



UPSC HUB

INDIAN ECONOMY

50 Most Important Topics for UPSC

Concepts, fiscal policy, banking, sectors & external trade — key facts, tables,
revision tips and FAQs for Prelims & Mains

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Indian Economy: 50 Most Important Topics for UPSC (Concepts + Indian Economy)

Economy is one of the highest-weightage areas in the UPSC syllabus — and one of the most dynamic. Prelims typically draws 14–18 questions from economic concepts, government schemes, budgets, banking and the external sector, while GS Paper III in Mains is essentially applied economics: growth, inclusion, fiscal policy, agriculture, industry and infrastructure. Unlike static subjects, economy questions often connect a textbook concept to that year's budget or an RBI decision — so understanding the logic matters more than memorising numbers.

These 50 topics cover the complete economy syllabus: core concepts and measurement, fiscal policy, money and banking, and India's sectors plus the external sector. Every topic has a quick-revision table plus exam-oriented notes — what it is, why it matters, the key facts, and exactly how UPSC tests it. Use the table of contents below to jump straight to any topic.



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Part I: Economic Concepts & Measurement

1. GDP, GNP, NNP & National Income Accounting

Key fact	Detail
GDP	Market value of all final goods and services produced within a country's borders in a year
GNP	GDP plus net factor income earned by residents from abroad
NNP	GNP minus depreciation; NNP per capita is India's official per capita income measure

Published by	National Statistical Office (NSO) under the Ministry of Statistics and Programme Implementation
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What it is: National income accounting is the bookkeeping system that measures a country's economic output through three linked aggregates. Gross Domestic Product (GDP) counts everything produced inside the country's geographical boundary, regardless of who owns the factory. Gross National Product (GNP) shifts the lens from territory to nationality — it adds the income Indian residents earn abroad (wages, profits, remittances) and subtracts what foreigners earn inside India. Net National Product (NNP) goes one step further by deducting depreciation, the wear and tear of machinery and buildings during production. When NNP is divided by the population, you get per capita income.

Why it matters: These aggregates are the scoreboard of the economy. They determine whether India is growing or shrinking, how big the economy is relative to other countries, and how much income is available per person. Policymakers use them to set budgets, the RBI uses them to calibrate monetary policy, and international bodies use them to classify countries as low, middle or high income. For citizens, per capita income is the closest single number to how much average prosperity is improving over time.

Key facts: India's national accounts currently use 2011-12 as the base year, meaning GDP is reported both at current prices (nominal) and at constant 2011-12 prices (real). Since the world economy is deeply connected, the gap between GDP and GNP is usually small for India. GVA (Gross Value Added) at basic prices is the preferred headline in Indian releases — GDP is derived by adding product taxes and subtracting subsidies from GVA. India is the world's most populous country, so its total GDP looks large while per capita income remains in the lower-middle-income range.

How UPSC tests it: Expect direct conceptual questions — which aggregate the government uses for per capita income, the order in which depreciation is subtracted, or the relationship between GDP and GVA. Statement-based questions in Prelims often shuffle the definitions of GDP, GNP and NNP. In Mains, this topic appears when essays or GS-III answers need precise terminology to discuss growth performance.

2.2. Nominal vs Real GDP & GDP Deflator

Key fact	Detail
Nominal GDP	Output valued at current market prices of that year; rises with both production and prices
Real GDP	Output valued at base-year prices; shows only change in physical production
GDP deflator	$(\text{Nominal GDP} \div \text{Real GDP}) \times 100$ — the broadest measure of the price level of all goods and services produced

What it is: Nominal GDP values this year's output at this year's prices, so it can rise even if factories produce exactly the same quantity — simply because prices went up. Real GDP strips

out the effect of price changes by valuing output at the prices of a chosen base year, so it measures only whether the country actually produced more goods and services. The GDP deflator is the ratio of the two, expressed as an index. It answers a different question from inflation indices: not "how much do consumers pay," but "how much has the price level of everything produced changed."

Why it matters: When India reports a growth rate, it is the growth of real GDP that matters — it tells citizens and investors whether the economy genuinely expanded. Nominal GDP matters for fiscal math: tax revenues, the fiscal deficit ratio and the debt-to-GDP ratio are all computed against nominal GDP because they are collected in today's rupees. Confusing the two is one of the most common analytical mistakes; a country with high nominal growth but high inflation may have stagnant real growth.

Key facts: India's real GDP series is anchored to the 2011-12 base year. The GDP deflator covers the entire economy, unlike the CPI (consumer basket) or the WPI (wholesale basket), which makes it the broadest price measure but also a derived one — it is never surveyed directly. A deflator above 100 means prices have risen since the base year; a falling deflator signals broad deflationary pressure across produced output.

How UPSC tests it: Prelims loves the deflator formula and the distinction between nominal and real growth, often framed around whether a growth claim is "real" or price-driven. Statement questions may ask which index covers the broadest set of goods. In Mains, this logic is used to interpret budget numbers, where expenditure growth in nominal terms must be read against real growth and inflation.

3.3. Economic Growth vs Development (HDI, MPI)

Key fact	Detail
Economic growth	Increase in real GDP/output — a narrow, quantitative measure
Economic development	Broader improvement in human well-being: health, education, living standards
HDI	UNDP index combining health, education and income; India is in the medium human development group
MPI	UNDP-OPHI index measuring overlapping deprivations in health, education and living standards

What it is: Economic growth means producing more — higher real GDP this year than last. Economic development is a wider idea: whether people's lives actually improve through longer, healthier, better-educated lives and decent living standards. Growth is a means; development is the end. The Human Development Index (HDI), published by UNDP in its annual Human Development Report, compresses three dimensions — a long and healthy life (life expectancy at birth), knowledge (mean and expected years of schooling), and a decent standard of living (GNI per capita) — into a single score between 0 and 1. The Multidimensional Poverty Index (MPI), developed by the Oxford Poverty & Human Development Initiative with UNDP, identifies people

facing simultaneous deprivations across health, education and living standards through ten indicators.

Why it matters: India can grow fast while large sections of the population remain deprived of nutrition, schooling or healthcare — the growth-versus-development gap is at the heart of Indian policy debate. HDI and MPI force attention onto outcomes that GDP ignores: a child in school, a mother surviving childbirth, a household with clean cooking fuel. NITI Aayog has produced a national MPI for India, signalling that official poverty analysis now looks beyond income alone.

Key facts: India ranks in the medium human development category of the global HDI. The MPI's ten indicators include nutrition, child mortality, years of schooling, school attendance, cooking fuel, sanitation, drinking water, electricity, housing and assets. A person is counted as multidimensionally poor when deprived in roughly a third or more of the weighted indicators. The Gender Development Index and Inequality-adjusted HDI are companion measures published alongside the HDI.

How UPSC tests it: Prelims asks the dimensions and publishers of HDI and MPI, and the conceptual difference between growth and development — a favourite one-liner. Mains questions in GS-II and GS-III ask why rapid GDP growth has not translated into proportionate human development gains, inviting HDI and MPI data as evidence. Essay topics on inclusive growth draw directly on this distinction.

4. 4. Inflation (CPI, WPI, Core Inflation)

Key fact	Detail
CPI	Retail price index compiled by NSO, base year 2012 — the RBI's policy anchor
WPI	Wholesale price index compiled by the Office of Economic Adviser (DPIIT), base year 2011-12
Core inflation	Inflation excluding volatile food and fuel items — reveals underlying price pressure
RBI target	4% CPI inflation with a tolerance band of 2 percentage points on either side

What it is: Inflation is a sustained rise in the general price level, meaning each rupee buys less than before. India tracks it through two headline indices. The Consumer Price Index (CPI) measures what households actually pay at retail shops across rural and urban India, using a basket of goods and services weighted by household spending. The Wholesale Price Index (WPI) measures prices at the wholesale or mandi level, weighted by traded goods. Core inflation strips the volatile food and fuel components out of the CPI to reveal the persistent, underlying trend — because a one-time onion-price spike tells the central bank little about durable demand pressure.

Why it matters: Inflation silently taxes savers and wage earners, hits the poor hardest because food dominates their budgets, and forces the RBI to respond. Under India's inflation-targeting framework, the RBI's Monetary Policy Committee is mandated to keep CPI inflation at 4%, tolerating 2% to 6%. If inflation stays outside the band, the RBI must explain itself to the

government. This makes the CPI the single most policy-sensitive number in the Indian economy every month.

Key facts: The CPI's base year is 2012 and it is released by the NSO under MoSPI; the WPI's base year is 2011-12 and it comes from the Office of Economic Adviser in the Department for Promotion of Industry and Internal Trade. Food carries a heavy weight in India's CPI because of consumption patterns, which is why monsoon failures quickly show up as retail inflation. Headline CPI, food inflation, fuel inflation and core inflation are reported as separate series.

How UPSC tests it: Prelims routinely asks who compiles CPI and WPI, their base years, what core inflation excludes, and the RBI's target band — classic fact-based questions. Mains questions ask the RBI to balance inflation control against growth, or examine why food inflation persists despite bumper harvests. Causes (demand-pull vs cost-push) and effects on different income groups are standard GS-III material.

5. Deflation & Stagflation

Key fact	Detail
Deflation	Sustained fall in the general price level — the opposite of inflation
Stagflation	Stagnant or falling output combined with high inflation and unemployment
Disinflation	Inflation slowing down but still positive — often confused with deflation

What it is: Deflation is when the general price level falls over a sustained period, so money gains purchasing power. Stagflation is the far nastier combination of stagnant or shrinking output, high unemployment, and stubbornly high inflation at the same time. Disinflation sits between the two: prices still rise, just more slowly. Deflation is dangerous because falling prices make consumers postpone purchases and borrowers face heavier real debt burdens, which can trap an economy in a downward spiral. Stagflation is dangerous for the opposite reason — it breaks the normal trade-off that policymakers rely on, because the usual cure for slow growth (cheaper credit, more spending) feeds the inflation, while the usual cure for inflation (tighter policy) deepens the slowdown.

Why it matters: These are the two nightmare scenarios for economic management. Japan's long battle with deflation showed how hard it is to escape once expectations of falling prices set in. The 1970s oil shocks gave the world its textbook stagflation, and India itself has faced stagflationary episodes when growth slowed while food and fuel prices stayed high — such as the period around 2019–20 when GDP growth decelerated sharply while retail inflation stayed elevated. Recognising the diagnosis matters because each condition demands the opposite medicine.

Key facts: True deflation is rare in India; even the WPI, which is more volatile, only occasionally dips below zero. A negative WPI reading is not the same as deflation for consumers, since retail prices can keep rising. Stagflation typically originates on the supply side — a bad monsoon, an oil price shock, or a pandemic disrupting supply chains — which raises costs even as demand

weakens. Central banks find stagflation the hardest combination to fight because their main tool, the interest rate, pushes growth and inflation in opposite directions.

How UPSC tests it: Prelims asks the definitions and the distinguishing features — a one-mark differentiation question is a favourite. Statement-based questions may describe a scenario (falling output plus rising prices) and ask what it is called. Mains questions invite analysis of whether India is entering stagflation during slowdowns with high food inflation, or ask for the policy response to deflationary risks.

6.6. Business Cycles

Key fact	Detail
Four phases	Expansion, peak, contraction (recession), trough
Recession	Commonly, two consecutive quarters of falling real GDP — a technical recession
India's recent cycle	Sharp pandemic contraction in 2020 followed by a strong recovery rebound

What it is: A business cycle is the recurring pattern of expansion and contraction in economic activity around a long-run growth trend. In the expansion phase, output, employment, incomes and profits rise; confidence feeds on itself. At the peak, the economy is running hot and bottlenecks appear. The contraction phase then sets in — spending falls, firms cut production, jobs disappear. At the trough, activity bottoms out and the conditions for recovery begin to form. The common shorthand for a recession is two straight quarters of declining real GDP, though economists also weigh employment, incomes and industrial production before declaring one.

Why it matters: The phase of the cycle dictates the right policy response. During a contraction, governments spend more and central banks cut rates to support demand; during an overheating expansion, they do the reverse to prevent inflation. For businesses, the cycle determines hiring, investment and inventory decisions. For UPSC, the cycle explains why the same GDP growth number can mean very different things depending on whether the economy is recovering from a trough or cooling from a peak.

Key facts: India's economy went through a textbook cycle during the pandemic: a historic contraction in the April–June 2020 quarter when the lockdown froze activity, followed by a sharp rebound as the economy reopened — a V-shaped recovery in which the depth of the fall was matched by the speed of the bounce. Cyclical fluctuations should not be confused with the long-run trend growth rate, which reflects structural factors like demography, productivity and investment. Economists distinguish the cycle from structural shifts by looking at whether output returns to its previous path once the shock passes.

How UPSC tests it: Prelims asks the phases in order and the two-quarter rule for a technical recession. Questions may present a description of an economy (falling output, rising unemployment) and ask which phase it represents. Mains questions use the cycle to discuss counter-cyclical fiscal policy — why governments should save in booms and spend in busts — and to assess where India stands in its recovery path.

7.7. Unemployment Types & Measurement in India

Key fact	Detail
PLFS	Periodic Labour Force Survey by NSO — India's official employment data since 2017-18
Disguised unemployment	More workers than needed in a task (common in agriculture); removing some does not reduce output
Key types	Structural, cyclical, frictional, seasonal and educated unemployment

What it is: Unemployment means people who are able and willing to work cannot find jobs. Economists split it into types by cause. Structural unemployment arises when workers' skills do not match available jobs — a weaver displaced by power looms, for instance. Cyclical unemployment follows the business cycle, rising in recessions. Frictional unemployment is the brief gap between leaving one job and finding the next. Seasonal unemployment hits farm labourers and construction workers between seasons. Disguised unemployment, rampant in Indian agriculture, means the field is crowded with workers whose marginal contribution is near zero — some could leave without output falling. India measures employment through the Periodic Labour Force Survey (PLFS), which reports the Labour Force Participation Rate (LFPR), the Worker Population Ratio and the Unemployment Rate using three reference periods: usual status (one year), current weekly status (one week) and current daily status (each day).

Why it matters: Jobs are the bridge between GDP growth and people's lives — India can grow at 7% while employment lags, the so-called jobless growth problem. With a young population entering the workforce every year, creating productive employment is arguably India's biggest economic challenge. The unemployment rate also feeds directly into political and policy debates about the success of schemes like MGNREGA and skilling programmes.

Key facts: The PLFS replaced the older quinquennial Employment-Unemployment Surveys, giving India annual (and for urban areas, quarterly) labour data. The unemployment rate is the share of the labour force — people working or actively seeking work — that is without work; those who have stopped looking are not counted, which is why a falling LFPR can hide distress. Educated unemployment, where graduates cannot find suitable work, is a distinct Indian concern linked to skill mismatches. Female LFPR in India has historically been low by global standards, a major structural issue.

How UPSC tests it: Prelims asks the definitions of disguised, structural and frictional unemployment and what PLFS measures — highly repeated. Questions distinguish the three reference periods or ask how the unemployment rate is computed. Mains questions in GS-III demand analysis of jobless growth, the informal sector, and what the demographic dividend requires in employment terms.

8. 8. Poverty Measurement (Tendulkar, Rangarajan, MPI)

Key fact	Detail
Tendulkar Committee	2009 — consumption-expenditure based poverty lines; the basis of official estimates for years
Rangarajan Committee	2014 — recommended higher poverty lines covering a broader basket of needs
National MPI	NITI Aayog's multidimensional poverty measure, based on the global MPI framework

What it is: Measuring poverty means drawing a line and counting who falls below it. India's official method has been consumption-based: the Tendulkar Committee (2009) set poverty lines on monthly per-capita consumption expenditure, counting as poor those unable to afford a defined basket of goods and services. The Rangarajan Committee (2014) revisited this with a wider basket — adding adequate nourishment, clothing, house rent, conveyance and education — and therefore recommended higher poverty thresholds. Both used data from the NSSO's large household consumption surveys. Alongside these income-based lines, the national Multidimensional Poverty Index prepared by NITI Aayog measures deprivations across health, education and living standards, capturing people who may be above the money line but still lack schooling, nutrition or sanitation.

Why it matters: The poverty line decides who counts as poor and therefore who qualifies for subsidised food, housing and other welfare — it is one of the most politically sensitive numbers in Indian statistics. The Tendulkar lines were criticised as too low to represent a dignified life, which is why the Rangarajan revision and the MPI gained importance. Internationally, the World Bank tracks extreme poverty at a global line, and India's massive poverty reduction over recent decades has shaped the global story.

Key facts: The Tendulkar methodology anchored the official poverty estimates released for 2004-05 and 2011-12. The Rangarajan Committee's recommended lines were notably higher than Tendulkar's, which would have raised the headcount ratio — its recommendations were not formally adopted as the official line. Poverty measurement in India depends on the NSSO consumption surveys, whose delayed release has itself become a subject of debate. The national MPI reports have documented a sharp decline in multidimensional poverty in India over the 2010s.

How UPSC tests it: Prelims asks which committee recommended what — Tendulkar's consumption basis and Rangarajan's higher lines are classic one-mark facts. Questions may ask which agency conducts the consumption surveys or what the MPI's dimensions are. Mains questions examine the limitations of money-metric poverty, the politics of poverty lines, and whether welfare targeting should shift to multidimensional measures.

9. Inequality (Gini Coefficient, Lorenz Curve)

Key fact	Detail
Gini coefficient	0 = perfect equality, 1 = one person holds everything; higher means more unequal
Lorenz curve	Plots cumulative population share against cumulative income share; the bowed curve shows inequality
India's picture	Consumption inequality is moderate; income and wealth inequality are considerably sharper

What it is: Inequality measures how unevenly income or wealth is distributed. The Lorenz curve draws this visually: on the horizontal axis the population is lined up from poorest to richest, and on the vertical axis the cumulative share of income they hold. If everyone earned the same, the curve would be a straight 45-degree line — the line of perfect equality. In reality the curve bows below that line, and the bigger the bow, the greater the inequality. The Gini coefficient turns that bow into a single number: it is the area between the equality line and the Lorenz curve, divided by the total area under the equality line. A Gini of 0 means perfect equality; 1 means maximum inequality.

Why it matters: High inequality corrodes the promise of growth — when the top captures most of the gains, poverty falls slowly and social tensions rise. Inequality also has economic costs: concentrated wealth can distort politics, reduce broad-based demand, and limit opportunity for those born poor. For India, the debate is sharp because consumption-based Gini figures look moderate while income and wealth data tell a story of much steeper concentration at the top.

Key facts: India's official inequality statistics are consumption-based, drawn from NSSO surveys, and these understate true inequality because the rich under-report spending and wealth is not captured. Global databases on income distribution show India with markedly higher income inequality than consumption inequality. Wealth inequality is steeper still, since assets accumulate across generations while incomes fluctuate. The Palma ratio — the income share of the top 10% divided by that of the bottom 40% — is a simpler alternative some analysts prefer.

How UPSC tests it: Prelims asks the Gini range and what the Lorenz curve plots — standard definitions. A question may ask whether a rising Gini means rising or falling inequality. Mains and essay questions use inequality to discuss inclusive growth, the limits of trickle-down, and the case for progressive taxation and social spending.

10. Demand, Supply & Market Structures

Key fact	Detail
Law of demand	Price falls, quantity demanded rises (other things equal); law of supply is the reverse

Equilibrium	The price where quantity demanded equals quantity supplied
Four market structures	Perfect competition, monopolistic competition, oligopoly, monopoly

What it is: Demand is the quantity of a good consumers are willing and able to buy at each price; the law of demand says that as price falls, quantity demanded rises, holding everything else constant. Supply is the quantity producers offer at each price, rising with price. Where the two curves cross is the equilibrium price — the only price at which buyers' plans and sellers' plans agree. Markets are classified by how many sellers exist and how much power each has. Perfect competition has countless sellers of identical products and no pricing power. Monopolistic competition has many sellers with differentiated products, like restaurants. An oligopoly has a few dominant sellers — think telecom or airlines — who watch each other's moves. A monopoly has a single seller with full pricing power, usually sustained by barriers to entry.

Why it matters: This is the grammar of every market question in economics. It explains why onion prices spike when supply collapses, why competition keeps mobile tariffs low, and why governments regulate monopolies and break up cartels. The Competition Commission of India exists precisely because market power, left unchecked, harms consumers. For UPSC, these concepts underpin questions on pricing, inflation causes and regulatory policy.

Key facts: Shifts versus movements matter: a change in price moves you along the curve, while a change in income, tastes or input costs shifts the whole curve. Price elasticity measures how strongly quantity responds to price — necessities like salt are inelastic, luxuries elastic. In India, agriculture approximates competition among many small farmers, while sectors like railways are state monopolies and telecom is an oligopoly. Minimum support prices and price ceilings are government interventions that deliberately move markets away from equilibrium for social goals.

How UPSC tests it: Prelims asks definitions — equilibrium, elasticity, and which market structure fits a described scenario. Questions on why prices rise after a supply shock test the demand-supply logic directly. Mains applies these ideas to MSP, administered prices, competition policy and the rationale for regulating natural monopolies.

11. 11. Money Supply (M0–M4)

Key fact	Detail
M0	Reserve money — currency in circulation plus bankers' deposits with the RBI
M1	Narrow money — currency with the public + demand deposits + other deposits with RBI
M3	Broad money — M1 + time deposits; the RBI's main monetary aggregate
M4	M3 + total deposits with post office savings banks

What it is: Money supply is the total stock of money circulating in the economy, but "money" means different things at different levels of liquidity. The RBI classifies it into four nested measures. M0, or reserve money, is the base — currency in circulation plus the deposits banks

hold with the RBI. M1 is narrow money: currency with the public, demand deposits (current and savings accounts you can withdraw anytime), and other deposits with the RBI. M2 adds savings deposits with post offices to M1. M3, broad money, adds time deposits (fixed deposits) to M1 and is the headline aggregate the RBI watches. M4 adds all post office deposits to M3. Each wider measure is less liquid but larger.

Why it matters: The quantity of money interacts with prices and output — too rapid money growth can fuel inflation, while a squeeze can choke credit and growth. The RBI tracks M3 growth to judge whether monetary conditions are loose or tight, and banks create most broad money when they lend, through the money multiplier. Understanding the aggregates is essential for reading any RBI monetary policy statement.

Key facts: Currency with the public plus demand deposits forms the most spendable core of the system. Time deposits dominate M3 in India because households hold large fixed deposits, so M3 is far bigger than M1. The RBI publishes data on these monetary aggregates regularly. Reserve money (M0) is directly controlled by the RBI through its balance sheet, while broad money (M3) is mostly created by commercial banks through lending — which is why the RBI influences it indirectly via interest rates and reserve requirements.

How UPSC tests it: Prelims frequently asks the components of M1, M2, M3 and M4 — which deposit is added at each step is a classic match-the-following style question. Questions may ask which aggregate the RBI emphasises or what reserve money comprises. Mains connects money supply to inflation control and the transmission of monetary policy.

12. Digital Payments & UPI

Key fact	Detail
UPI	Unified Payments Interface — instant real-time bank-to-bank transfers, launched 2016 by NPCI
NPCI	National Payments Corporation of India — the umbrella body behind UPI, RuPay, IMPS and AePS
Scale	UPI processes billions of transactions every month, among the world's largest real-time payment systems

What it is: The Unified Payments Interface (UPI) is a real-time payment system that lets anyone transfer money instantly between bank accounts using a mobile phone — via a virtual payment address, a QR code or a phone number — without entering account details. Built by the National Payments Corporation of India and launched in 2016, it unified multiple bank accounts into a single app and made peer-to-peer and merchant payments free and instantaneous, 24×7. Around it sits a wider digital stack: IMPS for instant transfers, AePS for Aadhaar-based banking at kirana outlets, RuPay as the domestic card network, and the RBI's regulatory sandbox for payment innovation.

Why it matters: UPI is India's most visible digital public infrastructure success — it brought hundreds of millions into cashless transactions, slashed the cost of payments for small merchants, and created a transaction trail that improves credit access and tax compliance. Its zero merchant fee model drove adoption but also sparked debate about who bears the cost. India has exported the model through UPI's international linkages, making it a case study in digital public goods cited worldwide.

Key facts: NPCI is a not-for-profit company promoted by banks and owned by a consortium of banks, operating under the RBI's Payment and Settlement Systems Act framework. UPI transactions routinely run into several billion a month by volume. The RBI publishes a Digital Payments Index tracking the deepening of cashless payments. Fraud and failed-transaction grievance redressal remain the system's growing pains, handled through the RBI's ombudsman framework for digital transactions.

How UPSC tests it: Prelims asks what UPI stands for, who built it (NPCI), and its launch context — frequently paired with questions on NPCI's other products. Mains questions in GS-III treat UPI as digital infrastructure, asking about financial inclusion, the economics of zero MDR, data privacy, and India's digital public infrastructure diplomacy.

13. Cryptocurrencies & CBDC

Key fact	Detail
Cryptocurrency	Decentralised digital asset on blockchain; not legal tender in India
India's tax stance	Gains from virtual digital assets taxed at 30% with 1% TDS on transfers since FY 2022-23
CBDC (e-rupee)	RBI's sovereign digital currency — wholesale pilot Nov 2022, retail pilot Dec 2022

What it is: Cryptocurrencies like Bitcoin are digital assets secured by cryptography and recorded on decentralised blockchains, with no central issuer — their value comes entirely from what buyers will pay. India's stance has swung between caution and control: the RBI's 2018 circular barring banks from serving crypto businesses was struck down by the Supreme Court in 2020, after which the government chose taxation over a ban. A Central Bank Digital Currency (CBDC) is the opposite design — digital money issued by the central bank itself, carrying the same sovereign guarantee as a banknote. The RBI's e-rupee comes in two forms: e₹-W for wholesale settlement between financial institutions and e₹-R for retail use by the public.

Why it matters: Crypto raises hard questions about financial stability, money laundering, consumer protection and monetary sovereignty — a parallel currency the central bank cannot control. The CBDC is the RBI's answer: it offers the efficiency of digital payments with the safety of central bank money, and it can reduce the cost of printing, storing and moving physical cash. Globally, central banks are racing to build CBDCs partly to keep pace with private digital currencies.

Key facts: Cryptocurrencies are not legal tender in India — no one is obliged to accept them as payment. The 30% tax on virtual digital asset gains (plus 1% tax deducted at source on transfers) was introduced in the Union Budget for 2022-23, signalling regulation-through-taxation rather than prohibition. The RBI's wholesale CBDC pilot began on 1 November 2022 for government securities settlement, and the retail pilot on 1 December 2022 in select cities. Unlike UPI balances, e-rupee is a direct liability of the RBI, like cash.

How UPSC tests it: Prelims asks the difference between cryptocurrency and CBDC, who issues the e-rupee, and the tax treatment of virtual digital assets. Statement questions test whether crypto is legal tender in India. Mains questions examine the regulatory dilemma — innovation versus stability — and the CBDC's implications for monetary policy, financial inclusion and the future of cash.

14.14. Behavioural Economics Basics for UPSC

Key fact	Detail
Core idea	People are not fully rational — psychology shapes economic choices
Nudge	Changing the choice environment to steer better decisions without banning options (Thaler)
India link	Economic Survey 2018-19 devoted a chapter to behavioural insights and "Thalinomics"

What it is: Classical economics assumes humans are rational calculators who always maximise their own benefit. Behavioural economics starts from the observed truth that they are not. People rely on mental shortcuts (heuristics), fear losses more than they value equal gains (loss aversion, from Kahneman and Tversky's prospect theory), stick with defaults out of inertia, and are swayed by how choices are framed. Herbert Simon called this bounded rationality — we decide with limited information, time and brainpower. Richard Thaler's "nudge" theory argues that policymakers can design the choice architecture — default options, reminders, social comparisons — to steer people toward better decisions without removing their freedom to choose differently.

Why it matters: Policy built for perfectly rational citizens keeps failing — people do not save enough for retirement, skip vaccinations, or waste water despite knowing better. Behavioural insights let governments achieve goals cheaply: a well-designed default or a timely SMS reminder can outperform an expensive subsidy. India formally embraced this when the Economic Survey of 2018-19 applied behavioural economics to public policy, from Swachh Bharat messaging to tax compliance.

Key facts: Daniel Kahneman won the Nobel Prize in 2002 for integrating psychology into economics; Richard Thaler won in 2017 for nudge theory. The 2018-19 Economic Survey's behavioural chapter introduced "Thalinomics" — the economics of a thali — showing how an affordable nutritious meal became more accessible over the years. Real-world nudges in India include default enrolment designs, the "Give It Up" campaign for LPG subsidies appealing to social norms, and displayed tax-compliance messaging. Framing, anchoring and present bias are the standard vocabulary of the field.

How UPSC tests it: Prelims asks the meaning of "nudge," bounded rationality, or loss aversion — often through the Economic Survey link. Mains questions invite behavioural explanations for policy puzzles: why subsidies leak, why awareness campaigns underperform, or how choice architecture can improve scheme delivery. It is excellent enrichment material for GS-II governance and GS-IV ethics answers.

15. Circular Economy

Key fact	Detail
Core principle	Keep products and materials in use — reduce, reuse, recycle, recover
Vs linear economy	Linear: take-make-dispose; circular: waste becomes input for new production
India push	NITI Aayog committees on circularity in sectors like e-waste, batteries and scrap metal

What it is: The circular economy is a production model designed to eliminate waste. In the traditional linear economy, we extract resources, make products, use them and throw them away — take, make, dispose. The circular model redesigns the loop: products are built for durability, repair and disassembly; materials are reused, refurbished and recycled; and what was waste in one process becomes raw material for another. The hierarchy runs from refusing unnecessary consumption, to reducing, reusing, repairing, refurbishing, remanufacturing and finally recycling — with disposal as the last resort. It applies across electronics, vehicles, plastics, construction waste, textiles and even food.

Why it matters: India faces a waste avalanche as incomes rise — e-waste, plastic, construction debris and end-of-life vehicles are all growing fast, while the country imports large quantities of the metals and materials embedded in them. Circularity tackles both problems at once: it cuts pollution and landfill pressure while recovering valuable resources domestically, improving resource security. It also creates jobs in collection, repair, refurbishment and recycling — employment that is hard to automate away.

Key facts: NITI Aayog has constituted committees to drive circular economy action in multiple sectors, including electronic waste, lithium-ion batteries, end-of-life vehicles, scrap metal and gypsum. India's E-Waste Management Rules mandate extended producer responsibility, making manufacturers responsible for the afterlife of their products. The global intellectual home of the concept is the Ellen MacArthur Foundation, whose framework of designing out waste underpins much of the policy language. LiFE (Lifestyle for Environment), championed by India, carries the same reduce-and-reuse ethic to individual behaviour.

How UPSC tests it: Prelims asks the definition and the difference from the linear model, often with examples like extended producer responsibility. Mains questions in GS-III link circularity to sustainable growth, waste management, resource security and green jobs. It pairs naturally with questions on e-waste rules, plastic waste management and India's climate commitments.

16. Sustainable Development & SDGs

Key fact	Detail
Definition	Brundtland Report (1987): development meeting present needs without compromising future generations
SDGs	17 goals, 169 targets — adopted by the UN in September 2015 as the 2030 Agenda
India tracker	NITI Aayog's SDG India Index ranks states and UTs on goal-wise progress

What it is: Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own — the classic formulation of the 1987 Brundtland Commission report "Our Common Future." It rests on balancing three pillars: economic growth, social inclusion and environmental protection. The Sustainable Development Goals, adopted by all UN member states in September 2015 as the 2030 Agenda, translate this into 17 goals and 169 targets — ending poverty and hunger, health and education for all, gender equality, clean water and energy, decent work, resilient infrastructure, reduced inequalities, sustainable cities, responsible consumption, climate action, life below water and on land, peace and strong institutions, and partnerships to achieve them. They succeeded the Millennium Development Goals (2000–2015).

Why it matters: The SDGs are the world's shared development checklist and the yardstick against which India's flagship schemes — from Swachh Bharat to Ayushman Bharat to Ujjwala — are internationally assessed. NITI Aayog coordinates India's SDG effort and publishes the SDG India Index, which scores every state and union territory, creating competitive federalism around development outcomes. For UPSC, almost every welfare and environment question can be framed through the SDGs.

Key facts: The 2030 Agenda's deadline is 2030, and mid-way reviews have shown the world off track on many goals, sharpening the focus on financing and implementation. Goal 1 (no poverty), Goal 2 (zero hunger), Goal 3 (good health), Goal 4 (quality education), Goal 5 (gender equality), Goal 13 (climate action) and Goal 16 (peace, justice and strong institutions) are the most cited in Indian policy debates. NITI Aayog is the nodal agency for SDG coordination in India, and its index uses nationally relevant indicators drawn from official data sources.

How UPSC tests it: Prelims asks the number of goals and targets, the adoption year (2015), the Brundtland definition, and which body tracks SDGs in India (NITI Aayog). Matching goals to their themes is a favourite format. Mains questions ask how India is localising the SDGs, why progress lags on specific goals, and how schemes map to targets — standard GS-II and GS-III material.

17. Demographic Dividend

Key fact	Detail
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Definition	Growth boost from a rising share of working-age people and a falling dependency ratio
Working age	Conventionally 15–64 years; dependents are children below 15 and elderly above 64
India's window	One of the world's youngest large populations, with the dividend window open for decades

What it is: The demographic dividend is the economic growth bonus a country can earn when its age structure shifts favourably. As birth rates fall, the share of children shrinks while the share of working-age adults (roughly 15 to 64) swells — so each worker supports fewer dependents, households save more, and the economy gets more producers relative to consumers. The dependency ratio — dependents per hundred working-age people — falls, freeing resources for investment. But the dividend is a window, not a guarantee: it only pays out if the working-age population is healthy, educated, skilled and actually employed. Otherwise the same youth bulge becomes a liability of unemployment and unrest.

Why it matters: India has one of the youngest populations among major economies, and its working-age share will remain large for decades while countries like China, Japan and much of Europe age rapidly. This is India's defining structural advantage — a potential multi-decade tailwind for growth, savings and innovation. Realising it demands simultaneous action on three fronts: education and skilling (quality, not just enrolment), health and nutrition (a productive workforce is a healthy one), and job creation at scale (the dividend dies in joblessness).

Key facts: The dividend unfolds in stages — first the youth bulge, then the peak working-age share, finally population ageing — and India is in the favourable middle phase. The Economic Survey has repeatedly flagged that the dividend requires productive employment, linking it to manufacturing, services and skilling missions. Female labour force participation is the largest untapped lever: bringing more women into the workforce effectively enlarges the dividend. States are at very different stages — southern states are ageing faster, while northern and eastern states still have very young populations, which shapes migration and fiscal politics.

How UPSC tests it: Prelims asks the definition and the dependency-ratio logic — what makes the dividend possible. Mains questions in GS-I (population), GS-II (health, education) and GS-III (employment, skilling) all converge here: "Is India squandering its demographic dividend?" is a perennial essay and answer theme. It connects naturally to jobless growth, the New Education Policy, and manufacturing employment debates.

Part II: Fiscal Policy, Money & Banking

18. Union Budget

Key fact	Detail
Constitutional name	Article 112 — the "Annual Financial Statement" laid before Parliament

Two components	Revenue Budget (tax and non-tax receipts vs salaries, subsidies, interest) and Capital Budget (borrowings, capex, loans, disinvestment receipts)
Three funds	Consolidated Fund of India (Art. 266), Contingency Fund of India (Art. 267), Public Account of India (Art. 266)
Modern practice	Presented on 1 February since 2017; the Railway Budget was merged into it from 2017-18

What it is: The Union Budget is the central government's annual statement of estimated receipts and expenditure for the coming financial year, which runs from 1 April to 31 March. It is presented by the Finance Minister in the Lok Sabha. The Revenue Budget covers the government's day-to-day finances — tax and non-tax revenue on one side, and spending on salaries, subsidies, interest payments and defence revenue expenditure on the other. The Capital Budget covers items that create assets or liabilities — capital expenditure on roads, railways and infrastructure, loans given to states, and capital receipts such as market borrowings, small-savings collections and disinvestment proceeds.

Why it matters: The Budget is the single most important statement of the government's economic policy for the year. Its capital expenditure pushes growth and jobs, its fiscal deficit number moves bond markets, and its tax proposals affect every household and business. Constitutionally, it is Parliament's instrument of control over public money — no expenditure can be incurred from the Consolidated Fund without Parliament's approval, which is the essence of financial accountability in a democracy.

Key facts: The Budget passes through a fixed sequence: presentation, general discussion, scrutiny by departmentally related standing committees, voting on demands for grants, and passage of the Appropriation Bill and the Finance Bill. Some expenditure is "charged" on the Consolidated Fund — the President's emoluments, judges' salaries, the CAG's salary and debt servicing — and is discussed but never voted upon. In election years the government presents an interim budget with a vote on account. The old Plan versus Non-Plan distinction was abolished in 2017, and the Railway Budget was merged on the Bibek Debroy committee's recommendation.

How UPSC tests it: Prelims asks for Article 112, the difference between charged and voted expenditure, the correct sequence of budget stages, and what falls under revenue versus capital heads — disinvestment receipts, for instance, are capital receipts. Mains questions in GS-III ask how the budget balances growth, equity and fiscal discipline, or why rising revenue expenditure crowds out productive capital spending.

19. Fiscal Deficit, Revenue Deficit & FRBM Act

Key fact	Detail
Fiscal deficit	Total expenditure minus total receipts excluding borrowings — the government's borrowing requirement
	Revenue expenditure minus revenue receipts — borrowing to fund consumption

Revenue deficit	
Primary deficit	Fiscal deficit minus interest payments — shows the current year's fiscal stance without past debt burden
FRBM Act, 2003	Targets a fiscal deficit of 3% of GDP and elimination of the revenue deficit

What it is: A deficit simply measures the gap between what the government spends and what it earns. The fiscal deficit is the broadest gap — everything the government spends minus everything it receives except borrowings — so it equals the amount the government must borrow in that year. The revenue deficit is narrower and more worrying: it means even the government's day-to-day consumption spending exceeds its regular income, so it is borrowing to consume rather than to invest. The primary deficit strips out interest payments on past debt, revealing whether the current year's policies alone are in deficit.

Why it matters: Persistent high deficits pile up public debt, and the interest on that debt becomes the single largest item of revenue expenditure, squeezing everything else. Large government borrowing can also crowd out private investment by pushing up interest rates and can feed inflation. Yet deficits are not always bad — during recessions or shocks like the pandemic, deliberate deficit spending supports demand, which is why fiscal rules everywhere contain escape clauses.

Key facts: The Fiscal Responsibility and Budget Management Act was passed in 2003 and came into force in 2004. The N.K. Singh committee (2017) recommended a glide path bringing the Centre's fiscal deficit to 2.5% of GDP and total government debt to 60% of GDP (40% Centre plus 20% states). The Act's escape clause permits breaching the target in exceptional circumstances such as national security threats, natural calamities or a sharp economic collapse. An "effective revenue deficit" concept — revenue deficit minus grants given for creating capital assets — was introduced in 2011-12. States have their own FRBM legislations.

How UPSC tests it: Prelims tests the three definitions and their formulae, the FRBM targets and the N.K. Singh committee's recommendations, and asks which deficit is the best indicator of the government's borrowing need. Mains questions ask whether strict deficit targets hurt growth during downturns, or why a revenue deficit is considered more damaging than a fiscal deficit of the same size.

20.20. Public Debt of India

Key fact	Detail
Internal debt	Market loans, dated securities, treasury bills and securities issued against small savings
External debt	Bilateral and multilateral loans — a small share, mostly on concessional terms
Other liabilities	Small savings (NSC, PPF), provident funds and reserve funds — not strictly "debt" but part of total liabilities

Risk profile	Overwhelmingly domestic-currency, long-maturity debt — low forex and rollover risk
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What it is: Public debt is what the Union government owes. In the strict sense it means internal debt (borrowed within the country, mainly through government securities) plus external debt (borrowed abroad from countries and institutions like the World Bank). Added to these are "other liabilities" — money the government holds on behalf of the public, such as small-savings collections and provident fund balances. States have their own debt, raised largely through State Development Loans auctioned by the RBI, and the combined Centre-plus-states figure is called general government debt.

Why it matters: Debt determines how much of every future budget is pre-committed to interest payments, which is already the largest head of revenue expenditure. Sustainability — whether the debt-to-GDP ratio stabilises or explodes — decides how much room the government has for welfare and infrastructure. India's debt profile is unusually safe for a developing country because it is borrowed mostly in rupees from domestic lenders at long maturities, so a currency crash cannot suddenly multiply the burden the way it can for countries borrowing in dollars.

Key facts: The FRBM framework targets central government debt of about 40% of GDP and general government debt of 60%. India's external debt is a small fraction of the total, and foreign-currency sovereign borrowing has been avoided — the debate over issuing sovereign bonds abroad resurfaced in the 2019 Budget and was shelved. The RBI acts as the government's debt manager through its Public Debt Office, though economists have long debated separating debt management into an independent agency. Debt ratios rose sharply after the pandemic and are being brought down gradually.

How UPSC tests it: Prelims asks the components of public debt, why India's debt is considered sustainable (domestic currency, long tenor, low external share), and the FRBM debt targets. Statement questions may contrast public debt with other liabilities. Mains questions ask whether India should worry about its debt level or use the fiscal space for growth-supporting expenditure.

21. 21. Taxation in India: Direct vs Indirect Taxes

Key fact	Detail
Direct taxes	Levied on and paid by the same person — income tax, corporation tax; progressive
Indirect taxes	Levied on transactions and shifted to consumers — GST, customs duty; often regressive
Administered by	CBDT handles direct taxes; CBIC handles GST and customs
Article 265	No tax shall be levied or collected except by authority of law

What it is: A direct tax is one whose burden cannot be shifted — the person on whom income tax or corporation tax is levied actually pays it, and rates rise with income, making it progressive. An indirect tax is levied on goods, services or transactions and passed on to the final buyer — GST on

a packet of biscuits or customs duty on an imported phone is ultimately paid by the consumer, regardless of income, which makes such taxes regressive in effect. India's tax system combines both: direct taxes for equity, indirect taxes for a broad, hard-to-evade revenue base.

Why it matters: Taxes fund everything the state does, and the direct-indirect mix shapes fairness. India has long relied more heavily on indirect taxes, which weigh relatively more on the poor, while its direct-tax base — the share of people and firms actually paying income tax — remains narrow by global standards. Widening the direct-tax base and improving compliance through technology (faceless assessment, data matching) has therefore been a central reform goal.

Key facts: In September 2019 the government sharply cut corporation tax to 22% for firms giving up exemptions and 15% for new manufacturing companies, aiming to attract investment. Personal income tax now has two parallel systems — the old regime with deductions and the new regime with lower slab rates but almost no deductions, which became the default option. GST subsumed central excise, service tax and state VAT in 2017. Customs duty serves both revenue and protection of domestic industry. Tax buoyancy — how fast tax revenue grows relative to GDP — is the standard gauge of tax-system health.

How UPSC tests it: Prelims loves classification questions — customs duty and GST are indirect, securities transaction tax and income tax are direct — plus Article 265, the CBDT versus CBIC split, and the new versus old income-tax regime. Mains questions ask why India's tax-to-GDP ratio is low, whether indirect taxes hurt equity, or how technology is improving tax compliance.

22. Goods and Services Tax (GST)

Key fact	Detail
Constitutional basis	101st Amendment Act, 2016 — Articles 246A, 269A and 279A; launched 1 July 2017
Dual model	CGST plus SGST on intra-state supply; IGST on inter-state supply, collected by the Centre and apportioned
GST Council	Chaired by the Union Finance Minister; Centre holds one-third vote weight, states two-thirds; decisions need a three-fourths majority
Compensation	States were guaranteed 14% annual revenue growth for five years, funded by a compensation cess

What it is: GST is a single destination-based indirect tax levied on the supply of goods and services. "Destination-based" means the tax belongs to the state where the good is consumed, not where it is produced. It replaced a thicket of earlier taxes — central excise duty, service tax, state VAT, octroi and entry taxes — with one chain in which every seller claims input tax credit for the tax already paid at earlier stages. This credit chain removes the old cascading effect, where tax was charged on tax at every stage of production.

Why it matters: GST created one national market by removing check-post barriers between states, which cut logistics time and costs — the e-way bill system made truck movement across state borders nearly frictionless. It widened the tax base and formalised supply chains, since buyers demand GST invoices to claim input credit. But it also required states to surrender most of their independent taxation powers, making the compensation promise the political glue of the whole federal bargain.

Key facts: Petroleum products, alcohol for human consumption, electricity duty and stamp duty remain outside GST. The GST Network (GSTN) provides the IT backbone, and e-way bills track inter-state movement of goods above the threshold. During the pandemic the compensation shortfall was bridged through back-to-back loans to states, and the compensation arrangement was extended beyond the original June 2022 deadline. Rate slabs are broadly 0, 5, 12, 18 and 28%, with a compensation cess on sin and luxury goods.

How UPSC tests it: Prelims asks the amendment number, the three new articles, the Council's voting formula, what is kept outside GST, and the destination principle versus the old origin-based taxes. Mains questions in GS-II and GS-III examine GST as a case study in cooperative federalism, its impact on logistics and formalisation, and the compensation dispute between the Centre and states.

23. Subsidies in India

Key fact	Detail
Food subsidy	Distributed through the FCI under the National Food Security Act, 2013; free foodgrains to NFSA beneficiaries since January 2023
Fertilizer subsidy	Urea price is government-controlled; phosphatic and potassic fertilizers get a Nutrient-Based Subsidy (NBS) since 2010
Fuel subsidy	LPG subsidy paid directly to consumers via PAHAL/DBT; kerosene subsidy has been phased out
Targeting tool	DBT built on the JAM trinity (Jan Dhan-Aadhaar-Mobile) cut leakage by paying beneficiaries directly

What it is: A subsidy is government support that lowers the price of a good or service below its cost — explicit subsidies appear in the budget, while implicit ones hide in underpriced public services. Economists distinguish merit subsidies (schooling, primary healthcare, nutrition), which correct market failures and build human capital, from non-merit subsidies that mainly benefit the better-off. India's big three budgeted subsidies are food, fertilizer and fuel, supplemented by interest subventions on farm credit and various state-level giveaways.

Why it matters: Subsidies are the compassionate face of the state — they keep food affordable for hundreds of millions — but they are also among the heaviest claims on the budget, and poorly designed ones leak to the non-poor or distort behaviour, such as urea's artificially low price

encouraging overuse that damages soil health. Getting targeting right, through direct benefit transfer instead of price distortion, is therefore one of the central fiscal challenges.

Key facts: Food subsidy flows through the Food Corporation of India's procurement, storage and distribution chain to fair-price shops. The PAHAL scheme made LPG subsidy a direct bank transfer, and the "Give It Up" campaign nudged well-off households to surrender it voluntarily. Fertilizer subsidy has two tracks: urea under cost-plus pricing with a fixed maximum retail price, and P&K fertilizers under the NBS formula linked to nutrient content. India's farm subsidies also face WTO scrutiny under the amber-box limits of the Agreement on Agriculture.

How UPSC tests it: Prelims asks the three major subsidies, what NBS and PAHAL stand for, and the merit versus non-merit distinction. Mains questions ask whether subsidies should be replaced by direct cash transfers, examine the fertilizer subsidy's environmental costs, or discuss the WTO angle on agricultural support.

24. Disinvestment & Privatization

Key fact	Detail
Handling agency	DIPAM — the Department of Investment and Public Asset Management
Minority stake sale	Government sells part of its equity but retains control — via IPOs, offer-for-sale or buybacks
Strategic disinvestment	Sale transfers management control (50% or more, or lower with control) — this is privatization
2021 PSE policy	Four strategic sectors keep a bare-minimum public presence; the government will exit all non-strategic sectors

What it is: Disinvestment means the government selling its equity stake in central public sector enterprises. A minority stake sale raises revenue while the government stays in charge; a strategic disinvestment hands over management control to a private buyer, which is privatization in substance. The 2021 public sector enterprise policy drew a clean line: in four strategic sectors — atomic energy, space and defence; transport and telecommunications; power, petroleum, coal and minerals; and banking, insurance and financial services — a minimum public presence will remain, while in every other sector the government intends to exit completely, either by selling or by closing the enterprise.

Why it matters: Privatization is meant to release the value trapped in underperforming public firms, improve efficiency through market discipline, and free the budget from supporting loss-makers — while the proceeds fund capital expenditure. It is politically sensitive, though: unions resist, opposition parties call it selling the "family silver," and badly managed sales can look like crony giveaways, so transparency of the bidding process is critical.

Key facts: Air India's sale to the Tata group, completed in January 2022, was the landmark strategic sale, ending decades of taxpayer-funded losses. LIC's 2022 initial public offering was the largest the Indian market had seen. Disinvestment receipts are capital receipts in the budget.

Alongside sales, the National Monetisation Pipeline aims to lease out brownfield public assets — roads, railway stations, power lines — to private operators for upfront money without transferring ownership, which is monetisation, not privatization.

How UPSC tests it: Prelims asks what DIPAM does, the difference between strategic and minority disinvestment, the four strategic sectors of the 2021 policy, and whether asset monetisation counts as privatization. Mains questions debate whether privatization improves efficiency or merely transfers public wealth, using Air India and LIC as case studies.

25.25. Monetary Policy: Repo, CRR, SLR & OMO

Key fact	Detail
Repo rate	The rate at which the RBI lends short-term money to banks against government securities — the policy rate
SDF / reverse repo	The rate at which the RBI absorbs surplus liquidity; the Standing Deposit Facility (2022) is the floor of the LAF corridor
CRR & SLR	Cash Reserve Ratio — cash kept with the RBI; Statutory Liquidity Ratio — liquid assets like G-secs banks must hold
OMO	Open Market Operations — the RBI buys G-secs to inject liquidity and sells them to absorb it

What it is: Monetary policy is the RBI's management of money supply, interest rates and liquidity to keep inflation in check while supporting growth. Its tools are either quantitative — affecting the total volume of credit — or qualitative, guiding who gets credit. The repo rate is the headline tool: banks borrow from the RBI at this rate under the Liquidity Adjustment Facility, and changes ripple into the lending and deposit rates banks offer customers. The CRR locks a share of deposits as cash with the RBI, the SLR forces banks to hold safe liquid assets, and OMOs let the RBI fine-tune durable liquidity by buying or selling government securities.

Why it matters: When the RBI raises the repo rate, loans become costlier, demand cools and inflation eases; when it cuts, credit cheapens and growth gets a push. This transmission runs through banks to every borrower in the economy, which is why every policy review moves markets. But transmission is neither instant nor complete — banks may be slow to pass on cuts, and in a supply-shock inflation (say, an oil spike), raising rates can hurt growth without fixing the cause.

Key facts: The LAF corridor runs from the SDF (floor) through the repo rate to the Marginal Standing Facility, a penal overnight window for banks (ceiling). The Bank Rate is the long-term rate at which the RBI lends without collateral. The LAF itself was introduced in 2000 following the Narasimham Committee-II recommendations. Raising the CRR or SLR squeezes lendable resources; OMO purchases inject durable liquidity while sales drain it. Qualitative tools include margin requirements and moral suasion — the RBI publicly nudging banks' behaviour.

How UPSC tests it: Prelims asks definitions and directional effects — raising the CRR reduces banks' lending capacity, an OMO purchase injects liquidity — and the floor-ceiling structure of the LAF corridor. Statement questions shuffle repo, reverse repo, MSF and Bank Rate. Mains questions examine the limits of monetary transmission or how the RBI should respond to supply-side versus demand-side inflation.

26. Reserve Bank of India: Functions & Autonomy Debate

Key fact	Detail
Established	1 April 1935 under the RBI Act, 1934; nationalised in 1949; headquarters in Mumbai
First Indian Governor	C.D. Deshmukh, who took charge in 1943
Core functions	Monetary authority, sole issuer of currency notes (₹2 and above), banker to governments, banker to banks, regulator of banks and forex manager under FEMA, 1999
Autonomy flashpoint	Section 7 of the RBI Act — the government's power to issue directions, invoked during the 2018 standoff

What it is: The RBI is India's central bank — fully owned by the government since nationalisation, yet designed to operate at arm's length in monetary matters. It formulates monetary policy, issues all currency notes of ₹2 denomination and above (the ₹1 note and all coins are issued by the government itself), manages the country's foreign exchange reserves, acts as banker and debt manager to the central and state governments, regulates banks and non-banking financial companies, oversees payment systems, and plays a developmental role in rural credit and financial inclusion. As lender of last resort, it stands behind banks in a crisis.

Why it matters: The RBI guards both price stability and financial stability — the two foundations every other economic activity rests on. Its credibility determines whether inflation expectations stay anchored and whether depositors trust banks with their savings. The autonomy debate matters because a central bank seen as taking orders on interest rates or on dipping into its reserves loses that credibility, raising borrowing costs for the whole economy.

Key facts: Tensions peaked in 2018 when the government invoked Section 7 — never used before — amid disagreements over the RBI's capital reserves and lending restrictions on weak banks, culminating in Governor Urjit Patel's resignation in December 2018. The Bimal Jalan committee (2019) then created a formal Economic Capital Framework governing how much surplus the RBI transfers to the government each year. The RBI runs the e-rupee (central bank digital currency) pilots and enforces the Clean Note Policy for currency management.

How UPSC tests it: Prelims asks the establishment and nationalisation years, who issues the ₹1 note, what Section 7 provides, and the Jalan committee's subject. List-based questions on the RBI's functions are evergreen. Mains questions in GS-III ask how much autonomy a central bank should have in a democracy, or evaluate the RBI's multiple and sometimes conflicting roles.

27. 27. Inflation Targeting & the Monetary Policy Committee

Key fact	Detail
Framework	Flexible Inflation Targeting, given statutory backing by amending the RBI Act in 2016
Target	4% CPI (combined) inflation, with a tolerance band of 2 percentage points on either side
MPC composition	Six members — the Governor (chair), a Deputy Governor, one RBI officer, and three government-appointed external experts
Failure defined	Average inflation above 6% or below 2% for three consecutive quarters, triggering a report to the government

What it is: Since 2016, Indian monetary policy has a single statutory mandate: keep consumer-price inflation at 4%, tolerating a band from 2% to 6%, while keeping growth in mind. The decision is taken not by the Governor alone but by a six-member Monetary Policy Committee that votes by majority, with the Governor holding a casting vote in case of a tie. Its resolutions and the minutes of its reasoning are published, so markets and citizens can see exactly why rates moved.

Why it matters: A public, numerical target anchors the expectations of households and businesses — if people believe inflation will stay near 4%, wage and price-setting behaviour follows, making the target partly self-fulfilling. It replaced an era of discretionary, opaque rate decisions with rule-based transparency. Critics argue the framework ties the RBI's hands when inflation is driven by food or fuel supply shocks that interest rates cannot fix, forcing a painful choice between crushing growth and missing the target.

Key facts: The anchor is the CPI (combined rural-urban, base 2012), not the WPI — a shift recommended by the Urjit Patel committee and formalised in a February 2015 agreement between the government and the RBI before the law changed. The first MPC met in October 2016. External members serve four-year terms and are chosen on the recommendation of a search committee. If the target is missed for three straight quarters, the RBI must write to the government explaining why, what it will do, and when inflation will return to target.

How UPSC tests it: Prelims asks the 4% target, the 2–6% band, the six-member composition, the failure definition, and why CPI rather than WPI is the anchor. Mains questions debate whether inflation targeting suits a food-price-driven economy like India's, or ask the MPC to balance its dual concern for prices and growth.

28. 28. Banking Structure: PSBs, Private Banks, RRBs & Cooperatives

Key fact	Detail
Public sector banks	Twelve after the 2019-20 mega-mergers (down from 27); SBI is the largest
	14 major banks in 1969, six more in 1980 — to direct credit to priority sectors

Nationalisation waves	
RRBs	Set up under the RRB Act, 1976; owned 50:35:15 by the Centre, the sponsor bank and the state government
Differentiated banks	Small Finance Banks can lend fully; Payments Banks cannot lend and face a per-customer deposit cap

What it is: Indian banking has two broad families. Scheduled commercial banks — public sector, private, foreign, regional rural banks, small finance banks and payments banks — take deposits and lend under full RBI regulation. Cooperative banks form the parallel family: urban cooperative banks in towns and a three-tier rural structure of state, district and village-level societies for farm credit, historically under dual control of the RBI and state registrars. Nationalisation in 1969 and 1980 brought the commanding heights of banking under state ownership to push credit toward agriculture and small industry.

Why it matters: Banks are the plumbing of the economy — they convert savings into productive credit. Public sector banks still dominate lending and carry the burden of priority-sector targets and government schemes, which is why their health directly affects credit flow to farmers and small firms. The 2019-20 mergers were meant to create fewer, stronger banks with the scale to absorb shocks and invest in technology.

Key facts: The merger wave paired banks like Punjab National Bank with Oriental Bank of Commerce and United Bank, Canara Bank with Syndicate Bank, and Union Bank with Andhra Bank and Corporation Bank; the State Bank group had been consolidated earlier in 2017. New private banks such as HDFC Bank and ICICI Bank were licensed after the 1991 reforms. Payments banks (Airtel, Fino and others) take deposits up to ₹2 lakh per customer but cannot lend. A 2020 amendment to the Banking Regulation Act brought urban cooperative banks firmly under RBI supervision after high-profile failures.

How UPSC tests it: Prelims asks the nationalisation years and numbers, the RRB ownership ratio, which banks merged with which, and the payments-bank versus small-finance-bank distinction. Mains questions evaluate whether bank mergers actually improve efficiency or ask how cooperative banks can be reformed without killing last-mile rural credit.

29. NPAs & the Insolvency and Bankruptcy Code

Key fact	Detail
NPA defined	A loan or advance on which interest or instalment is overdue for more than 90 days
Asset classes	Substandard (NPA up to 12 months), doubtful, and loss assets — in rising order of severity
IBC, 2016	Time-bound insolvency resolution within 330 days including litigation; the Committee of Creditors approves plans by 66% vote; NCLT is the adjudicating authority

Section 29A	Bars defaulting promoters and their associates from bidding for their own companies
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What it is: A non-performing asset is a loan that has stopped generating income — overdue beyond 90 days. When NPAs pile up, banks must set aside capital against them, which shrinks their capacity to lend afresh: the classic bad-loan chokehold. The Insolvency and Bankruptcy Code replaced the old maze of debt-recovery tribunals and the defunct SICA/BIFR regime with one time-bound process. A financial creditor, operational creditor or the company itself can trigger proceedings; a moratorium freezes recovery actions; a resolution professional runs the company while the Committee of Creditors votes on revival plans; if none passes, the company goes into liquidation under a statutory waterfall in Section 53.

Why it matters: Before the IBC, India was described as a "defaulter's paradise" where promoters kept control of companies for years while banks bled. The Code shifted power to creditors, created genuine fear of losing the company, and dramatically improved recovery timelines — strengthening the credit culture that banks need to lend confidently. The haircuts banks accept in resolutions remain controversial, but a functioning exit mechanism is what separates a mature credit market from a stagnant one.

Key facts: The Economic Survey of 2015-16 diagnosed the "twin balance sheet" problem — stressed banks on one side, over-leveraged corporates on the other. A 2018 amendment recognised homebuyers as financial creditors, giving them voting rights in real-estate insolvencies. A pre-packaged fast-track process for MSMEs was introduced in 2021. The government also created a "bad bank" — the National Asset Reconstruction Company (NARCL) with its resolution arm IDRCL — to take over large legacy bad loans and clean bank balance sheets.

How UPSC tests it: Prelims asks the 90-day norm, the 330-day deadline, the 66% CoC voting threshold, what Section 29A does, and what NARCL is. Mains questions assess whether the IBC has truly transformed credit culture or merely shifted losses to banks through haircuts.

30. 30. Basel Norms

Key fact	Detail
Issued by	The Basel Committee on Banking Supervision (BCBS), housed at the Bank for International Settlements in Basel, Switzerland
Basel I (1988)	First global standard — banks to hold capital equal to 8% of risk-weighted assets, covering credit risk
Basel II (2004)	Three pillars — minimum capital requirements, supervisory review, and market discipline through disclosure
Basel III (2010)	Post-crisis upgrade — higher-quality capital: 4.5% Common Equity Tier 1 plus a 2.5% capital conservation buffer, plus liquidity ratios

What it is: The Basel norms are global standards for how much of their own capital banks must hold as a cushion against losses. The capital adequacy ratio — capital divided by risk-weighted assets — is the headline number: riskier loans get higher weights, so a bank stuffed with shaky advances must hold more capital. Basel I introduced the idea in 1988; Basel II refined risk measurement through its three pillars; Basel III, written after the 2008 global financial crisis exposed paper-thin bank capital, demanded more and better capital along with liquidity buffers — the Liquidity Coverage Ratio for 30-day stress and the Net Stable Funding Ratio for longer horizons — and a simple leverage ratio as a backstop.

Why it matters: Adequate capital is what lets a bank absorb loan losses without collapsing and taking depositors down with it. The 2008 crisis showed that thin, low-quality capital turns a bad-loan problem into a systemic meltdown requiring taxpayer bailouts. For India, meeting Basel III forced public sector banks to raise large amounts of fresh capital, driving the government's recapitalisation programmes and sharpening the focus on NPA recovery.

Key facts: India applies a minimum Capital to Risk-weighted Assets Ratio (CRAR) of 9%, stricter than Basel's 8%, plus the 2.5% capital conservation buffer. The RBI has also designated Domestic Systemically Important Banks — SBI, HDFC Bank and ICICI Bank — which must hold an additional capital surcharge because their failure would shake the system. A countercyclical buffer of up to 2.5% can be switched on during credit booms. Common Equity Tier 1 — ordinary shares and retained earnings — is the highest-quality capital because it absorbs losses first.

How UPSC tests it: Prelims asks which accord introduced the three pillars, the CET1 and buffer percentages, where the BCBS sits, and which Indian banks are D-SIBs. Mains questions link Basel III to bank recapitalisation debates or ask why global capital standards matter for financial stability.

31. NBFCs & Microfinance

Key fact	Detail
NBFC defined	A company registered under the Companies Act that does bank-like lending, regulated by the RBI — but it cannot accept demand deposits and its deposits lack DICGC insurance
Scale-Based Regulation	Since October 2021 NBFCs sit in four layers — base, middle, upper and top — with tighter norms for the larger ones
2018 crisis	The IL&FS default triggered a liquidity freeze across NBFCs, exposing their dependence on short-term market borrowing
Microfinance	Collateral-free small loans to low-income borrowers, often via joint-liability or self-help groups; harmonised RBI framework since 2022

What it is: Non-Banking Financial Companies do much of what banks do — housing loans, vehicle finance, infrastructure lending, gold loans, microcredit — without a banking licence. Because they cannot take demand deposits or join the payment system, they fund themselves

from markets and bank borrowings, which makes them vulnerable when markets freeze. Microfinance institutions are a specialised subset giving tiny collateral-free loans to poor households, typically through group models where peer pressure substitutes for collateral: the self-help-group-bank linkage pioneered by NABARD and the joint-liability-group model of dedicated MFIs.

Why it matters: NBFCs are the "shadow banks" that carry formal credit to segments banks underserve — truck operators, small builders, affordable-housing buyers — so their health directly affects credit flow in the real economy. The IL&FS collapse showed how interlinked they are with mutual funds and banks, making them systemically important. Microfinance, meanwhile, is a powerful inclusion tool but carries the risk of over-indebtedness, as the Andhra Pradesh microfinance crisis of 2010 brutally demonstrated.

Key facts: Under scale-based regulation, upper-layer NBFCs face bank-like capital, governance and disclosure norms, and a Prompt Corrective Action framework was extended to them in 2021. Housing finance companies came under direct RBI regulation in 2019. The RBI's 2022 microfinance directions apply uniformly to all regulated lenders, require board-approved household assessment policies, and cap the flexibility that earlier led to multiple lending. Industry self-regulation runs through recognised bodies like MFIN and Sa-Dhan.

How UPSC tests it: Prelims asks how NBFCs differ from banks (no demand deposits, no DICGC cover, generally no CRR), the four SBR layers, what triggered the 2018 NBFC stress, and the group models in microfinance. Mains questions examine shadow-banking risks or how to expand rural credit without repeating the Andhra crisis.

32. Financial Inclusion: Jan Dhan & Mudra

Key fact	Detail
PMJDY	Launched 28 August 2014 — zero-balance bank accounts with RuPay debit cards, accident insurance cover and an overdraft facility
PMMY (Mudra)	Launched 2015 — micro-enterprise loans: Shishu (up to ₹50,000), Kishore (₹50,001–5 lakh), Tarun (₹5–10 lakh)
JAM trinity	Jan Dhan–Aadhaar–Mobile — the infrastructure that made direct benefit transfers possible at scale
Allied schemes	Stand-Up India loans for SC/ST and women entrepreneurs; PM SVANidhi micro-credit for street vendors

What it is: Financial inclusion means every adult has affordable access to a bank account, credit, insurance and pension products — not just an account on paper but services people actually use. The Pradhan Mantri Jan Dhan Yojana drove a national account-opening mission with zero-balance accounts, RuPay cards, accident insurance of ₹2 lakh for newer accounts and a small overdraft for the creditworthy. The Pradhan Mantri Mudra Yojana funds the "missing middle" of tiny enterprises too small for normal bank loans but too big for moneylenders, refinanced through the Mudra agency.

Why it matters: Inclusion converts the poor from cash-only outsiders into participants in the formal economy. Jan Dhan accounts became the rails for direct benefit transfers of subsidies and scheme payments, cutting out middlemen and leakage — the JAM trinity in action. Mudra credit supports self-employment for the vast informal workforce that will never get a salaried job. Together with UPI, inclusion has pulled tens of crores of first-time users into digital finance.

Key facts: The RBI published a National Strategy for Financial Inclusion for 2019-24 and now tracks progress through a composite Financial Inclusion Index. Banking correspondents and Aadhaar-enabled payment systems carry banking to villages without branches. The insurance and pension flank includes PM Jeevan Jyoti Bima (life cover), PM Suraksha Bima (accident cover) and the Atal Pension Yojana. Account dormancy and low usage remain the recognised weak spots — opening accounts was the easier half of the mission.

How UPSC tests it: Prelims asks PMJDY's launch date and features, the three Mudra categories and their loan slabs, what JAM stands for, and which body publishes the FI-Index. Mains questions ask whether inclusion has moved from access to usage, or evaluate DBT as an anti-leakage reform.

33. SEBI & Capital Markets Basics

Key fact	Detail
SEBI	Set up in 1988, given statutory powers by the SEBI Act, 1992 — quasi-legislative, quasi-executive and quasi-judicial; appeals lie to the Securities Appellate Tribunal
Primary vs secondary	Primary market raises fresh capital (IPOs, FPOs); the secondary market trades already-issued securities on exchanges
Exchanges & indices	BSE (1875, Asia's oldest exchange) and NSE (1992); Sensex (30 stocks) and Nifty 50 are the benchmarks
T+1 settlement	India became the first major market to move to next-day settlement of equity trades

What it is: The capital market is where long-term funds are raised and traded. In the primary market, companies sell shares to the public for the first time (an IPO) or raise follow-on capital (an FPO), with the money going to the company itself. In the secondary market, investors trade those shares among themselves on the BSE and NSE — the company gets nothing, but the trading provides the liquidity that makes investors willing to buy in the first place. SEBI regulates this entire ecosystem: it writes the rules, licenses and supervises intermediaries like brokers and mutual funds, and punishes fraud and insider trading, with investor protection as its first mandate.

Why it matters: Capital markets convert household savings into productive investment without depending solely on bank loans — the "twin" funding channel every mature economy needs. Strong markets discipline companies through analyst scrutiny and takeover threats, while weak regulation produces scams that wipe out retail savings, as the Harshad Mehta episode of 1992 showed and which directly led to the creation of the NSE and the demat system.

Key facts: Shares are held electronically in demat accounts with the two depositories, NSDL and CDSL. SEBI runs SCORES, its online investor-complaint redressal system, and regulates mutual funds, alternative investment funds and foreign portfolio investors. Circuit breakers halt panic trading, and recent reforms include T+3 listing timelines for IPOs, SME platforms (BSE SME, NSE Emerge) for small companies, and a Social Stock Exchange for non-profits to raise funds.

How UPSC tests it: Prelims asks SEBI's statutory year, its three-fold functional character, the primary-versus-secondary distinction, what T+1 means, and the roles of NSDL/CDSL. Mains questions ask how capital markets can fund infrastructure or whether retail-investor protection has kept pace with the IPO boom.

Part III: Indian Economy Sectors & External Sector

34. Planning in India (Five Year Plans to NITI Aayog)

Key fact	Detail
Planning Commission	Set up in March 1950 by a Cabinet resolution; formulated twelve Five Year Plans before being wound up
First and last Plans	First Plan (1951–56) used the Harrod–Domar model with focus on agriculture; Twelfth Plan (2012–17) was the final one
NITI Aayog	National Institution for Transforming India; replaced the Planning Commission on 1 January 2015; chaired by the Prime Minister
Plan Holiday	1966–69: three annual plans after the Third Plan faltered amid drought and war

What it is: After independence, India adopted centralised economic planning to direct scarce resources toward industrialisation and poverty reduction. The Planning Commission drafted Five Year Plans that set investment priorities, production targets and the division of resources between the Centre and the states. Each Plan reflected the dominant economic thinking of its time — from the agriculture-first Harrod–Domar approach of the First Plan to the heavy-industry Mahalanobis strategy of the Second Plan and the "Garibi Hatao" poverty focus of the Fifth. When the plan era ended in 2017, NITI Aayog took over as a policy think tank that advises rather than allocates: unlike the old Commission, it has no power to disburse funds to states.

Why it matters: Planning shaped modern India's public sector, its dams and steel plants, its green-revolution infrastructure and its anti-poverty programmes. NITI Aayog now steers cooperative and competitive federalism — ranking states on SDG progress, running the Aspirational Districts Programme, and designing long-term strategies such as the vision documents for a developed India. Questions on the shift from top-down planning to indicative, market-friendly guidance go to the heart of how India's economic governance changed after 1991.

Key facts: The Gadgil formula (Fourth Plan) decided central assistance to states; rolling plans ran during 1978–80; the Eighth Plan (1992–97) was the first of the liberalisation era. NITI Aayog's

Governing Council brings together all Chief Ministers, and its vice-chairperson and CEO run day-to-day work. Key NITI products include the SDG India Index, the School Education Quality Index and the e-Amrit portal on electric vehicles. The old distinction between "Plan" and "non-Plan" expenditure was abolished in the 2017–18 Budget.

How UPSC tests it: Prelims loves matching Plans with their models and focus areas (Harrod-Domar–First, Mahalanobis–Second, Gadgil formula–Fourth) and asking how NITI Aayog differs from the Planning Commission. Mains asks whether the end of planning weakened long-term thinking or freed states, and expects answers built around cooperative federalism, decentralised planning and NITI's monitoring role.

35. 35. Agriculture Economics (MSP, PDS, Farm Subsidies)

Key fact	Detail
MSP mechanism	Recommended by the Commission for Agricultural Costs and Prices (CACP); approved by the Cabinet Committee on Economic Affairs
MSP coverage	22 mandated crops plus Fair and Remunerative Price (FRP) for sugarcane
NFSA, 2013	Covers roughly two-thirds of the population; 5 kg of foodgrain per person per month; Antyodaya households get 35 kg
Fertiliser subsidy	Urea price remains controlled; Nutrient Based Subsidy applies to phosphatic and potassic fertilisers since 2010

What it is: Agricultural economics in India is really the economics of state support. Minimum Support Prices assure farmers a floor price for major crops, shielding them from price crashes at harvest time. The Public Distribution System, run through lakhs of fair price shops, moves grain procured by the Food Corporation of India to ration-card holders under the National Food Security Act. On top of this sit input subsidies — cheap urea, subsidised electricity for pumps, interest subvention on crop loans through the Kisan Credit Card, and income support like PM-KISAN's annual transfer to landholding farm families. Together these form one of the world's largest farm-support systems.

Why it matters: The system underwrites national food security but carries heavy fiscal and environmental costs: overflowing godowns, groundwater depletion from power subsidies, and fertiliser overuse that skews the NPK balance. MSP procurement is concentrated in a few states and crops, raising questions of regional equity, while at the WTO India's food subsidies face "amber box" scrutiny. Reforming support without hurting small farmers is among the toughest policy dilemmas in Indian economics.

Key facts: CACP uses cost concepts A2+FL and C2 when recommending MSPs; the Swaminathan Commission's famous formula sought MSP at 50 per cent above C2 cost. E-NAM (2016) created a unified online mandi network. PM-KISAN transfers ₹6,000 a year in three instalments. Since 2023, NFSA beneficiaries receive their foodgrains free of cost after the PMGKAY provision was merged into the Act's framework.

How UPSC tests it: Expect Prelims questions distinguishing MSP from FRP, and on NFSA entitlements and the agencies involved (CACP recommends, CCEA decides, FCI procures). Mains asks for critical evaluation: does MSP distort cropping patterns? Can direct income support replace price support? Answers should weigh food security, fiscal burden and WTO compatibility.

36. Industrial Policy Evolution (1991 Reforms)

Key fact	Detail
New Industrial Policy	Announced 24 July 1991; ended most industrial licensing, opened sectors to private and foreign capital
Licence-permit raj	Before 1991, the Industrial Policy Resolutions of 1948 and 1956 reserved commanding heights for the public sector
MRTPLD to Competition	The restrictive MRTPLD Act was eventually replaced by the Competition Act, 2002
FERA to FEMA	The stringent Foreign Exchange Regulation Act, 1973 gave way to the management-oriented FEMA, 1999

What it is: For four decades after independence, Indian industry operated under the licence-permit raj: private firms needed government licences to start, expand or change products, while 17 industries were reserved exclusively for the public sector. The 1991 balance-of-payments crisis forced a break. The New Industrial Policy abolished licensing for all but a handful of industries, cut public-sector reservation to eight, opened the door to foreign investment, and began disinvestment of state enterprises. Alongside came the rupee's devaluation, trade liberalisation and financial-sector reform — the package remembered as LPG: liberalisation, privatisation, globalisation.

Why it matters: The reforms ended shortages, raised growth and integrated India with the world economy, but also exposed the limits of reform: manufacturing never took off the way services did, and "jobless growth" became a recurring complaint. The 1991 moment remains the reference point for every later reform debate — from FDI in retail to labour codes — and understanding what changed (and what did not) is essential for evaluating industrial policy today, including the PLI push.

Key facts: The crisis saw forex reserves fall to weeks of import cover, gold pledged abroad and an IMF loan sought. The Industries (Development and Regulation) Act framework was hollowed out as licensing vanished; small-scale reservation was progressively removed. Public-sector reservation shrank over the years to a tiny core (atomic energy and parts of railways and defence). The Competition Commission of India became the new market referee.

How UPSC tests it: Prelims asks for the year and features of the New Industrial Policy and the sequence FERA→FEMA, MRTPLD→Competition Act. Mains wants assessment: did 1991 deliver industrial transformation? Link it to later policies — Make in India, PLI, the National Manufacturing Policy — for a before-and-after narrative.

37. 37. Services Sector (IT, Tourism)

Key fact	Detail
Share in economy	Services contribute over half of India's Gross Value Added, the largest of the three sectors
IT and IT-enabled services	Among India's biggest service exports and a major source of foreign exchange
Tourism push	E-visa facility, Incredible India campaign, and schemes like Swadesh Darshan and PRASHAD
GATS	WTO's General Agreement on Trade in Services; trade in services happens through four "modes of supply"

What it is: The services or tertiary sector covers everything from software exports and banking to transport, telecom, tourism and retail. In India it grew faster than agriculture or industry from the 1990s, powered by telecom liberalisation, the IT boom and rising domestic consumption. Software and business-process services made India a global back office, while domestic services — finance, real estate, trade, hospitality — absorbed the urban workforce. Tourism, both inbound and domestic, ties services to culture, transport and small enterprise.

Why it matters: Services drive GDP growth and, crucially, India's services surplus partly offsets its merchandise trade deficit in the current account. But the sector's jobs are polarised — high-skill IT at one end, informal retail and gig work at the other — so services-led growth has not solved mass employment. For UPSC, services are also where trade diplomacy lives: India's offensive interest at the WTO is services liberalisation (Mode 4, movement of professionals), while it stays defensive on agriculture.

Key facts: The four GATS modes are cross-border supply, consumption abroad, commercial presence and movement of natural persons. India runs a consistent surplus in services trade even as merchandise trade stays in deficit. Digital India, UPI and the startup ecosystem deepened domestic services. Medical and wellness tourism is promoted as a high-value niche, and cruise and eco-tourism have dedicated policy attention.

How UPSC tests it: Prelims frequently asks about the four modes of supply under GATS and statements on the sector's share in GVA and exports. Mains expects discussion of whether services can carry employment, the digital-divide question, and India's services negotiating stance at the WTO.

38. 38. MSMEs

Key fact	Detail
Legal basis	Micro, Small and Medium Enterprises Development Act, 2006

Revised definition (2020)	Micro: investment up to ₹1 crore and turnover up to ₹5 crore; Small: up to ₹10 crore / ₹50 crore; Medium: up to ₹50 crore / ₹250 crore
Udyam Registration	Free online registration portal; the gateway to MSME schemes and benefits
Credit lifelines	MUDRA loans for micro units; Emergency Credit Line Guarantee Scheme (ECLGS) backed pandemic-hit firms

What it is: Micro, small and medium enterprises are the unglamorous backbone of Indian industry — the auto-component maker, the powerloom cluster, the food-processing unit. They employ crores, contribute a large share of manufacturing output and exports, and spread industry beyond the metros. The 2020 redefinition was a landmark: it raised thresholds, added turnover alongside investment as a criterion, and removed the old manufacturing-versus-services distinction, so growing firms no longer lose benefits the moment they invest more.

Why it matters: MSMEs are where jobs actually come from, especially for semi-skilled workers that large industry and IT cannot absorb. Yet they suffer chronic credit gaps, delayed payments from big buyers, and compliance burdens — which is why "ease of doing business" matters most at this scale. Their health is also a financial-stability issue, since MSME stress quickly becomes bank NPA stress, as the pandemic showed.

Key facts: The Champions portal handles grievances and support; SFURTI funds regeneration of traditional-industry clusters; RAMP is a World Bank-supported programme to raise MSME performance. Delayed-payment protection exists under the MSMED Act's facilitation councils. The 2020 Atmanirbhar package earmarked a large credit guarantee and equity infusion for stressed and viable MSMEs.

How UPSC tests it: The 2020 investment-and-turnover thresholds are a favourite Prelims trap — learn the exact pairs. Mains asks why MSMEs struggle despite policy attention: expect answers on credit, technology, market access and delayed payments, with ECLGS and Udyam as recent-policy hooks.

39. 39. Infrastructure (Energy, Transport, Logistics)

Key fact	Detail
Power capacity	India's installed electricity generation capacity has crossed 400 GW, among the world's largest systems
Panchamrit pledges	500 GW of non-fossil capacity by 2030; net-zero emissions by 2070 (announced at COP26)
PM Gati Shakti	National Master Plan for multi-modal connectivity, launched in 2021, to coordinate infrastructure planning
National Logistics Policy	Launched 2022; aims to bring logistics costs down toward global benchmarks

What it is: Infrastructure is the physical platform of the economy: power plants and grids, roads, railways, ports, airports, and the logistics chains connecting them. India has built at speed — national highways under Bharatmala, port-led development under Sagarmala, regional air links under UDAN — while the power sector shifted from chronic shortage to surplus capacity with a fast-growing renewable share. PM Gati Shakti puts all of this on one digital master plan so that a new industrial corridor's road, rail, power and port components are planned together instead of in silos.

Why it matters: Infrastructure quality decides manufacturing competitiveness: Indian logistics costs, long estimated well above global benchmarks, act as a hidden tax on every product. Energy transition is the other great task — meeting rising demand while honouring climate pledges means adding renewables at unprecedented pace and greening hard sectors. Financing models (InvITs, NMP asset monetisation, PPPs) matter as much as engineering, since public budgets alone cannot fund the pipeline.

Key facts: The National Infrastructure Pipeline envisaged investment of over ₹100 lakh crore across sectors. Solar capacity grew from negligible levels a decade ago to one of the world's largest fleets, aided by reverse auctions that crashed tariffs. Dedicated Freight Corridors are decongesting rail freight; inland waterways got a push under the Jal Marg Vikas project.

How UPSC tests it: Prelims asks what Gati Shakti and the National Logistics Policy aim to do, and on renewable targets. Mains wants the infrastructure-competitiveness argument: why logistics reform and energy transition are preconditions for manufacturing success, with Bharatmala, Sagarmala and monetisation as examples.

40.40. PPP Models

Key fact	Detail
BOT (Toll)	Private firm builds, collects toll to recover costs, then transfers the asset to government
HAM	Hybrid Annuity Model: government pays 40% during construction; the rest comes as annuity over the concession period
EPC	Engineering-Procurement-Construction: fully government-funded; the private player only builds
Viability Gap Funding	Up to 20% of project cost (40% with state contribution) for projects that are viable but not bankable

What it is: Public-Private Partnerships let governments build infrastructure with private money and execution. The alphabet soup of models is really about one question: who bears the risk? In BOT-Toll the private player bets on traffic; in BOT-Annuity the government pays fixed instalments and keeps the traffic risk; HAM splits construction payments and lifecycle risk between the two; in EPC the state funds everything and the contractor simply builds. Variants like DBFOT (design-

build-finance-operate-transfer) and the Swiss-challenge route for unsolicited proposals fill out the toolkit.

Why it matters: PPPs built much of India's highway and airport capacity, but the model has a chequered history — stalled projects, aggressive bidding, renegotiations and bank NPAs. Getting risk allocation right is now treated as a core governance skill: put too much risk on private players and projects stall; keep it all with the state and the "partnership" is a fiction. The Kelkar Committee's 2015 report on revitalising PPPs remains the standard reform reference.

Key facts: HAM was introduced for highways in 2016 to revive private interest after BOT-Toll faltered. The VGF scheme dates to 2006 and is administered for central-sector PPPs. Model concession agreements standardise terms across sectors. Failed PPPs in power and roads taught the lesson that contracts must provide for renegotiation under genuine hardship, a key Kelkar recommendation.

How UPSC tests it: Prelims loves matching models to their risk-sharing — especially HAM versus BOT. Mains asks for a critique of India's PPP experience: why projects stalled, what Kelkar recommended, and how newer models like asset monetisation and InvITs differ from classic PPPs.

41. 41. Special Economic Zones

Key fact	Detail
SEZ Act	Passed in 2005 and effective from February 2006; gave a single legal framework to zones
Core idea	A duty-free enclave treated as foreign territory for trade purposes; supplies to it count as deemed exports
Asian pioneer	India set up one of Asia's first Export Processing Zones at Kandla in 1965
Reform push	The Baba Kalyani Committee (2018) recommended replacing the SEZ regime with Employment and Economic Enclaves (DESH)

What it is: Special Economic Zones are ring-fenced areas offering exporters streamlined customs, tax breaks and single-window clearances — an attempt to create world-class business conditions inside a developing economy. Units inside face simplified procedures and, historically, income-tax holidays; in return they must be net foreign-exchange earners. India copied the idea from China's hugely successful zones, hoping to replicate the export-manufacturing miracle, and hundreds of SEZs were notified across IT, manufacturing and services.

Why it matters: SEZs did boost exports and jobs, but controversies followed: land acquisition disputes, the charge that tax holidays subsidised activity that would have happened anyway, and the withdrawal of key tax benefits (MAT and the sunset of profit-linked deductions) which dented investor interest. The debate now is whether to patch the SEZ law or replace it with the WTO-compatible DESH framework that lets units also sell domestically on equal terms.

Key facts: The SEZ Act provides for a Board of Approval and development commissioners per zone. Minimum area norms were relaxed to revive interest. EOUs (Export Oriented Units) are the older, factory-level cousin of SEZs. The DESH Bill draft circulated in 2022 proposes "development hubs" with equal treatment for domestic and export sales.

How UPSC tests it: Prelims asks what "deemed exports" means and the year of the SEZ Act. Mains wants evaluation: did SEZs deliver manufacturing jobs, and how does DESH fix their flaws? Linking SEZs to the broader export-competitiveness debate strengthens answers.

42. External Sector (BoP, Current vs Capital Account)

Key fact	Detail
Current account	Trade in goods and services plus primary income and secondary income (remittances, transfers)
Capital account	Cross-border investment flows: FDI, FPI, external commercial borrowings, NRI deposits
1991 crisis	Reserves fell to barely weeks of import cover, forcing devaluation, gold pledging and an IMF programme
CAD financing	A current account deficit must be financed by capital inflows or by drawing down reserves

What it is: The Balance of Payments records every economic transaction between India and the rest of the world. The current account tracks what we earn and spend — merchandise exports and imports, services trade, investment income flowing in and out, and remittances from Indians abroad. The capital account tracks how the gap is funded — foreigners investing in Indian factories and stocks, Indian firms borrowing abroad, NRIs parking deposits. Because every transaction has two sides, the overall BoP always balances; the interesting question is whether the current account is in surplus or deficit and how comfortably it is financed.

Why it matters: India's external profile is distinctive: a persistent merchandise deficit, a steady services surplus, and remittances that rank among the world's largest. A widening current account deficit signals vulnerability to oil prices and global risk sentiment, while strong capital inflows signal confidence. The 1991 crisis is the founding trauma of modern Indian economic policy — every later reform, from forex-reserve accumulation to inflation targeting, partly answers it.

Key facts: Crude oil and gold dominate the import bill, making the CAD sensitive to commodity prices. Private transfers (remittances) are the largest positive in the invisibles account. RBI publishes BoP data quarterly. The concept of "import cover" — reserves expressed as months of imports — remains the standard vulnerability gauge.

How UPSC tests it: Prelims asks to classify items (remittances go to the current account; FDI to the capital account) and on the causes of the 1991 crisis. Mains expects analysis of CAD

sustainability: when is a deficit a sign of healthy investment, and when of vulnerability? Use oil, gold and capital-flow volatility in the answer.

43. 43. Exchange Rate & Rupee

Key fact	Detail
Regime	Managed float: RBI intervenes to curb excessive volatility, not to target a particular level
NEER and REER	Nominal and Real Effective Exchange Rates — RBI's trade-weighted indices against major currencies
1991 devaluation	The rupee was devalued in two steps as part of the crisis response
Convertibility	Current account fully convertible since the mid-1990s; capital account only partially (Tarapore Committees)

What it is: The exchange rate is the rupee's price in foreign currency, and India runs a managed float — the market sets the rate day to day, while the RBI steps in to smooth disorderly moves using its forex reserves. A falling rupee (depreciation) makes imports costlier and exports cheaper; appreciation does the reverse. Economists watch the Real Effective Exchange Rate more than the headline dollar rate, since REER adjusts for inflation differences and trade weights across many partners.

Why it matters: The rupee's moves feed directly into inflation (through fuel and imported inputs), the fiscal bill (oil and fertiliser subsidies) and corporate balance sheets (unhedged foreign debt). Sharp depreciation episodes — 2013's taper tantrum, 2022's dollar surge — test RBI's reserve war chest and its communication. Getting the regime description right matters: India neither fixes the rate like a peg nor ignores it like a pure float.

Key facts: LERMS (1992) introduced a dual rate before unification in 1993. The Tarapore Committees (1997, 2006) laid out preconditions for fuller capital-account convertibility. RBI publishes 36-currency and 6-currency NEER/REER indices. Depreciation drivers typically include trade deficits, foreign-investor outflows, dollar strength and high crude prices.

How UPSC tests it: Prelims distinguishes NEER from REER and asks what a managed float means. Mains wants the policy dilemma: should RBI defend the rupee or preserve reserves? Answers should discuss inflation pass-through, export competitiveness and the limits of intervention.

44. 44. FDI vs FPI

Key fact	Detail
FDI	Investment of 10% or more of voting power — a lasting interest with management influence

FPI	Investment in financial assets through markets — no control; quick to enter and exit ("hot money")
Entry routes	Automatic route needs no prior approval; government route needs clearance, with sectoral caps and conditions
Regulators	DPIIT frames FDI policy; SEBI regulates foreign portfolio investors

What it is: Foreign Direct Investment means building or buying a lasting stake — a factory, a subsidiary, a joint venture — with a say in management. Foreign Portfolio Investment means buying Indian stocks and bonds through the market, chasing returns without control. The 10 per cent voting-power threshold (the IMF's benchmark) separates the two: cross it, and the investment counts as direct. India channels FDI through the automatic route for most sectors and the approval route for sensitive ones like defence, telecom and media, with caps that have been progressively relaxed.

Why it matters: FDI brings stable capital, technology, management practices and jobs — the kind of investment that builds productive capacity. FPI deepens capital markets and lowers the cost of capital but can reverse violently, as "taper tantrum" outflows showed. Policymakers therefore welcome FDI unconditionally while managing FPI volatility through macroprudential tools. The composition of inflows — how much is sticky FDI versus flighty FPI — is a key external-sector health check.

Key facts: Mauritius and Singapore have historically been the largest sources of FDI into India, partly due to tax treaties. Retrospective-tax disputes (Vodafone, Cairn) dented investor sentiment before being settled. Press notes from DPIIT periodically consolidate FDI policy, and recent years opened sectors like insurance, defence manufacturing and single-brand retail wider.

How UPSC tests it: The FDI-FPI distinction with the 10 per cent rule is a Prelims staple, as are automatic versus government routes. Mains asks whether India should worry more about attracting FDI or managing FPI volatility — answer with the stability-versus-depth trade-off and recent policy moves.

45. 45. Forex Reserves

Key fact	Detail
Custodian	The RBI manages reserves under the RBI Act
Components	Foreign Currency Assets (the largest share), gold, Special Drawing Rights, and the Reserve Tranche Position with the IMF
Scale	Among the world's largest — over \$600 billion in recent years, covering many months of imports
Purpose	Buffer against external shocks; war chest for smoothing rupee volatility

What it is: Foreign exchange reserves are the RBI's stock of external assets — dollars, euros and other currencies held as securities and deposits, gold bars in vaults, and India's positions with the IMF. They are built when foreign capital flows in faster than the current account deficit drains out: the RBI buys the excess dollars, preventing sharp rupee appreciation, and the dollars pile up as reserves. They are the country's financial airbag, accumulated in good times to be spent in bad.

Why it matters: Reserves are what stand between India and a repeat of 1991. A large stockpile deters speculative attacks, reassures rating agencies and investors, and gives the RBI ammunition to calm currency markets. But reserves have a cost — they earn low returns while the capital that created them could have funded domestic investment — so "how much is enough" (often judged by import cover and short-term-debt ratios) is a live debate.

Key facts: Foreign Currency Assets are valued in dollars, so non-dollar assets fluctuate with cross-currency moves. Gold's share has risen as the RBI diversified purchases. Reserves surged during the pandemic-era capital inflows and were partly drawn down to defend the rupee in 2022. India consistently ranks among the top five or six reserve holders globally.

How UPSC tests it: Prelims asks for the components in order of size and who manages reserves. Mains wants the cost-benefit analysis of reserve accumulation and the link between reserves, the exchange rate and monetary policy (sterilisation of inflows).

46. Trade Agreements & FTAs

Key fact	Detail
India-ASEAN FTA	Trade in goods agreement operational since 2010
India-UAE CEPA	Signed in 2022; among India's fastest-negotiated comprehensive deals
India-Australia ECTA	Economic Cooperation and Trade Agreement signed in 2022
RCEP	India withdrew from the Regional Comprehensive Economic Partnership in 2019 over market-access and trade-deficit concerns

What it is: Trade agreements cut tariffs and barriers between partners, in a ladder from preferential trade agreements through free trade agreements to comprehensive pacts (CECA/CEPA) covering services, investment and standards. India has signed them with partners from ASEAN and Japan to Korea, the UAE and Australia, and concluded a trade and economic partnership with the EFTA bloc in 2024. Each deal trades market access: India opens its market to partner goods in exchange for access for its exports — textiles, pharma, IT services — plus rules on origin to stop third-country goods sneaking in through the back door.

Why it matters: FTAs are India's main tool for plugging into global value chains and diversifying exports beyond traditional markets. But they are politically sensitive: farmers fear dairy and farm imports, industry fears Chinese goods routed through partners, and past deals are blamed for widening trade deficits. The RCEP walkout — driven by fears of import surges without adequate

safeguards — defined India's cautious new approach: faster deals with complementary economies, strict rules of origin, and carve-outs for sensitive sectors.

Key facts: The India–Japan CEPA (2011) and India–Korea CEPA (2010) are the older comprehensive templates. CEPA goes beyond an FTA into services and investment. Rules of origin and the negative/sensitive lists decide how much liberalisation actually happens. India–UK trade-deal negotiations concluded in 2025, marking a deal with a major developed economy.

How UPSC tests it: Prelims matches agreements with partners and years, and distinguishes FTA from CEPA/ECTA. Mains asks whether FTAs have served India — expect a balanced answer on export gains versus deficit fears, rules of origin, and the RCEP decision's logic.

47. WTO (Doha, Bali, Key Disputes)

Key fact	Detail
Birth	Established 1 January 1995, replacing GATT; headquartered in Geneva; now 166 members
Doha Round	Launched in 2001 as the development round; stalled over farm subsidies and industrial tariffs
Bali, 2013	Delivered the Trade Facilitation Agreement plus an interim "peace clause" shielding India's food-stockholding subsidies
Dispute spotlight	India lost the US-brought solar case over domestic-content requirements under the National Solar Mission

What it is: The World Trade Organization writes and enforces the rules of global trade — most-favoured-nation treatment, national treatment, and bound tariff ceilings — and runs a dispute-settlement system where members can challenge each other's violations. Born from the Uruguay Round that ended GATT, it extended rules into services (GATS), intellectual property (TRIPS) and agriculture (Agreement on Agriculture). For developing countries it is both shield and battlefield: a shield against unilateral bullying, a battlefield over farm subsidies and policy space.

Why it matters: India's core WTO interest is food security — the right to stock grain for the PDS without breaching subsidy caps — which made the Bali peace clause a famous diplomatic win. The Doha Round's collapse and the paralysis of the Appellate Body (non-functional since 2019 as the US blocks judge appointments) pushed trade diplomacy toward FTAs and plurilateral deals. Fisheries subsidies, e-commerce moratoriums and TRIPS waivers keep India at the centre of ministerial fights.

Key facts: The Nairobi package (2015) decided on eliminating agricultural export subsidies. MC12 in Geneva (2022) produced a fisheries-subsidies agreement and a TRIPS decision easing COVID-vaccine production. The peace clause protects developing countries from challenge while a permanent solution on public stockholding is negotiated. India has been an active complainant too, not just a respondent.

How UPSC tests it: Prelims asks about the Bali outcomes, the peace clause and WTO basics (year, HQ, GATT succession). Mains wants India's negotiating stance: food security versus farm-subsidy discipline, the Appellate Body crisis, and whether the WTO still matters in an FTA world.

48. IMF & World Bank (India's Engagement)

Key fact	Detail
Origins	Both born at Bretton Woods in 1944; India is a founding member of each
IMF role	HQ Washington DC; quota-based crisis lending and surveillance; Article IV consultations review members' economies
World Bank Group	IBRD, IDA, IFC and MIGA — India belongs to all four; it is not a member of ICSID
India link	India drew IMF support during the 1991 crisis and remains among the World Bank's largest borrowers

What it is: The International Monetary Fund and the World Bank are the twin pillars of the post-war financial order. The IMF is the emergency doctor — lending to countries in balance-of-payments trouble, with conditions, and monitoring global stability. The World Bank Group is the development financier — IBRD lends to middle-income governments, IDA gives concessional loans to the poorest, IFC funds private firms, and MIGA insures political risk. India's quota in the IMF decides both its financial commitment and its voting power, a perennial reform issue for emerging economies.

Why it matters: The 1991 IMF programme is woven into India's reform story — the loan came with conditions that accelerated liberalisation. Today India engages these institutions as a confident borrower and a voice for quota reform: the 2023 decision to raise IMF quotas by 50 per cent was a modest win for emerging-market representation. World Bank loans fund Indian infrastructure, health and education programmes, while an Indian-origin economist, Ajay Banga, took over as Bank President in 2023.

Key facts: The SDR — the IMF's reserve asset — sits in a basket of five major currencies including the yuan (added 2016). Quota reviews decide voting shares; India ranks among the top ten quota-holders. ICSID, the Bank's arbitration arm, is the one group institution India has stayed out of, reflecting its wariness of investor-state dispute settlement.

How UPSC tests it: Prelims asks which institutions form the World Bank Group (and which one India skipped), plus IMF quota and SDR basics. Mains wants the Bretton Woods reform debate: do quotas reflect today's economic weights, and how did the 1991 programme shape Indian policy?

49. AIIB & NDB

Key fact	Detail
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AIIB	Asian Infrastructure Investment Bank; HQ Beijing; began operations in January 2016; India its second-largest shareholder
NDB	New Development Bank; HQ Shanghai; created by BRICS at Fortaleza in 2014; founders hold equal shares
Mandate	Infrastructure and sustainable-development finance for emerging economies
Expansion	NDB has admitted new members beyond BRICS, including Bangladesh, Egypt and the UAE

What it is: The AIIB and the New Development Bank are the 21st century's challenger development banks. The AIIB, a China-led initiative with over a hundred members, finances Asian infrastructure from transport to energy. The NDB, born from the BRICS summit in Fortaleza, gives each founder — Brazil, Russia, India, China, South Africa — an equal vote, a deliberate contrast to the weighted voting of the World Bank. Both lend for roads, metros, renewable energy and urban development, and India is a major borrower from each.

Why it matters: These banks reflect the shift of economic gravity toward emerging markets and their frustration with slow governance reform at Bretton Woods institutions. For India they mean additional, condition-light infrastructure finance and a bigger voice in rule-setting. The AIIB's lean, co-financing-heavy model and the NDB's equal-share structure are also case studies in institutional innovation that UPSC loves.

Key facts: The AIIB's Articles of Agreement were signed in 2015; its first loans followed in 2016. The NDB's initial authorised capital was \$100 billion, and it approved its first projects in 2016. India has used both banks for metro, water-supply and renewable-energy projects. The NDB also runs a Contingent Reserve Arrangement with BRICS central banks as a financial safety net.

How UPSC tests it: Prelims asks for headquarters, founding forums and India's shareholding position in each. Mains wants the bigger picture: do AIIB and NDB complement or challenge the World Bank, and what does India's engagement signal about multipolarity in global finance?

50. 50. Ease of Doing Business & PLI Schemes

Key fact	Detail
Doing Business report	Discontinued by the World Bank in 2021 over data irregularities; India ranked 63rd in its final edition
India's climb	India rose from 142nd (2014) to 63rd through reforms in construction permits, insolvency and tax payment
PLI schemes	Announced in 2020 for 13 sectors (later 14); total outlay of about ₹1.97 lakh crore over five years
Successor metric	The World Bank's new "Business Ready" assessment replaced Doing Business

What it is: The Ease of Doing Business rankings scored countries on how simple it is to start and run a firm — getting permits, enforcing contracts, paying taxes — and became a reform

scoreboard governments chased. India's jump of nearly 80 places was showcased as proof of reform intent. Production Linked Incentives are the industrial-policy sequel: instead of just easing rules, the state pays firms a share of their incremental sales for manufacturing in India, targeting electronics, pharma, autos, textiles, solar modules, drones and other sectors under the Atmanirbhar Bharat banner.

Why it matters: Both reflect the same diagnosis — that India underperforms in manufacturing — but opposite prescriptions: deregulation versus targeted subsidy. PLI bets that temporary incentives can build scale in champion sectors (mobile manufacturing's boom is cited as proof), while critics warn of fiscal cost, WTO subsidy scrutiny and the risk of protecting inefficiency. The Doing Business saga also taught a cautionary lesson about chasing rankings rather than real reform.

Key facts: PLI incentives are disbursed on achieving production and investment thresholds, typically over five years. Electronics (large-scale manufacturing) was the flagship early scheme. The World Bank scrapped Doing Business in September 2021 after an independent review found data manipulation; "Business Ready" reports began rolling out in 2024 with a broader methodology.

How UPSC tests it: Prelims asks why Doing Business was discontinued and the PLI outlay and sector count. Mains wants a critical take: can PLI succeed where earlier manufacturing pushes failed? Structure answers around scale, global value chains, fiscal cost and the lessons of the rankings chase.

5 Revision Tips for Economy

1. **Learn the mechanism, not the numbers.** UPSC rarely asks the exact fiscal deficit figure — it asks what the fiscal deficit *means* and why FRBM targets it. Master repo→inflation, deficit→debt, MSP→procurement chains.
2. **Connect every topic to the latest Budget and Economic Survey.** One Budget speech and one Survey summary, read twice a year, will answer half the economy questions in Mains and the current-affairs-linked Prelims items.
3. **Draw the flowcharts.** Money supply layers, the budget structure, BoP accounts, GST's dual structure — sketch each once from memory. Diagrams turn abstract chains into permanent memory.
4. **Separate Prelims facts from Mains arguments.** Articles (112, 265, 279A), committee names (N.K. Singh), and thresholds (4% ± 2%) are Prelims ammunition; the autonomy debates, inclusion vs growth tensions and reform critiques are Mains material.
5. **Revise with the tables in the final month.** Each quick-revision table on this page compresses a topic into 4 facts — exactly the density Prelims statements are built from.

Frequently Asked Questions

1. Is economy tougher than other GS subjects?

Not if you learn the logic. Economy feels hard only when approached as memorisation — every concept (inflation, deficits, exchange rates) follows a small set of cause-and-effect chains. Learn the chains once and the whole subject opens up.

2. Should I read the Economic Survey and Budget in full?

No. Read a good summary of each — the key chapters, boxes and data points — and revisit them once before Prelims and once before Mains. The full documents are thousands of pages; the exam tests the main arguments and headline facts, not the footnotes.

3. Which book should I read for economy?

The standard pick is Ramesh Singh's *Indian Economy* for concepts plus NCERT Class 11 Indian Economic Development for the base. Our [booklist page](#) has the full subject-wise list with how-to-use notes.

4. How important is current affairs for economy?

Very. Roughly half the economy questions in any Prelims paper link a concept to recent events — an RBI rate decision, the Budget's deficit number, a new PLI scheme, a trade deal. Read the business page of one newspaper and connect each story to a topic on this page.

5. Do I need maths for the economy syllabus?

Only school-level comfort with percentages, ratios and reading charts. The exam never asks you to solve equations — it asks you to interpret what a rising fiscal deficit or a falling rupee *means*.

6. Can economy help in the Essay and other Mains papers?

Yes. Growth-versus-inclusion, the demographic dividend, digital India and climate-vs-development are classic essay themes, and economy examples strengthen answers in Polity (fiscal federalism), Society (poverty, inequality) and Ethics (subsidies, welfare) papers.