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Page 04:GS III :Indian Economy/ Preliminary Examination

India's headline retail inflation, measured by the Consumer Price Index (CPI), rose to a 19-month high of 4.45% in July 2026. This uptick—up from 4.38% in June—was primarily driven by supply shocks in food and volatile fuel prices, while core inflation components remained relatively benign.

Deep Analysis of Inflation Dynamics

- **Drivers of Food Inflation:** Food inflation accelerated to 5.52%. A steep rise in kitchen staples like onions (22.54%), garlic (35.36%), and ginger (83.62%) offset deflationary trends in potatoes and tomatoes. Monsoon crop damage, extended harvesting periods, and high global edible oil costs continue to pose upside risks.
- **Energy & Service Pass-Through:** Geopolitical tensions and global crude oil fluctuations kept transportation inflation at 4.43%. Elevated fuel inputs led to downward price rigidity, pushing inflation in services like restaurants and accommodation to a yearly high of 7.72%.
- **Rural vs. Urban Disparity:** Rural inflation stood higher at 4.84% compared to urban inflation at 3.96%, highlighting a heavier burden on rural households due to a higher weightage of food in their consumption basket.
- **Easing Segments:** Softening price trends were recorded in healthcare (1.34%) and recreation (1.64%), while double-digit inflation in personal care products (14.77%) was largely driven by surging global gold and silver prices.

Related Static Dimensions (UPSC Perspective)

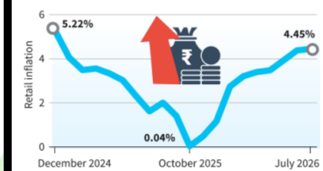
- **CPI Framework & Base Year Revision:** Published monthly by MoSPI (National Statistical Office), CPI measures retail price changes. The updated CPI series operates on a **2024 base year** to better reflect modern consumption patterns.
- **Flexible Inflation Targeting (FIT):** Under the Reserve Bank of India (RBI) Act, 1934, the Monetary Policy Committee (MPC) is mandated to maintain headline CPI inflation at **4% with a tolerance band of ±2% (2%–6%)**.
- **Impact on Economy:** Persistent food-led inflation shrinks household real disposable income, depresses aggregate demand, and constrains the RBI's ability to cut policy rates to support economic growth.

Conclusion

While July's 4.45% print remains within the RBI's target tolerance band, supply-side volatility in food and global energy markets continues to transmit second-round pressures into broader services. Sustained monetary vigilance alongside active fiscal intervention—such as strategic buffer stock releases and targeted trade policy adjustments—remains crucial to anchor inflation expectations.

Steep climb

Retail inflation rose to a 19-month high of 4.45% in July, driven by higher food and fuel prices



Retail inflation hits 19-month high as food, fuel prices rise

T.C.A. Sharad Raghavan
NEW DELHI

Retail inflation in India rose to a 19-month high of 4.45% in July, driven up by higher food and fuel prices, official data released on Wednesday showed.

The Consumer Price Index (CPI) data released by the Ministry of Statistics and Programme Implementation showed that transport, food, and restaurant and accommodation services, became costlier in July, while inflation in other services such as healthcare and recreation sports and culture, cooled marginally.

The CPI series was updated earlier this year, with a new base year of 2024. As a result, while there is historical data for the overall index that goes back to August 2021, sector-wise data is available only from January 2026 onwards. Inflation in the food and beverages category quickened to 5.2% in July 2026 from 5.05% a month earlier.

According to Rajeev Sharan, Head of Research at Brickwork Ratings, this was driven by "fresh spikes in onion and garlic alongside persistently high ginger prices, even as potato and tomato swung into deflation". The expectation ahead is that food inflation will rise further, Madan Sabnavis, chief economist at the Bank of Baroda said.

Monsoon impact

"While the monsoon has recovered substantially in July, there has been news of crop damage," Mr. Sabnavis said. "This, combined with a longer cropping period and hence harvest, will push up prices of pulses. Global prices of edible oils are also high which is being felt in domestic markets."

Driven by higher food and fuel prices, inflation in the restaurants and accommodation services segment quickened to 7.7% in July, the highest this year, up from a previous yearly-high of 6.9% in June.

"The war impact on prices can be seen from higher inflation for restaurants and food services where higher fuel prices have made units increase prices," Mr. Sabnavis explained. "While there is some normalisation in supply of fuel, prices remain where they are and tend to be inelastic in downward direction."

Inflation in the transport sector also quickened to 4.4% in July 2026 from 4.3% in June.

There were, however, some services that saw inflation easing in July. The health segment, for example, saw inflation cooling to 1.3% in July 2026 from 1.4% in June. Inflation in this segment has been falling since February 2026.

The other segment that saw inflation easing was the 'recreation, sport and culture' category to 1.6% in July 2026 from 1.75% a month earlier.

While inflation in the 'personal care, social protection and miscellaneous goods & services' category – which includes gold and silver purchases – remained in double digits at 14.8% in July 2026, it was the lowest level recorded so far this year.

UPSC Prelims Practice Questions

Question: Which one of the following best explains core inflation?

(a) Inflation excluding food and fuel components

(b) Inflation only in manufactured goods

(c) Inflation caused exclusively by monetary expansion

(d) Inflation in agricultural commodities only

Ans: a)

UPSC Mains Practice Questions

Question: Food inflation in India is predominantly a supply-side challenge, but its persistence can create demand-side and monetary policy complications. Discuss.**(10 Marks, 150 Words)**

Page 08 :GS II :Governance / Preliminary Examination

The Foreign Contribution (Regulation) Amendment Bill, 2026, recently referred to a Joint Parliamentary Committee (JPC), seeks to overhaul the framework governing foreign contributions to Civil Society Organisations (CSOs) and Non-Governmental Organisations (NGOs). While the government cites national security and financial oversight, key provisions raise serious concerns regarding administrative overreach, procedural fairness, and institutional autonomy.

Key Concerns & Critical Analysis

- **Automatic Asset Takeover:** The Bill mandates that upon cancellation, non-renewal, or mere administrative expiry of an FCRA licence, foreign funds and assets built with them automatically vest with a state-appointed "designated authority".
- **Disproportionate Seizure:** Assets created even partly through foreign funding will be taken over in full, leaving the organisation to prove and reclaim its non-foreign share.
- **Denial of Natural Justice:** The Bill lacks provisions for a prior hearing (*Audi Alteram Partem*) before refusal of renewal, and offers no statutory right to appeal against a refusal to renew.
- **Impact on Essential Services:** Minority institutions, schools, and hospitals—often funded via historical contributions—face operational instability due to retrospective asset risks.

Related Static Dimensions

Governance & Polity

- **Civil Society & NGOs:** Essential role of non-state actors in welfare delivery versus state-enforced regulatory compliance.
- **Constitutional Rights:** Potential friction with Article 19(1)(c) (freedom of association), Article 26 (freedom to manage religious affairs), and Article 300A (right to property).
- **Principles of Natural Justice:** Absence of explicit provisions for fair hearing and administrative judicial review before key executive decisions.

Internal Security & Economy

- **Financial Accountability:** Regulating foreign money flow to prevent money laundering, illegal conversions, or security threats without stifling legitimate development work.

Troubling bill

The FCRA amendments need redrafting in the JPC

The BJP-led government's relentless zeal in over-regulating civil society organisations is on display again in the Foreign Contribution (Regulation) Amendment Bill, 2026, which it had sought to push through Parliament. After strong protests, it has now been referred to a Joint Parliamentary Committee (JPC). In 2020, the government got amendments to the Foreign Contribution (Regulation) Act, or FCRA, passed that barred a registered body from passing funds to another, even one registered under the same Act, and cut the share of foreign funds that could be spent on administration from half to a fifth, among other restrictions. It now proposes to go further still by taking over the assets that the money built, even on the mere lapse of a certificate. Under the Bill, a donee organisation can lose its registration not only when the government cancels it, but when renewal is refused, not applied for, or not granted before the old certificate runs out. As soon as this happens, the organisation's foreign funds and what was built with them will pass to a government-designated authority automatically. The property returns only if the organisation re-registers within a period the government has yet to specify, failing which it is lost for good. According to the Bill, a building put up only partly with foreign money will be taken over in full. The organisation must then apply to get back the share not paid for with foreign money. The Bill does allow for an appeal to a district judge, but only against what the authority does with the property later. The refusal to renew cannot be appealed against, and the organisation will not be entitled to be heard before the refusal is made. In essence, because the authority acts on the Centre's instructions, the Centre can use opaque reasons to withdraw a licence, take over the property, and then direct the body now holding it.

It is not surprising that minority religious institutions have been the most alarmed. This is true of Christian organisations, which run thousands of schools, colleges and hospitals built and sustained with money from churches and congregations abroad. Hundreds marched in Aizawl, Mizoram, under a newly formed council of churches; organisations in Kerala have objected to the Bill; Nagaland's Chief Minister wrote to the Home Minister seeking a parliamentary review; and the Tamil Nadu Assembly has also unanimously resolved that the Centre should withdraw the Bill. The Home Minister has assured church leaders that the Bill will not apply retrospectively, but the text of his own Bill says otherwise. A hospital built decades ago can still be taken over today because a certificate has been allowed to lapse. The JPC, to which the Bill has been sent, should redraft it to provide organisations with an opportunity to be heard before renewal is refused, as well as a right to appeal against such a refusal, among other changes that would make the regulation fair and transparent.

Conclusion

Regulation of foreign funding must balance national security with civil society vitality. The JPC must redraft contentious provisions to guarantee a fair hearing, right of appeal, and clear protection for non-foreign assets, ensuring regulatory transparency while safeguarding constitutional freedoms.

UPSC Prelims Practice Questions

Question: The expression "Audi Alteram Partem", frequently associated with administrative law, means:

(a) No one should be a judge in their own cause

(b) Let the other side be heard

(c) Justice delayed is justice denied

(d) Law must be applied retrospectively

Ans: b)

UPSC Mains Practice Questions

Question: "The regulation of NGOs must ensure accountability without undermining the autonomy of civil society." Discuss in the context of the FCRA framework.**(10 Marks, 150 Words)**

The op-ed "Promise of gender equality must be upheld" by Priyanjali Malik analyzes the gap between constitutional gender equality promised at Independence and contemporary gender-based political discourse. Using the backdrop of historical electoral inclusion alongside recent online harassment and paternalistic messaging toward female political dissenters, the piece underscores the imperative to defend women's democratic agency.

Promise of gender equality must be upheld

Priyanjali Malik

writes on nuclear politics and security

Indian independence was an audacious bet on hope. Audacious not because Winston Churchill was remotely correct in declaring that India 'was no more a united nation than the Equator' (Churchill always was bilious about India). No, it was audacious because the freedom that the nationalist leaders fought for was to be bestowed on all citizens of India, regardless of caste, creed, class, political allegiance or gender. Overnight, all women and all men were equal before the law. This really was a nation built on the simple premise of equality for all. That hope powered India through the turbulent early decades where, by any markers of history, or diplomatic weight, or economics, or brute power, India should have failed. India did not fail, but today, those promises of equality shine somewhat less brightly after the misogynistic response to the Cockroach Janta Party (CJP)-organised protests at Jantar Mantar last month.

An old promise

On the eve of independence, the landmass of the subcontinent was divided between British India and the princely states. The trauma of Partition and the pressing need to home the millions who came across the Radcliffe Line, was followed immediately by the need to integrate the princely states into the union. And then there were the challenges that came with the extreme poverty of a colony that had been milked by the colonial power. Everything was in short supply – money, education, health, housing, industry – everything apart from hope.

Against that backdrop, the Constituent Assembly decided to give universal franchise to all Indians above the age of 21; every woman or man over 21 was eligible to vote in the first elections held in independent India in 1952 (it took Switzerland until 1990 to give every woman the right to vote). When the Election Commission fanned out to register voters before that first election, they faced a major challenge in getting all 80 million eligible women to come out in order to be registered. Then, they had to persuade them to not identify themselves as 'the daughter of X' or 'the wife of Y'. Getting each woman to register as an individual in her own right, with her own name was a mammoth task. Yet, the workers of the Commission persisted because the promise of equality was more than just nice words in the wind. They worked to include. It was in stark contrast to the current Special Intensive Revision (SIR) which appears to work on the presumption of exclusion.

Even so, in 1952, 2.8 million women were eventually struck off the rolls since they would not identify themselves by name. It is a measure of how far India has travelled in gender equality that in 2019, the gender gap in voting closed. Since 1952, India has made progress in turning electoral equality into a lived equality for women and men, and the idea of identifying women by the male head of the household is largely for the history books. Yet, ownership of one's own name, which announces gender electoral equality, has been weaponised against women – most recently in the online attacks against female protesters at Jantar Mantar.

The ownership of one's own name, which announces gender electoral equality, has been weaponised against women

Gendered expectations

Several women who participated in the protests were doxxed in the days following the protest being called off. Their names, numbers, addresses and other personal details were uploaded; they faced vile online abuse. To add fuel to the fire, the Prime Minister, in an Instagram reel on July 31 spoke of 'forgiving' the 'misguided daughters' who swore (some of them, at him). In singling out the behaviour of women, he divided the protesters sharply along gendered lines. The 'daughters' of the nation who used 'abusive' language were transgressive and their behaviour was a 'cultural shock.' The men who used exactly the same language were not even noticed. Same protest, same demands, same aspirations, but gendered expectations.

The very same women whose great grandmothers or grandmothers had been registered as voters because the government of the day considered them capable of choosing their representatives have now been reduced to 'misguided children' who need counselling by a paternalistic Prime Minister, who incidentally would not identify the protests for what they were (he referred instead to 'what happened at Jantar Mantar'). Since he was reluctant to recognise the protests, the Prime Minister perhaps also missed something else found at Jantar Mantar: hope. It may have been the weakest of echoes, but it was there – that old hope, kindled 79 years ago, that whatever the challenges facing India, a better future was possible.

However, by making that reel about personal grievance, the Prime Minister's message turned a protest over democratic accountability into a cult of personality. In his telling, this was not a protest, just a mistake, and he was prepared to move on with a gentle chiding. Perhaps the Prime Minister had not noticed the doxxing of the women protesters. Perhaps it was not brought to his attention that many among his huge following on social media routinely employed that same vile language, which he found so offensive coming from the mouths of young women, against anyone who dares to disagree with him. As for those 'misguided daughters', the sadly inevitable threats of rape and murder they received by 'nationalist' cyber warriors have become their lived experience on the eve of India's 79th Independence day.

This is the reality of gender equality in India today. Against all odds, India did not fail after independence and held on to hope. We cannot let that hope of equality falter today.

Key Analysis & Core Themes

- **Audacious Foundational Premise:** Independent India granted immediate universal adult franchise in 1952, conferring equal electoral agency regardless of gender—a feat that took decades for Western democracies.
- **Institutional Struggle for Women's Identity:** The early Election Commission's efforts to register women under their own distinct names rather than as dependent kin established individual citizenship, closing the gender voting gap by 2019.
- **Weaponisation& Doxxing:** Recent online targeted abuse, doxxing, and cyber-harassment against female political dissenters demonstrate how public identity and digital visibility are turned against women.
- **Gendered Expectations in Political Discourse:** Paternalistic framing—viewing women's political speech through the lens of moral/cultural transgression ("misguided daughters") while ignoring identical behaviour by men—infringes upon gender neutrality in public life.
- **Erosion of Democratic Hope:**Depoliticising public protests into personal grievances risks replacing rights-based democratic accountability with personality-focused governance.

Related Static Dimensions

1. Indian Constitution & Polity

- **Article 14:** Equality before law and equal protection of laws.
- **Article 15:** Prohibition of discrimination on grounds of sex.
- **Article 19(1)(a):** Freedom of speech and expression, including the right to peaceful protest and political dissent.
- **Article 326:** Universal adult suffrage as the bedrock of constitutional democracy.

2. Social Justice & Women Empowerment

- **Political Empowerment:** Progression from nominal franchise to substantive political leadership (e.g., Nari Shakti Vandan Adhiniyam / Women's Reservation Act, 2023).
- **Cyber Safety & Dignity:** Protection of women's privacy under Article 21 (Puttaswamy Judgment) against online doxxing and gendered cyber violence.

3. History & Nation Building

- **Role of Women in Freedom Struggle:** Transition from mass participation in the nationalist movement to active voters in the 1951–52 First General Elections.
- **Constituent Assembly Debates:** Framers' choice of immediate universal suffrage as a tool for radical social transformation.

Conclusion

True gender equality requires moving beyond procedural electoral participation to safeguarding women's dignity, autonomy, and political voice in the public sphere. Upholding the constitutional promise made in 1947 necessitates zero tolerance for digital misogyny, non-discriminatory political standards, and a commitment to protecting equal citizenship rights for all.

UPSC Prelims Exam Study Questions

Question: Which of the following best reflects the concept of substantive gender equality?

(a) Providing identical treatment to men and women in every circumstance

(b) Ensuring only equal voting rights

(c) Removing structural and social barriers so that formal equality translates into meaningful participation and outcomes

(d) Reserving all political positions exclusively for women

Ans:c)

UPSC Mains Exam Study Questions

Question:"Formal political equality does not necessarily translate into substantive political empowerment of women." Discuss the barriers that continue to limit women's participation in Indian politics.**(10 Marks, 150 Words)**

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India's Ethanol Blending Programme (EBP) aims to achieve 20% ethanol blending in petrol (E20). While the push is framed as a key tool for energy security and decarbonisation, political debates and vehicle durability concerns have surfaced regarding its sustainability and implementation timeline.

Key Points & Analysis

How sustainable is India's E20 push?

In August, the government told the Lok Sabha that the ethanol blending programme had helped save around ₹2 lakh crore in foreign exchange. However, Opposition leaders, including Rahul Gandhi and Arvind Kejriwal, have launched campaigns against E20, saying it harms vehicles and that the government is forcing it on people

EXPLAINER

M. Kalyanaraman

The story so far:
Opposition leaders such as Rahul Gandhi and Arvind Kejriwal have launched campaigns against E20 saying it harms vehicles and that the government is forcing it on people. Mr. Kejriwal alleged that India has "yielded" to pressure from U.S. President Donald Trump to buy ethanol from the United States.

What is the status of production?
The government's target was to produce 10-11 billion litres of ethanol so that 20% of petrol used in transport vehicles could come from ethanol produced in India, with the money being funnelled into the Indian economy rather than becoming a foreign exchange outgo through crude oil imports. Taking advantage of the policy push, India's distillery capacity has ramped up and is now capable of producing some 18-20 billion litres from some 500 distilleries. For this ethanol year, which runs November to October, the oil companies have contracted to procure some 10.5 billion litres of ethanol.

Will it spur corn imports from U.S.?
There is no evidence of a surge in ethanol or maize (corn) imports in Ministry of Commerce statistics. In any case, direct ethanol import for petroleum blending is banned, though the U.S. corn lobby has been pushing for India to increase corn imports. Government figures for this ethanol year show that 45% of the ethanol for petrol blending will come from maize, FCI rice some 22%, sugarcane juice 16%, B-heavy molasses some 10%, damaged foodgrains around 4.5% and C-heavy molasses 1.1%. India's maize output grew by 45% in three years to 55 million tonnes in 2025-26, with more than 20% of it going into ethanol, says Shankar Lal Jat of Indian Council of Maize Research, adding that there is no need to import it.

Policy push: A billboard promoting E20 fuel policy at a fuel station in New Delhi. AP

Sugarcane juice and B-heavy molasses go into sugar production and they are now being diverted to ethanol. The Indian Sugar Manufacturers' Association reported that the closing stock of sugar in September of 2025 was around 5 million tonnes, and this year too, the closing stock is expected to be 5 million tonnes. This indicates the diversion to ethanol has not affected sugar availability or stocks. Yet, in the event of a monsoon failure, crop losses and foodgrain shortages, the diversion of FCI rice, sugarcane juice and B-heavy molasses to ethanol production will come under stress, raising the possibility of corn imports.

Should we be worried about using E20 in our vehicles?
If you bought your vehicle after April 2023, you can fill your petrol tank with E20, shut it and forget it because that's when the Bharat Stage 6 Phase 2 (Real Driving Emissions) mandate took effect. Vehicles built after this deadline were factory-engineered for E20 – with ethanol-resistant elastomers, fluorinated fuel lines, upgraded pump seals and recalibrated engine control units. These roughly 70 million vehicles, about 23% of India's active petrol fleet, face little cause for concern.

The remaining 77% – nearly 240 million legacy two-wheelers and cars built for E5 or E10 – are the genuine worry. Ethanol is a polar solvent that degrades older rubber compounds and plastics, hardening and cracking fuel hoses over time. It is also hygroscopic: it absorbs atmospheric moisture, and in vehicles left parked for extended periods, the ethanol-water mixture separates and settles, forming an acidic layer that corrodes tanks, damages fuel pumps and clogs filters with sludge. Consumer surveys by LocalCircles found 66% of pre-2023 owners reporting mileage losses exceeding 10%, and 55% reporting increased maintenance.

IIT Kanpur's Engine Research Laboratory maintains that E20 causes no notable damage, with efficiency loss under 5% – attributing most complaints to driving habits and traffic conditions. But independent mechanics and automotive communities dispute this, citing real-world fuel pump and injector failures traced to ethanol's solvent and low-lubricity properties.

The government told Parliament in August that one leading automobile manufacturer had serviced 2.84 crore vehicles in FY 2025-26, including about 1.5 crore legacy vehicles, without finding E20-linked engine damage. Another two-wheeler maker reported similar findings. On mileage, it said government and manufacturer studies showed an efficiency penalty of about 2 to 6% in some vehicles designed for E10, though this too was influenced by driving conditions, habits and maintenance.

A transparent and more phased rollout such as in Brazil, where the transition to high levels of ethanol along with modifications to vehicles happened over several decades in a stable manner, would have taken the people into confidence. In India, the 10% milestone was reached in 2022. Within three years, the blending was ramped up to 20% with very little information and advisories coming from manufacturers.

Has ethanol blending helped mitigate oil supply crisis?
In August, the government said in Lok Sabha that so far, the ethanol blending programme has led to saving of around ₹2 lakh crore of foreign exchange and substituting of some 32 million tonnes of crude oil imports. Substituting 10 billion litres of petrol with ethanol would mean dispensing with a month of crude imports.

The government also told Parliament that while crude oil prices had gone up 70% during the war in West Asia, petrol prices at the pump had gone up by only 7 to 8% although under-recoveries had also increased. The OMCs procure ethanol at around ₹70 per litre for blending, compared with a pump price of around ₹105 per litre of petrol. The base price of petrol, which includes the cost of production, transportation and OMC margins, is typically 55-60% of the petrol pump price. On the surface, it appears that ethanol is not less costly than petrol but the issue is complex. Ethanol and petrol follow different costing and tax regimes, and it would be difficult to make an independent inference on whether ethanol has helped keep prices down, as the government claims.

THE GIST

The government's target was to produce 10-11 billion litres of ethanol so 20% of petrol used in transport vehicles could come from ethanol produced in India, with the money being funnelled into the Indian economy.

Vehicles built after this April 2023 were factory-engineered for E20, with ethanol-resistant elastomers, fluorinated fuel lines, upgraded pump seals and recalibrated engine control units.

- **Economic Impact:**
  - Saved around **₹2 lakh crore** in foreign exchange and substituted ~32 million tonnes of crude oil imports.
  - India's distillery capacity reached **18–20 billion litres**, creating rural economic linkages.
- **Raw Material & Feedstock Dynamics:**
  - Ethanol procurement source breakdown: Maize (45%), FCI Rice (22%), Sugarcane Juice (16%), B-Heavy Molasses (10%), Damaged Foodgrains (4.5%), C-Heavy Molasses (1.1%).
  - Sugar availability remains stable (closing stock ~5 million tonnes), but severe monsoon failures could trigger feedstock stress and raise import risks.
- **Vehicle Compatibility & Consumer Concerns:**
  - **BS-6 Phase 2 (post-April 2023) Vehicles:** ~70 million vehicles (23% of fleet) are pre-engineered for E20 with compliant elastomers and tuned ECUs.
  - **Legacy Vehicles:** ~240 million pre-2023 vehicles (77% of fleet) face risks from ethanol's hygroscopic and corrosive properties, causing rubber/metal degradation and minor mileage drop (2–6% per government/IIT Kanpur studies; consumer surveys report higher).
- **Supply Crisis & Pricing Paradox:**
  - Ethanol procurement (~₹70/L) vs Petrol pump price (~₹105/L) involves distinct tax structures and OMC margins, making price pass-through complex.
  - Provided a buffer against West Asian crude price volatility.

Related Static Dimensions

- **Economy & Energy:**
  - *Import Dependence & Forex:* Energy security, Current Account Deficit (CAD) mitigation, and alternative fuels.
  - *Agricultural Diversification:* Sugarcane/Maize price realization for farmers, crop-pattern shifts, and food vs. fuel trade-offs.
- **Environment & Infrastructure:**
  - *Decarbonisation Targets:* India's Panchamrit commitments, National Policy on Biofuels (2018), and vehicular emissions reduction.
- **Governance & Public Policy:**
  - *Policy Implementation:* Rollout speed compared to phased multi-decade models (e.g., Brazil), consumer advisories, and regulatory mandates.

Conclusion

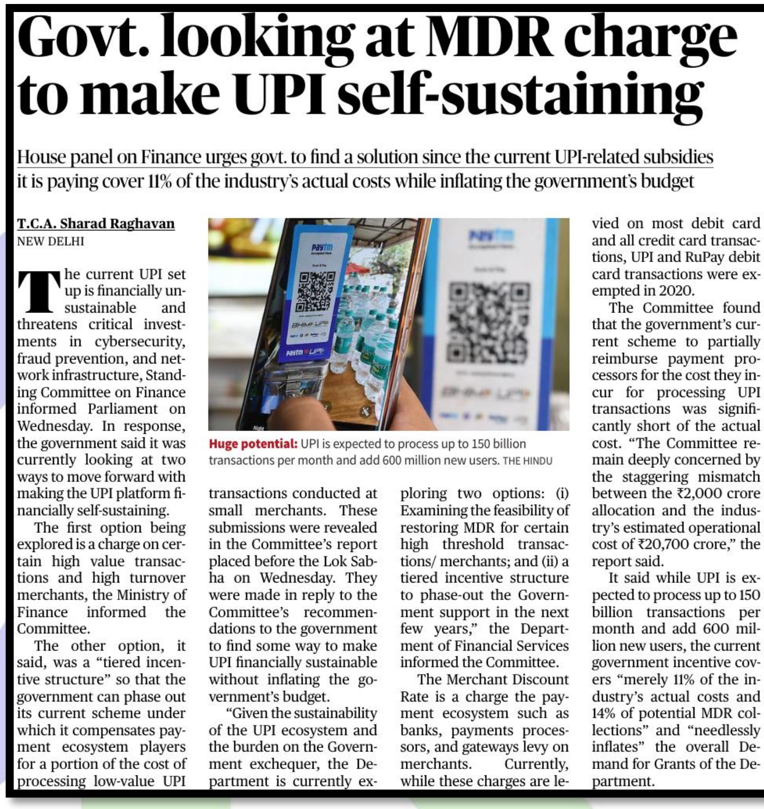
The E20 policy significantly strengthens India's macro-economic resilience and rural economy. However, long-term sustainability requires managing food security risks during climate shocks and ensuring transparent transition protocols for legacy vehicle owners.

UPSC Mains Practice Questions

Question: “Ethanol blending is not merely an environmental policy; it is also an energy-security and macroeconomic strategy.” Discuss.**(10 Marks, 150 Words)**

Page 12 : GS III : Indian Economy / Preliminary Examination

The Parliamentary Standing Committee on Finance highlighted that India's Unified Payments Interface (UPI) setup faces financial sustainability challenges, as current government subsidies cover merely 11% of the digital payment ecosystem's operational costs. To bridge this gap without burdening the exchequer, the Finance Ministry is exploring mechanisms like reintroducing a Merchant Discount Rate (MDR) for high-value transactions and moving toward a tiered incentive model.



Govt. looking at MDR charge to make UPI self-sustaining

House panel on Finance urges govt. to find a solution since the current UPI-related subsidies it is paying cover 11% of the industry's actual costs while inflating the government's budget

T.C.A. Sharad Raghavan
NEW DELHI

The current UPI set up is financially unsustainable and threatens critical investments in cybersecurity, fraud prevention, and network infrastructure, Standing Committee on Finance informed Parliament on Wednesday. In response, the government said it was currently looking at two ways to move forward with making the UPI platform financially self-sustaining.

The first option being explored is a charge on certain high value transactions and high turnover merchants, the Ministry of Finance informed the Committee.

The other option, it said, was a "tiered incentive structure" so that the government can phase out its current scheme under which it compensates payment ecosystem players for a portion of the cost of processing low-value UPI transactions conducted at small merchants. These submissions were revealed in the Committee's report placed before the Lok Sabha on Wednesday. They were made in reply to the Committee's recommendations to the government to find some way to make UPI financially sustainable without inflating the government's budget.

"Given the sustainability of the UPI ecosystem and the burden on the Government exchequer, the Department is currently exploring two options: (i) Examining the feasibility of restoring MDR for certain high threshold transactions/ merchants; and (ii) a tiered incentive structure to phase-out the Government support in the next few years," the Department of Financial Services informed the Committee.

The Merchant Discount Rate is a charge the payment ecosystem such as banks, payments processors, and gateways levy on merchants. Currently, while these charges are levied on most debit card and all credit card transactions, UPI and RuPay debit card transactions were exempted in 2020.

The Committee found that the government's current scheme to partially reimburse payment processors for the cost they incur for processing UPI transactions was significantly short of the actual cost. "The Committee remain deeply concerned by the staggering mismatch between the ₹2,000 crore allocation and the industry's estimated operational cost of ₹20,700 crore," the report said.

It said while UPI is expected to process up to 150 billion transactions per month and add 600 million new users, the current government incentive covers "merely 11% of the industry's actual costs and 14% of potential MDR collections" and "needlessly inflates" the overall Demand for Grants of the Department.

Huge potential: UPI is expected to process up to 150 billion transactions per month and add 600 million new users. THE HINDU

Deep Analysis

- **Operational Mismatch:** While industry operational expenses stand at roughly ₹20,700 crore, government budgetary support is allocated at only ₹2,000 crore. This deficit threatens vital investments in cybersecurity, fraud mitigation, and server capacity.
- **Proposed Solutions:**
  - *Selective MDR:* Enabling provision under the Taxation and Other Laws (Amendment) Bill to allow a nominal, threshold-based MDR on high-turnover merchants. Person-to-person (P2P) transfers and small merchant payments will remain entirely free.
  - *Tiered Incentives:* Gradually phasing out direct budgetary support as transaction volumes expand.
- **Impact on Stakeholders:**
  - *Consumers:* No transaction charges for ordinary users.
  - *Payment Service Providers (PSPs) & Banks:* Reintroduction of MDR provides revenue streams to modernize IT infrastructure and reduce dependence on subsidies.
  - *Government Budget:* Prevents unsustainable expansion of the Department of Financial Services' Demand for Grants.

Related Static Dimensions

- **Merchant Discount Rate (MDR):** Fee charged to merchants by payment gateways/banks to process digital transactions. Waived for UPI and RuPay debit cards in 2020 under Section 10A of the Payment and Settlement Systems (PSS) Act, 2007.

- **NPCI (National Payments Corporation of India):** Umbrella organization operating retail payments in India, founded as an initiative of the RBI and Indian Banks' Association (IBA) under the PSS Act, 2007.
- **Financial Inclusion & Digital Public Infrastructure (DPI):** UPI forms the core layer of the *India Stack*, promoting cashless economic transitions and formalization.

Conclusion

Transitioning UPI toward financial self-sustainability balances user growth with system security. A calibrated, threshold-based MDR ensures that ordinary consumers and small vendors are unaffected while protecting digital payment infrastructure from systemic underinvestment.

UPSC Prelims Exam Study Questions

Question: Consider the following statements regarding NPCI:

1. NPCI operates several retail payment systems in India.

2. It was established as an initiative of the Reserve Bank of India and the Indian Banks' Association.

3. It is a constitutional body established directly by the Constitution of India.

Which of the statements given above is/are correct?

(a) 1 and 2 only

(b) 2 and 3 only

(c) 1 and 3 only

(d) 1, 2 and 3

Ans: a)

UPSC Mains Exam Study Questions

Question: UPI has emerged as a critical Digital Public Infrastructure, but its long-term sustainability cannot depend entirely on government subsidies. Examine.**(10 Marks, 150 Words)**

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A timely reset for the Food Security Act

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India's food security debate has entered a new phase. Estimates based on India's latest household consumption survey suggest that the share of households unable to afford the ICMR-National Institute of Nutrition (NIN) recommended diet fell from about 52% in 2011-12 to about 25% in 2023-24, affecting 25% of rural and 21% of urban households. This is substantial progress, but crores of households still cannot afford an adequate healthy diet. Poverty, hunger and inability to afford a healthy diet overlap; a modern food-security policy must recognise that they are not identical.

The draft National Food Security (Amendment) Bill, 2026 links Antyodaya Anna Yojana (AAY) entitlements to household size. The policy challenge is to correct inequity without reducing existing foodgrain access, while creating a pathway towards nutrition security.

Designing a fairer entitlement

Priority Households receive 5 kg of foodgrains per person per month, while AAY households receive a flat 35 kg per household. The latter protects smaller and highly vulnerable families but provides progressively less per person as household size grows: a seven-member household receives 5 kg per person and an eight-member household about 4.4 kg, below the Priority Household entitlement. The draft proposes 7 kg per person, capped at 35 kg. This would reduce support for households with one to four members by 20% to 80%, leave those with five or more unchanged, and provide no AAY household with additional foodgrain.

Tamil Nadu illustrates the potential impact. The State government reports that 15.75 lakh of its 18.64 lakh AAY households (84.5%) have fewer than five members. It estimates that the proposal would reduce the monthly AAY allocation from 65,261 tonnes to 42,040 tonnes, a fall of about 35.6%. Although specific to Tamil Nadu, these projections show why household composition and vulnerability must be considered: a smaller household may include an older person living alone, a widow or a person with disability.

As the proposal is taken forward, the existing 35 kg entitlement should be preserved through an explicit no-loss safeguard. Because retaining 35 kg as both the minimum and maximum would leave the per-person formula with no practical effect, support beyond 35 kg for larger or highly dependent households should be examined as a separate policy question using household-consumption evidence, nutritional requirements and transparent fiscal costing.

Entitlement reform must also address coverage. Although the NFSA allows coverage of up to 75% of the rural and 50% of the urban population, its 81.35-crore beneficiary ceiling remains based on Census 2011; about 80 crore people receive free foodgrains. Against the estimated population of 146.4 crore in 2025, this ceiling covers only 55.6%. It should be recalculated when the Census 2027 figures become available. Meanwhile, updated population estimates and deprivation criteria could support a transparent review, with accessible inclusion and appeal mechanisms.

> The proposed amendment offers an opportunity to preserve the 35 kg AAY entitlement, assess the needs of larger households, and finance a gradual transition toward more diverse and nutritious diets

Protecting grain while diversifying diets

Protecting the grain entitlement does not mean preserving a cereal-only understanding of food security. NFHS-6 (2023-24) found that stunting among children under five fell from 35.5% to 29.3%, but wasting and underweight barely changed, from 19.3% to 19.0% and 32.1% to 31.8%, respectively. Only about 15% of children (six-23 months) receive a minimally adequate diet. Meanwhile, the ICMR-India Diabetes (INDIAB) study estimated that 101 million Indians had diabetes and 136 million had prediabetes in 2021. These figures reflect India's double burden of malnutrition. Maternal undernutrition and low birth weight are associated with greater risk of non-communicable diseases (NCDs) later in life, while present-day diet and other behavioural factors add further risk.

Foodgrain entitlement should not itself be equated with diabetes risk. The concern is that a predominantly cereal-based food basket, when combined with diets already high in carbohydrates and low in protein-rich foods, may reinforce dietary imbalance. The solution is not to reduce essential cereal entitlements, but to finance dietary diversification alongside.

The dietary evidence favours balance over simply increasing or substituting cereals. A 2025 ICMR-INDIAB study of 18,090 adults found carbohydrates supplied 62.3% of daily energy nationally and protein 12%. Adults with the highest carbohydrate intake had 30% higher odds of newly diagnosed type 2 diabetes than those with the lowest intake. Replacing refined cereals with whole-wheat or millet flour was not linked to lower risk when the carbohydrate share remained high. Modelling suggested greater benefit from replacing some carbohydrate calories with protein-rich foods.

These observational and modelled findings cannot establish that changing the Public Distribution System (PDS) basket will prevent diabetes, but caution against treating more grain or millets alone as a complete nutrition policy. The ICMR-NIN's 2024 guidelines recommend that cereals and millets provide at most 45% of energy, with greater contributions from pulses, beans, milk, nuts, vegetables, fruits and other protein sources.

The PDS cannot supply the entire healthy plate; it can best provide affordable, shelf-stable foods. States should be supported to offer pulses, local rice, wheat and millet choices and, where feasible, healthy edible oils. Local production and consumption should guide supply chains and effective Minimum Support Price (MSP) procurement for pulse, millet and oilseed growers. Sustained public investment should link food, nutrition and health systems through complementary programmes: the PDS, Anganwadi services for young children and pregnant or lactating women, and Pradhan Mantri Poshan Shakti Nirman (PM POSHAN) for schoolchildren. These programmes could provide eggs, milk or suitable alternatives where locally acceptable and feasible. Dietary diversification must be separately budgeted, not financed by reducing cereal entitlements. The 2026-27 Union Budget allocates ₹2,27,629 crore to food subsidy, underscoring the need for transparent costing. Additions should be tested through phased State pilots assessing actual consumption, dietary diversity, anaemia and glycaemic risk, household spending, wastage, exclusion and supply feasibility. Pilot evidence can guide fiscally sustainable expansion and help assess potential longer-term health and fiscal benefits.

Linking food access with nutrition support

The NFSA's strength lies in guaranteeing reliable, dignified food access. India has built a formidable delivery network. By the end of 2025, 5.50 lakh of 5.51 lakh fair price shops used electronic point-of-sale devices, while One Nation One Ration Card covered nearly all NFSA beneficiaries. These systems support portability and monitoring but must include reliable offline alternatives, assisted or doorstep access for people with limited mobility, and a clear guarantee that authentication failure will not lead to denial of entitled foodgrains.

Fair price shops could support last-mile nutrition information and referral. Simple multilingual receipt, display, voice and mobile messages could promote dietary diversity, appropriate cereal portions, pulses, healthier oils, and less salt and added sugar. Where feasible, trained health workers could undertake periodic outreach through India's primary-health infrastructure, linking willing adults to government diabetes, hypertension and other NCD services. By June 2026, India had over 1.86 lakh Ayushman Arogya Mandirs, while government data recorded 41.3 crore diabetes screenings. Fair price shop dealers should facilitate information and referral, not diagnose or counsel. Participation must be voluntary, confidential and unrelated to ration eligibility or authentication.

The amendment should therefore be situated within a broader architecture for food and nutrition security, anchored in three safeguards. First, any per-person formula should preserve the existing 35 kg monthly entitlement for every AAY household through an explicit no-loss guarantee. Second, the adequacy of the 35 kg ceiling should be reviewed periodically for larger households and those with high dependency or nutritional needs, using consumption, nutritional and fiscal evidence. Third, dietary diversification must be separately financed and progressively implemented without reducing existing cereal entitlements.

India's next food security reform must protect people from hunger while also addressing the dietary drivers of diabetes and other NCDs. Its success should be judged not only by the tons of grain moved, but by whether vulnerable families can eat enough, eat healthier and obtain their entitlements with dignity.

GS Paper II: **Governance and Social Justice**

UPSC Mains Exam Practice Questions: "India's food security framework must transition from calorie security to nutrition security." Discuss.(**10Marks, 150 Words)**

Context : India's food security framework is undergoing a critical transition. While household inability to afford an ICMR-NIN recommended healthy diet fell from **52% (2011–12)** to **25% (2023–24)**, millions still face dietary poverty. The **Draft National Food Security (Amendment) Bill, 2026** proposes restructuring entitlements under the **Antyodaya Anna Yojana (AAY)**. However, modern policy must distinguish between basic calorie access and comprehensive **nutrition security**, addressing India's double burden of malnutrition and rising Non-Communicable Diseases (NCDs).

Core Issues & Key Proposals in the 2026 Draft Bill

- **Restructuring AAY Entitlements:**
  - **Current System:** Priority Households (PHH) receive **5 kg/person/month**, while AAY receives a flat **35 kg/household/month**.
  - **Proposed Change:** AAY shifts to **7 kg/person**, capped at **35 kg/household**.
  - **The Structural Flaw:** This does not increase grains for larger families (due to the 35 kg cap) but **reduces entitlements by 20% to 80%** for 1-to-4 member households.
- **Impact on Vulnerable Small Households:**
  - AAY targets the destitute (e.g., elderly living alone, widows, persons with disabilities).
  - *Case Study (Tamil Nadu):* 84.5% of AAY households have fewer than five members. The revision would slash the state's monthly AAY allocation by **35.6%**.
- **Outdated Beneficiary Ceiling:**
  - The NFSA mandates covering 75% rural and 50% urban population.
  - Because allocations remain anchored to **Census 2011** (81.35 crore ceiling), actual coverage has dropped to **~55.6%** against the 2025 population (~146.4 crore).
- **The Cereal Centricity Trap & Health Risks:**
  - NFHS-6 reveals persistent child wasting (19%) and underweight (31.8%) despite drops in stunting.
  - According to the **ICMR-INDIAB study**, carbohydrates contribute **62.3%** of daily energy, while protein accounts for only **12%**.
  - High intake of refined cereals elevates the odds of type-2 diabetes by **30%**. Merely swapping white rice for millets without reducing total carbs is insufficient.

Key Safeguards and the Way Forward

- **Explicit No-Loss Safeguard:** Retain the guaranteed **35 kg/month minimum** for existing AAY households to protect small, high-vulnerability families from food budget cuts.

- **Financing Dietary Diversification:** Separate budget allocations should assist states in providing pulses, local millets, and healthy edible oils via PDS, alongside eggs/milk in PM POSHAN and Anganwadis.
- **Updating Coverage Base:** Recalculate NFSA population caps once new Census data is available to correct exclusion errors.
- **Transforming Fair Price Shops (FPS):** Use 5.5 lakh ePoS-enabled FPS outlets as nutrition-awareness hubs for NCD screening referrals without conditioning food grain delivery on biometrics or health checks.

Related Static Dimensions

- **Governance & Social Justice:**
  - **Welfare Schemes:** Issues in implementation of NFSA, 2013 and PDS reforms.
  - **Rights-based Approach:** Entitlement vs. per-capita social safety nets.
  - **Cooperative Federalism:** State-level demographic variations influencing central foodgrain quotas.
- **Economics & Public Health:**
  - **Issues of Food Security:** Buffer stock management, procurement (MSP) for pulses and oilseeds.
  - **Public Health & Nutrition:** Addressing hidden hunger, micronutrient deficiency, ICMR-NIN dietary guidelines, and SDG 2 (Zero Hunger) & SDG 3 (Good Health and Well-being).

Conclusion

A modern food security policy must evolve beyond calorie sufficiency toward nutritional well-being. The 2026 Amendment must balance fiscal rationality with equity by safeguarding existing entitlements for destitute households, expanding coverage, and independently funding dietary diversification. True policy success lies in ensuring that every citizen can access an adequate, dignified, and nutritionally balanced diet.