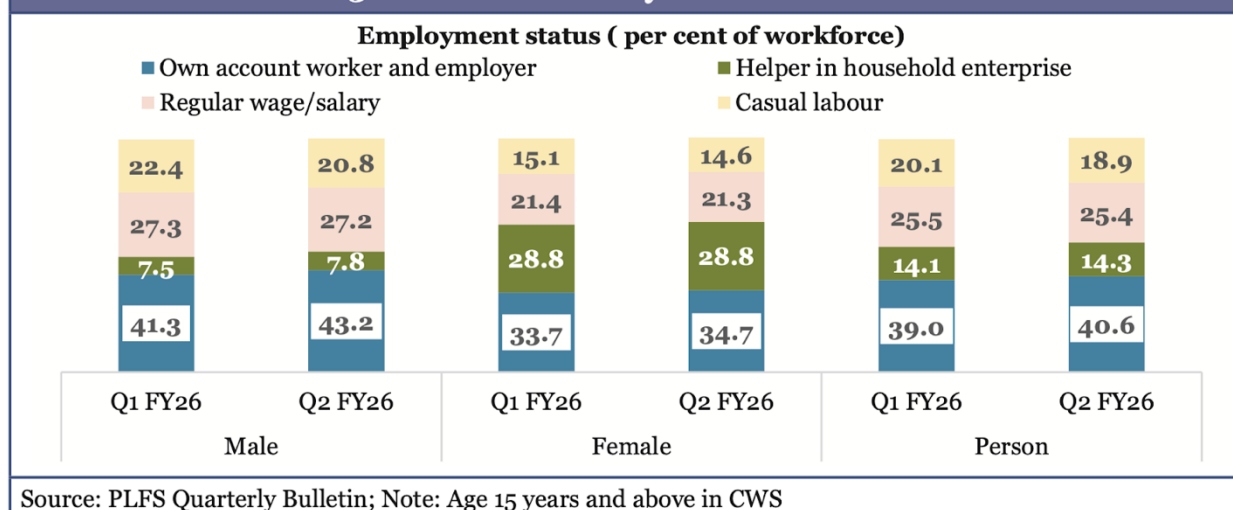


Chart XII. 3: Labour market dynamics in H1 FY26: Status



- The **Periodic Labour Force Survey (PLFS)** data reveal a **distinct and layered employment structure in India**, marked by rural-urban differences.
 - Rural employment is dominated by agricultural workers (57.7 per cent) and self-employment (62.8 per cent), with women workers showing relatively higher participation in them.
 - In contrast, urban employment is primarily concentrated in the services sector (62.0 per cent), with regular wage or salaried jobs making up the largest share (49.8 per cent).
 - At the aggregate level, in Q2 FY26, agriculture and self-employment accounted for 42.4 per cent and 55.8 per cent of total employment, respectively, while casual labour constituted 18.9 per cent.

Female LFPR:

- India has witnessed a **positive trend in Female Labour Force Participation Rate (FLFPR)** in recent years.
 - It has risen from 23.3 per cent in 2017-18 to **41.7 per cent in 2023-24**.
- Despite these improvements in economic participation, women workers continue to face **structural barriers**, including **limited mobility, lack of affordable housing, and inflexible work arrangements** that conflict with caregiving responsibilities, underscoring the need for a multipronged policy approach to further enhance participation.

UNORGANISED WORKFORCE

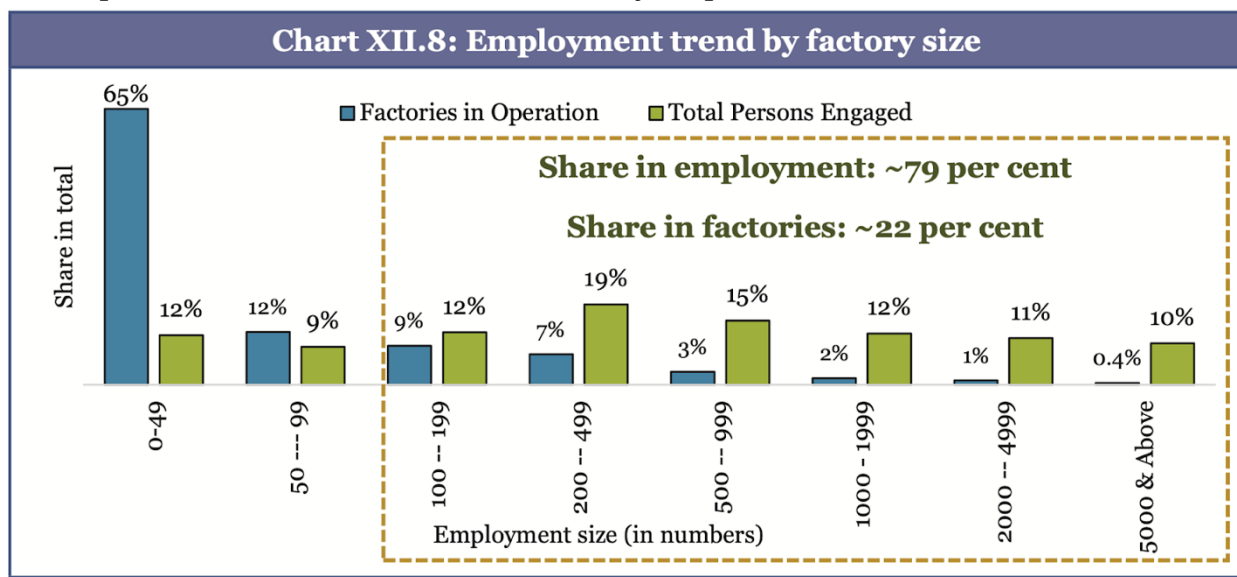
- The **Code on Social Security, 2020 (CSS)** defines **unorganised workers** as **home-based, self-employed or wage workers in the unorganised sector** and includes a worker in the organised sector who is not covered by the Industrial Disputes Act, 1947.
- The **e-Shram portal**, introduced in 2021, serves as a key institutional mechanism for **extending social protection to unorganised workers**.
 - The portal serves as a **National Database of Unorganised Workers**, which includes data on construction workers, migrant workers, gig and platform workers, street vendors, domestic workers, and agriculture workers.
 - Each registrant is assigned a **Universal Account Number (UAN)**, which is **linked to their Aadhaar and mobile number**, ensuring the **portability of scheme benefits** when workers move across platforms, locations, or employment arrangements.
- Launched in 2015, the **National Career Service (NCS)** is a **one-stop solution connecting job seekers, employers, training providers and career guidance and counselling agencies**.



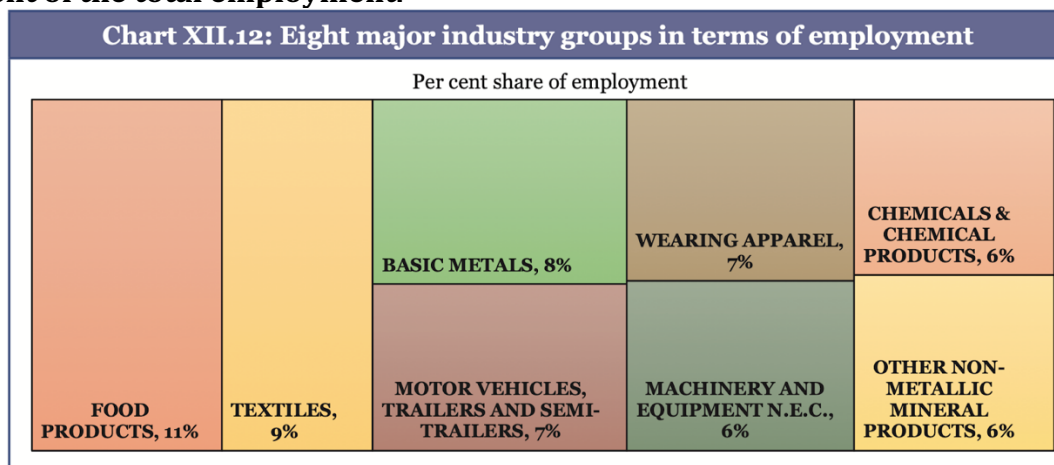
- It offers a range of services, including free registration, job application processing, interview assistance, and other employment-related services, and a multi-lingual helpline.
- The portal's **integration with the Ministry of External Affairs' eMigrate system** enables certified recruiting agencies to post verified international job vacancies and provides job seekers with access to global opportunities under safe and monitored conditions.

ORGANISED MANUFACTURING SECTOR

- The **Annual Survey of Industries (ASI)**, conducted annually by the **Ministry of Statistics and Programme Implementation (MoSPI)**, covers the organised manufacturing sector and provides insight into employment trends in the sector.
- In **FY24, 22 per cent of the factories in operation employed 79 per cent of the manufacturing workforce**, whereas **small factories** (with less than 100 employees) **accounted for 77 per cent of the total factories and only 21 per cent of the workforce**.



- While **employing a larger share of the manufacturing workforce**, large factories (employing more than 100 workers) also **pay higher wages and have a higher net value added (NVA) per person engaged, signalling higher labour productivity** in larger factories.
- In terms of **geographic distribution**, seven states contributed to around **60 per cent of the total employment in the manufacturing sector** with **Tamil Nadu** (15 per cent) on top followed by **Gujarat** (13 per cent), **Maharashtra** (13 per cent), **Uttar Pradesh** (8 per cent), **Karnataka** (6 per cent), **Haryana** (6 per cent) and **Telangana** (5 per cent).
- Further, **eight industry groups** in the organised manufacturing sector contributed to **around 60 per cent of the total employment**.



GIG ECONOMY & INFORMAL WORKFORCE DYNAMICS

- **India's labour market is transforming** due to factors such as economic policies, technological progress, and the evolving demands of the labour market.

Table XII.1: Features of the work relationship

	Regular wage/ Salaried	Casual	Self-employed	Gig/ platform worker	Fixed-term/ Contract Workers
Employer-worker connection	Direct (Bipartite)	Direct	No employer	Via digital platform (Tripartite)	Bipartite or Tripartite
Nature of work	Ongoing	Casual/ Seasonal	Ongoing	Task Based	Ongoing
Payment	Fixed	Daily	Profits	Task based	Fixed
Work location	Specific	Specific	Self-determined	Self-determined	Specific
Hours	Fixed	Demand based	Self-determined	Self-determined	Fixed
Social Security	Yes	Not covered	Not covered	Not covered	Mixed
Leave	Paid Leave	No paid leave	Self-determined	No formal paid leave	Mixed

- The **Code on Social Security (CSS), 2020** defines a **gig worker** as 'a person who participates in a work arrangement and earns from such activities outside of a traditional employer-employee relationship.'
- The **gig economy**, encompassing **delivery, ridesharing, and freelancing**, has witnessed **structural growth**, transitioning informal jobs into ecosystem-integrated roles.
 - From 77 lakh workers in FY21, the sector witnessed a 55 per cent increase to **120 lakh workers** in FY25, driven by smartphone penetration.
 - Now **representing over 2 per cent of the total workforce in India, growth of gig workers outpaces overall employment**, with **non-agricultural gigs** projected to constitute **6.7 per cent of the workforce by 2029-30**.
- The **Labour Codes** have formally recognised **gig and platform workers**, expanding social security, welfare funds, and benefit portability.
- **Strengthening social security, such as provident fund, insurance, and maternity benefits** for this sector, is essential.

SKILL ECOSYSTEM OVERVIEW

- The **PLFS 2023-24** findings show that the **share of individuals (in the 15-59 age group)** having acquired **some form of vocational or technical training** has **increased** from 8.1 per cent in 2017-18 to **34.7 per cent** in 2023-24.
- Under **Pradhan Mantri Kaushal Vikas Yojana (PMKVY) 4.0¹**, the traditional supply-side model has been replaced by **demand-driven training**.
 - By conducting training directly within industrial premises and utilizing employer-sourced trainers, it ensures that pedagogy matches real-world workplace requirements.
- In the traditional sector, the **PM Vishwakarma Scheme**, launched in 2023, provides **end-to-end support for 18 traditional trades** who work with their hands and tools.
 - It moves beyond basic training to offer **holistic market linkages** for artisans, ensuring that heritage crafts remain economically viable in the modern economy.



- The government is also **revitalizing the ITI (Industrial Training Institute) network** through a "Hub and Spoke" model comprising 200 hub ITIs and 800 spoke ITIs.
 - Each hub will be connected to four spokes on average. Hubs will host innovation centres, training for trainers, production units and placement services.
 - To ensure the quality of instruction, **five National Skill Training Institutes** in Bhubaneswar (Odisha), Chennai (Tamil Nadu), Hyderabad (Telangana), Kanpur (Uttar Pradesh), Ludhiana (Punjab) as **Centres of Excellence** with global partnerships.

CONCLUSION

- To achieve Viksit Bharat, India must institutionalize **flexible vocational pathways within early schooling** while prioritizing **targeted skilling for women and youth in high-productivity sectors**.
- This cohesive approach will mitigate structural skill mismatches and transform the nation into a high-value human capital hub resilient to automation and the green transition.

KEY TERMS DISCUSSED IN THE CHAPTER

1. The Pradhan Mantri Kaushal Vikas Yojana is a flagship, **free skill certification scheme** by the **Ministry of Skill Development and Entrepreneurship** aimed at improving youth employability through industry-relevant training.
 - a. Launched in 2015 and implemented by the **National Skill Development Corporation (NSDC)**, it provides **short-term training and RPL (Recognition of Prior Learning)** to **Indian citizens aged 15-45**.

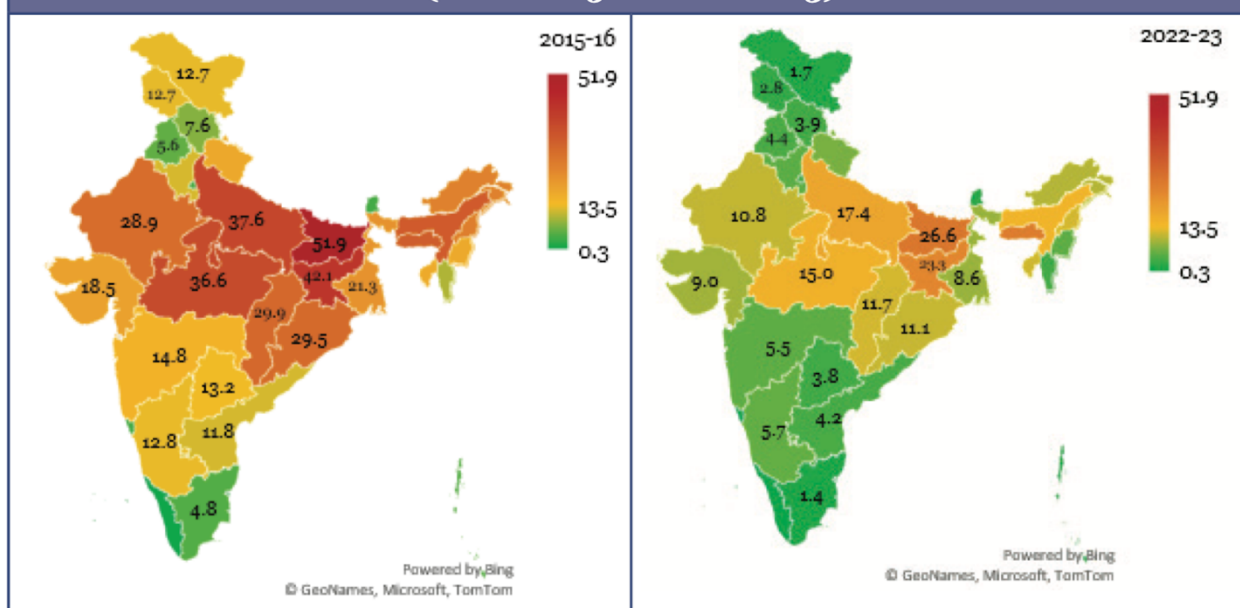


CHAPTER 13: RURAL DEVELOPMENT AND SOCIAL PROGRESS: FROM PARTICIPATION TO PARTNERSHIP

PROGRESS ON POVERTY & INEQUALITY

- India's **pursuit of inclusive growth** under the development model of '**Sabka Saath, Sabka Vikas, Sabka Prayas, Sabka Vishwas**' ('Together with all, development for all and the trust of all') has yielded measurable gains in recent years, reflected in **sustained poverty reduction, narrowing inequalities, and improved access to basic services**.
- In June 2025, the **World Bank raised the poverty line** from USD 2.15 to **USD 3.00 a day**, adjusted for the purchasing power of money to **2021 prices**.
- With the revised IPL, the **poverty rates for India in 2022-23 are 5.3 per cent for extreme poverty and 23.9 per cent for lower-middle-income poverty**.
- The **World Bank Multidimensional Poverty Measure for India** stood at **15.5 per cent in 2022-23**, reflecting ongoing improvements in living conditions.
- **NITI Aayog's Multidimensional Poverty Index (MPI)** shows a **decline in poverty** from 55.3 per cent in 2005-06 to **14.96 per cent** by 2019-21, and is estimated to have decreased further to **11.28 per cent** in 2022-23.

Chart XIII.1: Progress in state-wise incidence of multidimensional poverty (headcount ratio (per cent))
(From 2015-16 to 2022-23)



Source: Multidimensional Poverty in India since 2005-06, NITI Aayog <https://tinyurl.com/ya2rnbxj>

TRANSFORMING THE RURAL ECONOMY

Viksit Bharat- Guarantee for Rozgar and Ajeevika Mission (Gramin) Act, 2025:

- The government has enacted the **Viksit Bharat- Guarantee for Rozgar and Ajeevika Mission (Gramin) Act, 2025** (VB - G RAM G Act) which replaces the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), 2005.

Key Provisions of the Act:

- **Increased Employment Guarantee:** The Act raises the statutory guarantee of wage employment from 100 days to 125 days per financial year for every rural household whose adult members volunteer for unskilled manual work.



- **New Funding Pattern:** Unlike MGNREGA, where the Centre bore 100% of the wage bill, the new Act introduces a **shared funding model:**
 - **90:10 ratio:** For North-Eastern states, Himalayan states (Uttarakhand, HP), and J&K.
 - **60:40 ratio:** For all other states with legislatures.
- **Mandatory Agricultural Pause:** For the first time, the scheme **mandates a 60-day pause in employment works during peak agricultural seasons** (sowing and harvesting) to ensure labour is available for farm activities.
- **Normative Allocation:** The Act provides that the **central government** will determine **state-wise normative allocation** for each financial year. The **parameters** for these allocations will be **prescribed by the central government** under Rules. The **state government will bear any expenditure incurred in excess** of this allocation.
- **Thematic Areas:** Works will focus on **four thematic domains:** (i) water security, (ii) rural infrastructure, (iii) livelihood-related infrastructure, and (iv) mitigation of extreme weather events.
- **Disbursement of Wages:** The disbursement of daily wages shall be made on a **weekly basis or, in any case, not later than a fortnight** after the date on which such work was done.
- Schemes like Survey of Villages Abadi and Mapping with Improved Technology in Village Areas (SVAMITVA) and Namu Drone Didi are potent examples of how technology can foster inclusivity in village life.

SVAMITVA:

- The SVAMITVA (Survey of Villages and Mapping with Improved Technology in Village Areas) is a **Central Sector Scheme** of the **Ministry of Panchayati Raj** launched in 2020.
- It utilises **drone technology to map rural properties and issue legal ownership cards**, granting villagers clear property rights, reducing land disputes, and facilitating access to bank loans and government schemes and benefits.
 - The drone survey under SVAMITVA has been completed in 3.28 lakh villages, against a target of nearly 3.44 lakh villages notified for drone surveys.

DAY-NRLM:

- **Deendayal Antyodaya Yojana-National Rural Livelihood Mission (DAY-NRLM)** is a **Ministry of Rural Development** flagship program, launched in 2011, to **reduce poverty by enabling poor households to access gainful self-employment and skilled wage employment opportunities.**
- The **core of DAY-NRLM** is its **community-driven approach**, which **empowers rural women** by building their capacities, providing financial support, and offering training to enhance their livelihoods and promote self-reliance.

RGSA:

- The **centrally sponsored scheme Revamped Rashtriya Gram Swaraj Abhiyan (RGSA)**, launched in 2018, aims to **strengthen Panchayati Raj Institutions (PRIs) in rural areas** to make them more accountable, transparent, and responsive to local needs.
- It aims to **enhance the governance capabilities of Panchayats to achieve SDGs** by focusing on participatory planning, capacity building of elected representatives, and the use of technology.

Panchayat Advancement Index:

- The **Panchayat Advancement Index (PAI)** of the **Ministry of Panchayati Raj (MoPR)** assesses the **overall holistic development, performance & progress of over 2.5 lakh GPs across India.**
- It is built on **435 unique local indicators** organised across **nine themes:** poverty-free and enhanced livelihoods, healthy panchayat, child-friendly panchayat, water-sufficient panchayat, clean and green panchayat, self-sufficient infrastructure, socially just and socially secured panchayat, good governance, and women-friendly panchayat.



Village Commons:

- **Village commons** in India, also known as **Common Property Resources (CPR)**, are **traditionally community-managed shared resources** that include grazing fields, ponds, water bodies, and other areas **collectively used by villagers** for fodder, fuel, cane crushing, water, and livelihood.
 - Approximately **15 per cent of India's geographical area** comprises village commons.
- Although village commons provide important economic benefits, they have **gradually deteriorated due to encroachment, misuse, and ongoing pressures**.
 - **ISRO's Desertification and Land Degradation Atlas** notes that **degraded land expanded** from 94.53 million hectares during 2003-05 to 97.85 million hectares by 2018-19.
- Revitalizing village commons requires **formally designating them as distinct land-use categories** to ensure accurate monitoring and policy precision.

CONCLUSION

- While the progress in social indicators suggests the effectiveness of targeted policies, sustaining and further enhancing social development requires **active engagement of communities and continuous feedback mechanisms**.
- **Frequent technology-enabled surveys** should be established to enable targeted, data-driven interventions.



CHAPTER 14: EVOLUTION OF THE AI ECOSYSTEM IN INDIA: THE WAY FORWARD

GLOBAL AI LANDSCAPE: CHALLENGES FOR INDIA

- **AI** is no longer a distant or speculative technology. It is **increasingly being adopted**, even if in an experimental capacity, in organisations around the world.
 - Based on a survey of 1993 firms by McKinsey, **88% of organisations surveyed in 2025** reported that they are **utilising AI in at least one of their business functions**.
- **Control over critical inputs** (data, compute, models) is **concentrated in a few global firms**. This creates a **fundamental asymmetry** where most countries (including India) risk becoming mere "users" while a few "shapers" dictate standards, pricing, and cultural leanings.
- **Over-reliance on foreign AI solutions** also creates **geopolitical vulnerability** and may **constrain India's future diplomatic and strategic choices**.

BINDING CONSTRAINTS: RESOURCE & INFRASTRUCTURE

- **AI development is inextricably linked to physical resources**, posing a trade-off for a developing economy like India:
- **Energy & Grid Stability:** AI workloads introduce **volatility into power demand**, straining existing energy systems.
- **Water Intensity:** **AI Data Centers are resource-heavy**, consuming up to **20 lakh litres of water per day**. Scaling these indiscriminately **could deplete India's already strained groundwater and freshwater reserves**.
- **"Small Model" Strategy:** Due to finance, power, and water constraints, **India should prioritize smaller, task-specific models** that run on limited hardware and decentralized networks rather than chasing frontier-scale models.

PROPOSED AI ECONOMIC COUNCIL

- The Economic Survey 2025–26 proposes the **AI Economic Council** as a **dedicated body to manage the ethical and social dimensions of AI**, separate from purely technological governance bodies.
- **Five Guiding Principles** of the AIEC:
 1. **People First:** Every major project must demonstrate social/economic benefits (jobs, productivity, public services).
 2. **Protecting Jobs:** Policies must reflect India's labor reality. AI adoption should include impact assessments and transition plans for workers.
 3. **Phased Adoption:** Careful introduction based on the readiness of legal systems, data infrastructure, and human skills.
 4. **Skills-Technology Synergy:** Education reform and retraining must move in lockstep with technology adoption.
 5. **Ethical Guardrails:** Strict rules to prevent mass surveillance, algorithmic discrimination, and unfair worker monitoring.

CONCLUSION

- India's comparative advantage in the AI era lies in the **productive use of domestic data, human capital depth, and the ability of public institutions to coordinate distributed efforts**.
- A **bottom-up strategy** anchored in **open and interoperable systems, sector-specific models, and shared physical and digital infrastructure** offers a more credible pathway to value creation.
- At the same time, **openness without careful management of AI development and usage is insufficient**. **Regulation, data governance and safety** will have to evolve in parallel with deployment, not in its aftermath.



CHAPTER 15: URBANISATION: MAKING INDIA'S CITIES WORK FOR ITS CITIZENS

THE PARADOX OF INDIAN URBANISATION

- India stands at a pivotal urban crossroads. While **metropolitan giants** like Mumbai, Delhi, and Bengaluru have ascended to the ranks of the **world's largest agglomerations**, they **remain trapped in a productivity paradox**.
- Despite their immense population scales, **Indian cities have yet to translate size into the global economic influence** seen in nodes like Singapore or London.
- The **World Bank** estimates that by **2036, cities will house 40% of India's population and contribute nearly 70% of its GDP**.
- However, this economic centrality is undermined by a profound **political and administrative peripheralization**. While global cities are governed to enable action, Indian cities are merely administered in a manner that disperses power and avoids accountability.

GOVERNANCE DEFICIT

- **Indian cities raise less than 0.6 per cent of GDP in own-source revenues (OSR) and depend overwhelmingly on intergovernmental transfers.**
 - For most large Indian cities, **OSR covers only 30-40 per cent of total municipal expenditure**, falling to **below 20 per cent for smaller cities**.
- Despite their limited economic independence, **cities contribute disproportionately to economic growth.**
 - **World Bank** estimates that by **2036, India's towns and cities will be home to 40 per cent of the population, contributing almost 70 per cent to GDP**.
- Hence, **cities become economically central. However, they remain politically peripheral.** The primary structural constraint is a **fragmented institutional design**.
- Unlike global cities that operate with significant administrative and fiscal autonomy, Indian cities remain embedded within **multi-layered governance structures.**
 - Urban functions are **fragmented across Urban Local Bodies (ULBs), Development Authorities, State line departments, and Parastatal agencies.**
 - For instance, metro rail, flyovers, and expressways are built without parallel land-use reform, housing supply, or skill clustering.

UNLOCKING "DEAD CAPITAL" THROUGH SPATIAL REFORM

- **One of the most binding constraints to urban productivity is the prevalence of "dead capital" caused by restrictive land-use regulations.**
 - **Development Control Regulations**, particularly **low Floor Space Index (FSI) norms, artificially constrain vertical growth**, forcing cities to sprawl horizontally.
 - This horizontal expansion **drives up the cost of infrastructure delivery and housing**, making cities unaffordable.
- **Unclear land titles** further exacerbate this **market fragmentation**.
- Under the aegis of the **Digital India Land Records Modernisation Programme (DILRMP)**¹, the government introduced the **Unique Land Parcel Identification Number (ULPIN) or Bhu-Aadhaar**², to address these obstacles.

FROM COVERAGE TO CIRCULARITY

- Under **Swachh Bharat Mission-Urban (SBM-U)**, India has successfully **eliminated open defecation across all cities**.
- **SBM-U 2.0** was launched in 2021 to shift focus from **improving access to achieving better outcomes**.



- Yet, the **challenge remains at the local enforcement level**, where **gaps in segregation and processing effectiveness** persist.
- The future of urban infrastructure lies in moving away from linear utilities toward **nature-based, circular systems**.
- This includes adopting **Guillermo Penalosa's "8-80" philosophy** that good streets must work equally well for an eight-year-old and an eighty-year-old and **integrating nature-based solutions**³ to combat the tropical "urban heat island" effect.

INTEGRATING THE INFORMAL AND FINANCING THE FUTURE

- A modern urban vision must also reconcile with the **persistence of informality**.
- Rather than viewing it as a phenomenon to be eradicated, schemes like **PM SVANidhi**⁴ demonstrate the power of **integrating informal workers into the digital and financial ecosystem**.
- This integration is supported by the **Urban Infrastructure Development Fund (UIDF)**, announced in the **Union Budget 2023-24** with an initial outlay of **₹10,000 crore** and managed by the **National Housing Bank**, to provide **low-interest loans to public agencies for developing essential infrastructure in Tier 2 and Tier 3 cities**.
- Close on its heels is the **₹1 lakh crore Urban Challenge Fund (UCF)**, announced in the **Union Budget 2025-26**, to **leverage market financing, participation of the private sector and citizen-centric reforms** to enable the development of high-quality urban infrastructure.

CONCLUSION

- India stands at a pivotal moment in its urbanisation journey. Urbanisation has concentrated productivity, innovation and labour markets in our cities. But it has also concentrated congestion, informality, and complexity of governance.
- To resolve this, India must **integrate land-use reforms and people-centric mobility with circular, resource-efficient utility systems**.
- This physical transformation will only deliver its full dividend if **anchored by an empowered metropolitan governance**.

KEY TERMS DISCUSSED IN THE CHAPTER

1. The **Department of Land Resources, Ministry of Rural Development**, has been implementing the **Digital India Land Records Modernisation Programme (DILRMP)** since 2016-17 with the objective of **digitization of land records with 100% financial assistance from the Central Government**.
 - a. The **objective** of the programme is to make available **online information on land records and registration**, thereby checking fraudulent/benami transactions and reducing land disputes.
2. **Bhu-Aadhaar or Unique Land Parcel Identification Number (ULPIN)**, aims to **digitize and uniquely identify land parcels in India**. It is being implemented as **part of DILRMP**.
 - a. Bhu-Aadhaar is a **14-digit alpha-numeric unique ID** generated using the longitude and latitude coordinates of the land parcel. It is based on detailed surveys and geo-referenced cadastral maps. It will **cover all land parcels — rural as well as urban**.
3. **Nature-based Solutions (NbS)** are actions that **protect, sustainably manage, and restore natural or modified ecosystems to address societal challenges** such as climate change, water security, and disaster risk, while **simultaneously providing human well-being and biodiversity benefits**.



- a. Examples include restoring mangroves for coastal defence, green roofs for urban cooling, and reforestation for carbon sequestration.
- 4. **PM SVANidhi (Prime Minister Street Vendor's AtmaNirbhar Nidhi)** is a **central-sector micro-credit scheme** launched in 2020, by the **Ministry of Housing and Urban Affairs (MoHUA)** to provide **collateral-free working capital loans to street vendors**.



CHAPTER 16: FROM IMPORT SUBSTITUTION TO STRATEGIC RESILIENCE AND STRATEGIC INDISPENSABILITY

MACRO-ECONOMIC OVERVIEW

- Post-pandemic, the **Indian economy** has emerged as a **global outperformer**, with **potential growth shifting higher toward 7.0%**.
- This resilience is backed by a **healthy banking system, robust credit intermediation, and a capital formation rate exceeding 30% of GDP**.
- Externally, the **current account deficit remains manageable**, supported by ample **foreign exchange reserves and strong remittances**.

CHANGING GLOBAL ORDER

- The post-Cold War era of open trade and predictable rules has yielded to a **fragmented world** where **trade, technology, and supply chains are weapons of strategic leverage**.
- **Mineral Scarcity**: The **AI boom and the green energy transition** have caused a **surge in demand for critical minerals**, leading to **supply constraints and price volatility**.
- **Geopolitical Conflict**: **Geopolitical uncertainties** are now a **structural feature**, necessitating that **India move beyond mere macroeconomic stability toward institutional and strategic capacity**.

PATH TO STRATEGIC INDISPENSABILITY

- The goal of **Aatmanirbhar Bharat** is to move through **three evolutionary stages**:

1. Intelligent Import Substitution (Building the Foundation):

- Unlike the indiscriminate protectionism of the past, **"Intelligent" substitution is highly selective**.
- It **identifies Tier I vulnerabilities** (critical components in defence, public health, and core infrastructure) where **dependence on a single, often hostile, source creates asymmetric risk**.
- The **state's role** here is to **guarantee domestic capacity**, acknowledging that initial costs may be higher than imports, but **prioritizing national security over short-term market efficiency**.

2. Strategic Resilience (The Buffer Phase):

- Once the **foundational vulnerabilities are secured**, the **focus shifts to Resilience**. This stage is about **building deep economic buffers** that allow India to **absorb external shocks** whether they are geopolitical conflicts, pandemic-driven supply chain breaks, or "weaponized" trade rules.
- **Diversification**: Moving away from a "single-source" dependence toward a **diversified sourcing strategy**.
- **Scale and Learning**: In **Tier II sectors** (where domestic production is economically feasible, but imports persist due to coordination failures, historical dependence), the state provides **time-bound support** to help domestic firms reach a **"minimum viable scale."**

3. Strategic Indispensability (The Final Goal):

- The ultimate objective is **Strategic Indispensability**. This occurs when **India becomes so deeply embedded in Global Value Chains (GVCs)** that the rest of the world has a vested interest in India's stability and growth.

STATE CAPACITY: THE BINDING CONSTRAINT

- The Survey argues that **"Growth" is no longer the primary hurdle; the quality of State Capacity is**.
- **Modern governance** requires a **shift from static rule-compliance to adaptive competence**.
- **Institutional Flexibility**: The state must be firm in enforcing discipline (preventing protection from becoming an entitlement) but **flexible enough to respond to feedback**.



- **Mission Karmayogi:** This initiative represents a move toward a "**competency-driven**" **civil service**, grounding modern administrative practices in Indian values like *Nishkam Karma* (duty-based service).
- **Deregulation as Strength:** Simplifying rules is not a retreat of the state but a strengthening of it, as it allows **administrative energy to shift from policing toward problem-solving and execution.**

CONCLUSION

- **India's transition from a resilient economy to a strategically indispensable global power** depends on a **state that can enforce discipline** while **fostering adaptive competence.**
- Ultimately, achieving this vision requires an **institutional shift from static administration to dynamic, value-based governance** that converts economic growth into enduring geopolitical influence.

