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Headlines:

- RBI Monetary Policy: Repo Rate Retained at 5.25%
- 16th Finance Commission: Balancing Fiscal Discipline with Fiscal Equity
- GST Collections: Insights into India's Economic Trends
- India's Research & Development (R&D) Ecosystem: Rising Role of the Private Sector
- Asiatic Lion Conservation: Challenges Beyond Gir

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1. RBI Monetary Policy: Repo Rate Retained at 5.25%

GS-III: Indian Economy | Monetary Policy | Inflation | Banking | Growth & Development

Why in News?

- The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) unanimously retained the policy repo rate at 5.25% and continued with the Neutral monetary policy stance.
- RBI revised its real GDP growth projection for 2026–27 to 6.7%, while expecting inflation to remain within the target band despite temporary food and fuel pressures.

Key Decisions of the MPC

- **Repo Rate:** Retained at 5.25%.
- Standing Deposit Facility (SDF): 5.00%.
- Marginal Standing Facility (MSF): 5.50%.
- Bank Rate: 5.50%.
- Policy Stance: Neutral.
- **Real GDP Growth (2026–27):** Projected at 6.7% (revised upward by 10 bps).

Key Monetary Policy Terms

Monetary Policy

- The policy through which the RBI regulates money supply, liquidity and interest rates to maintain price stability while supporting economic growth.

Monetary Policy Committee (MPC)

- A 6-member statutory committee constituted under Section 45ZB of the RBI Act, 1934.
- Comprises 3 RBI officials and 3 members appointed by the Central Government.
- Determines the policy repo rate to achieve the inflation target.

Repo Rate

- The interest rate at which RBI lends short-term funds to commercial banks against government securities.
- Higher repo rate reduces inflation by curbing liquidity, while lower repo rate encourages credit and economic growth.

Standing Deposit Facility (SDF)

- A facility enabling banks to park surplus funds with RBI without collateral, thereby absorbing excess liquidity.

Marginal Standing Facility (MSF)

- A facility through which scheduled commercial banks can borrow overnight funds from RBI against government securities during liquidity shortages.

Neutral Stance

- Indicates that the RBI is not committed to either monetary tightening or easing, retaining flexibility to respond to evolving economic conditions.

Macroeconomic Assessment by RBI

- Domestic demand continues to remain resilient.
- Private consumption and investment activity remain robust.
- Healthy growth in services exports, supported by a recovery in merchandise exports.
- Core inflation remains moderate, while headline inflation is largely driven by temporary food and fuel supply-side pressures.
- Overall growth momentum remains steady despite external uncertainties.

Key Concerns / Challenges Ahead

- Persistent global economic uncertainty and geopolitical tensions.
- Elevated energy prices and supply-chain disruptions.
- El Niño-induced deficient and uneven southwest monsoon.
- Risks to agricultural output and rural demand.
- Volatility in global commodity and financial markets.

Implications of the Policy Decision

- Balances the objective of price stability with sustaining economic growth.
- Anchors inflation expectations and strengthens macroeconomic stability.
- Enhances investor and business confidence through policy predictability.
- Maintains adequate liquidity and financial system stability.
- Preserves RBI's flexibility to respond to future inflationary or growth-related risks.

Way Forward

- Maintain a data-driven and calibrated monetary policy to balance inflation control with economic growth.
- Strengthen coordination between monetary and fiscal policies to support macroeconomic stability.
- Continue supply-side interventions to address food inflation and improve agricultural resilience.
- Enhance resilience against external shocks through prudent external sector and financial sector management.
- Monitor evolving global and domestic conditions to ensure timely policy responses while preserving financial stability.

2. 16th Finance Commission: Balancing Fiscal Discipline with Fiscal Equity

GS-II: Constitutional Bodies • Centre–State Relations • Cooperative & Fiscal Federalism

GS-III: Indian Economy • Public Finance • Fiscal Federalism

Why in News?

The 16th Finance Commission (FC-16), chaired by Dr. Arvind Panagariya, submitted its report for the award period 2026–31, recommending the framework for tax devolution, grants-in-aid, and fiscal transfers between the Union and the States.

About the Finance Commission

- A constitutional body constituted under Article 280 of the Constitution.
- Constituted by the President every five years (or earlier).

Recommends:

- Distribution of the divisible pool of central taxes between the Union and States (Vertical Devolution).
- Distribution of States' share among States (Horizontal Devolution).
- Grants-in-Aid under Article 275.
- Measures to augment the finances of Panchayats and Municipalities.
- Advises the President on matters relating to sound fiscal federalism.

Key Recommendations of FC-16

- Retained the States' share in the divisible pool at 41%.
- Recommended ₹9.47 lakh crore as Grants-in-Aid.
- Continued grants for Local Bodies and Disaster Risk Management.
- Shifted towards performance-based and outcome-oriented fiscal transfers.
- Discontinued Revenue Deficit Grants (RDGs), Sector-specific Grants, and State-specific Grants.

Key terminologies:

- **Vertical Devolution:** Distribution of the divisible pool of central taxes between the Union and the States.
- **Horizontal Devolution:** Distribution of States' share among States based on criteria such as population, income distance, area, forest & ecology, demographic performance, etc.
- **Revenue Deficit Grants (RDGs):** Grants provided to bridge the post-devolution revenue deficit of States.

- **Grants-in-Aid (Article 275):** Financial assistance provided by the Union to States facing special needs or fiscal constraints.
- **Divisible Pool:** The share of Union tax revenues that is distributed between the Centre and States under Article 270.
- **Cesses & Surcharges:** Levies imposed by the Union Government that do not form part of the divisible pool and are therefore not shared with States.

Issues & Concerns

- Reduction in the overall share of Grants-in-Aid may weaken the equalisation role of the Finance Commission.
- Withdrawal of Revenue Deficit Grants (RDGs) could adversely affect fiscally stressed States.
- Reduced weight for Income Distance and greater emphasis on economic performance may dilute the equalisation objective of fiscal transfers.
- Continued reliance on cesses and surcharges reduces the States' effective share in central tax revenues.
- Increased reliance on performance-linked grants may constrain the fiscal autonomy of States.

Implications

- Promotes fiscal discipline and outcome-oriented governance.
- Encourages efficient utilisation of public resources.
- Strengthens accountability in local government financing.
- Marks a shift from need-based equalisation towards performance-based fiscal transfers.
- Rekindles the debate on efficiency versus equity in India's fiscal federal framework.

Way Forward

- Balance performance incentives with the constitutional objective of fiscal equalisation.
- Rationalise cesses and surcharges to strengthen the divisible pool.
- Ensure adequate fiscal support for structurally disadvantaged States.
- Strengthen States' own revenue mobilisation while preserving fiscal autonomy.
- Promote cooperative fiscal federalism through predictable, equitable and transparent fiscal transfers.
- Strengthen institutional dialogue between the Union and States for collaborative fiscal governance.

3. GST Collections: Insights into India's Economic Trends

GS-III: Indian Economy • Taxation • Public Finance • Fiscal Policy • Inclusive Growth

Why in News?

Gross GST collections stood at ₹2.11 lakh crore in July 2026, recording a 15.4% year-on-year growth. While reflecting robust tax buoyancy, the composition of collections highlights divergent trends in domestic demand, imports, and regional economic performance.

About Goods and Services Tax (GST)

- Introduced on 1 July 2017 through the 101st Constitutional Amendment Act, 2016.
- A destination-based, value-added indirect tax that subsumed multiple Central and State indirect taxes.
- Seeks to create a unified national market under the principle of "One Nation, One Tax."
- Governed by the GST Council constituted under Article 279A of the Constitution.

Why are GST Collections Important?

- Serve as a key indicator of economic activity and tax compliance.
- Constitute a major source of revenue for both the Centre and States.
- Reflect trends in consumption, production and trade.
- Support fiscal consolidation and public expenditure.

Key Highlights

- Import IGST grew significantly faster than domestic GST collections, indicating import-led tax buoyancy.
- Higher import values were driven by rupee depreciation, elevated global commodity prices, and increased imports of crude oil, electronics and machinery.
- Domestic GST growth remained moderate amid slowing manufacturing activity.
- Domestic GST refunds increased, indicating improved compliance and greater formalisation of businesses.
- GST collections continue to vary considerably across States, reflecting regional disparities in industrialisation and formalisation.

Key Economic Concepts

- GST Buoyancy: Indicates the responsiveness of GST revenue to economic growth and improvements in tax compliance.
- Integrated GST (IGST): Tax levied on inter-State supply of goods and services, imports and exports, and subsequently apportioned between the Centre and destination States.

- Input Tax Credit (ITC): Mechanism allowing taxpayers to offset taxes paid on inputs against output tax liability, thereby preventing cascading of taxes.

Issues & Concerns

- Rising GST collections are increasingly driven by imports rather than domestic production.
- Slower manufacturing growth may constrain domestic tax buoyancy.
- Continued disputes relating to Input Tax Credit (ITC) and GST litigation.
- Uneven GST growth across States may widen regional fiscal disparities.

Implications

- Demonstrates the resilience of India's indirect tax system.
- Highlights the growing dependence of GST buoyancy on imports rather than domestic production.
- Suggests the need for stronger manufacturing-led and consumption-driven growth.
- Emphasises the importance of geographically balanced economic development.
- Reinforces the need for continuous GST reforms to improve efficiency, equity and cooperative fiscal federalism.

Way Forward

- Accelerate GST 2.0/3.0 reforms, including rate rationalisation and simplification of compliance.
- Resolve ITC-related disputes through transparent, technology-driven mechanisms.
- Strengthen the manufacturing sector under the Make in India initiative to improve domestic tax buoyancy.
- Broaden the tax base by promoting formalisation of the economy and improving tax compliance.
- Enhance GST capacity in less-developed States to reduce regional disparities.
- Foster greater coordination between the GST Council, Centre and States for a stable, predictable and efficient indirect tax regime.

4. India's Research & Development (R&D) Ecosystem: Rising Role of the Private Sector

GS-III: Science & Technology • Research & Development (R&D) • Innovation • Industrial Development • Economic Growth

Why in News?

According to the Department of Science & Technology (DST), private industry accounted for 51.8% of India's Gross Expenditure on Research & Development (GERD) in 2023–24, overtaking government expenditure for the first time.

About Research & Development (R&D)

- Research & Development (R&D) refers to systematic scientific and technological activities undertaken to generate new knowledge, develop innovative products, processes and services, and enhance productivity and competitiveness.
- Gross Expenditure on R&D (GERD) measures the total investment in research activities by the government, industry, higher education institutions and private non-profit organisations.

Why is R&D Important?

- Drives innovation, productivity and long-term economic growth.
- Enhances technological self-reliance and global competitiveness.
- Supports high-value manufacturing, digital transformation and strategic sectors.
- Strengthens India's transition towards a knowledge-based economy and Viksit Bharat@2047.

Key Highlights

- Private industry contributed 51.8% of India's total R&D expenditure in 2023–24.
- Industry now employs more researchers than government institutions.
- Transport, pharmaceuticals, biotechnology and Information Technology (IT) emerged as the leading R&D-intensive sectors.
- Investments are increasing in Artificial Intelligence (AI), semiconductor design and advanced manufacturing technologies.

Current Status

- India's GERD stands at around 0.84% of GDP, significantly lower than major innovation-driven economies.
- India also has a relatively low researcher density, highlighting the need to expand scientific human resources.
- Private sector participation is improving, but overall R&D intensity remains modest.

Issues & Challenges

- Low investment in R&D compared to global standards.
- Shortage of skilled researchers and weak academia-industry collaboration.
- Limited commercialisation of research and technology transfer.
- Dependence on imported technologies in critical sectors.

Government Initiatives

- Anusandhan National Research Foundation (ANRF) to strengthen the national research ecosystem.
- National Quantum Mission, IndiaAI Mission, and India Semiconductor Mission to promote frontier technologies.
- Production Linked Incentive (PLI) Scheme to encourage innovation-driven manufacturing.

Way Forward

- Increase India's R&D expenditure as a share of GDP through greater public and private investment.
- Strengthen collaboration among industry, academia and research institutions.
- Promote innovation, intellectual property creation and technology commercialisation.
- Develop a larger pool of skilled researchers through quality higher education and research infrastructure.
- Foster an enabling ecosystem for deep-tech startups and emerging technologies to accelerate Atmanirbhar Bharat and Viksit Bharat@2047.

5. Asiatic Lion Conservation: Challenges Beyond Gir

GS-III: Environment & Biodiversity • Wildlife Conservation • Protected Areas • Human–Wildlife Conflict

Why in News?

A proposal to divert reserved forest land for limestone mining in a recognised lion movement corridor in Gujarat has renewed concerns over habitat connectivity and the long-term conservation of the Asiatic lion.

About the Asiatic Lion

- **Scientific Name:** Panthera leo persica.
- **Habitat:** Endemic to India; the only free-ranging population survives in the Gir Landscape of Gujarat, comprising Gir National Park & Wildlife Sanctuary and surrounding satellite habitats.
- **IUCN Red List:** Endangered.
- **Wildlife (Protection) Act, 1972:** Schedule I species.
- **CITES:** Appendix I, providing the highest level of international trade protection.

Why is the Asiatic Lion Globally Significant?

- Represents the only surviving wild population of Asiatic lions.
- One of the world's most successful large carnivore recovery programmes.
- Functions as an apex predator, maintaining ecological balance and healthy ecosystems.
- Symbolises India's success in wildlife conservation and landscape restoration.

Conservation Achievements

- Lion population has increased from around 100–150 individuals in the 1960s to over 1,000 today.
- Nearly half of the population now occurs outside the Gir Protected Area, demonstrating successful dispersal.
- Successful transition from protected area-based conservation to landscape-level conservation.
- Strong political commitment, scientific management and community participation have supported long-term recovery.
- Gujarat has identified satellite lion populations and wildlife corridors to facilitate natural dispersal and genetic exchange.

Emerging Challenges

- Single population risk, making the species vulnerable to epidemics and natural disasters.
- Disease outbreaks such as Canine Distemper Virus (CDV) and babesiosis.
- Habitat fragmentation due to infrastructure and mining activities.
- Increasing human-lion interactions in shared landscapes.
- Climate change and changing land-use patterns affecting habitat quality and connectivity.

Key Conservation Concepts

- **Landscape-level Conservation:** Conserving wildlife beyond protected areas by maintaining habitats, ecological connectivity and movement corridors.
- **Wildlife Corridors:** Natural linkages that facilitate species movement, gene flow and dispersal between habitats.
- **Satellite Population:** A geographically separated but ecologically connected population linked through wildlife corridors, enhancing species dispersal and genetic diversity.

Government Initiatives

- Project Lion (2020): Launched for holistic conservation of the Asiatic lion and the Gir landscape.
- Periodic Lion Population Estimation and scientific monitoring.
- Gir Landscape Management through protected areas, satellite habitats and corridor conservation.
- Measures for disease surveillance, rescue, rehabilitation and human-wildlife conflict mitigation.

Way Forward

- Protect and restore critical wildlife corridors to maintain habitat connectivity.
- Establish a second free-ranging population to reduce extinction risk.
- Strengthen disease surveillance and veterinary response systems.
- Promote community-based conservation through incentives and awareness.
- Adopt science-based land-use planning to balance development with wildlife conservation.
- Integrate biodiversity conservation into infrastructure planning to ensure long-term ecological resilience.