



CURRENT AFFAIRS BRIEF

# Economy & Budget

Period covered · 20 Nov 2024 → 10 Mar 2026

Macro · monetary · fiscal · trade · markets. 48 high-yield events distilled into one-page briefs — lede, five facts, two confusion traps, four syllabus anchors, one memory hook.

**48**

EVENTS

**24 May 2026**

PRELIMS DATE

**D-28**

DAYS TO EXAM

**How to use this deck.** One brief per page. Read the lede first — it frames the bigger picture. The sidebar carries the headline number, the five sealed facts, and the two prelims-trap pairs. Memorise the gold-bordered hook at the bottom.

# Why is the government aggressively trying to bring its fiscal deficit down to 4.4 % of GDP?

01

BRIEF

2025-02-01

ECONOMY &amp; BUDGET

India is actively shrinking its borrowing requirement to ensure macroeconomic stability and keep sovereign debt sustainable. In the Union Budget 2025-26, the government outlined a revised fiscal glide path, setting a fiscal deficit target of 4.4 per cent of GDP. This signals a continued commitment to fiscal discipline and reducing long-term outstanding liabilities.

## ► What is the fiscal glide path?

A fiscal glide path is a multi-year strategy to systematically reduce the fiscal deficit. Mandated under the FRBM Act, this framework forces the government to live within its means, preventing runaway public debt while allowing escape clauses for extraordinary economic shocks.

## ► What are the long-term targets?

Beyond the immediate 2025-26 target of 4.4 per cent, the government has anchored its fiscal policy on reducing the overall debt burden. The broader objective is to steadily lower the central government's outstanding liabilities to around 50 per cent of GDP by March 2031.

## ► Where does the Constitution come in?

The entire budget process is anchored in Article 112, which requires the government to present an Annual Financial Statement. Every rupee borrowed to fund the fiscal deficit is scrutinized by Parliament under this constitutional mandate. More in the deep dive.

# 4.4 %

FISCAL DEFICIT TARGET

The government continues its fiscal consolidation strategy, reducing its borrowing target from the previous year.

### QUICK FACTS

- Fiscal Deficit Target **4.4 % of GDP**
- Long-term Debt Goal **~50 % of GDP by March 2031**
- Constitutional Anchor **Article 112 (Annual Financial Statement)**
- Statutory Anchor **FRBM Act, 2003**
- Previous Year Revised **4.8 % of GDP (2024-25)**

### DON'T CONFUSE

#### Fiscal Deficit ≠ Revenue Deficit

Fiscal deficit is the government's total borrowing requirement for all expenses. Revenue deficit is only the shortfall in meeting day-to-day operational expenses.

#### Money Bill ≠ Finance Bill

A Money Bill strictly deals with taxes and borrowings under Article 110. A Finance Bill includes the Money Bill along with broader financial policy proposals.

### WHERE THIS SITS IN THE SYLLABUS

- NCERT** Class 12 Macroeconomics · Government Budget and the Economy
- LAW** Article 112 of the Constitution of India
- INDIA** Ministry of Finance · Reserve Bank of India · Private Investors · Taxpayers
- WORLD** The European Union's Stability and Growth Pact, which limits member states' budget deficits to 3% of GDP · International Monetary Fund (IMF)

★ A fiscal glide path is like landing a massive airplane--the descent (borrowing) must be gradual and steady (4.4 %) to avoid crashing the economy.

# With private capex showing strong signs of revival, how will an 18.5 % growth in corporate investments alter India's GDP trajectory?

02

BRIEF

2025-01-31

ECONOMY &amp; BUDGET

The Economic Survey 2024-25 underscored a decisive structural shift from government-heavy infrastructure spending to a sustainable private capital expenditure cycle. After years of heavy public lifting designed to crowd-in investments, the twin balance sheet advantage is now empowering domestic corporations to expand capacity. This marks a critical transition necessary for sustaining high growth rates without stretching the fiscal deficit.

## ► What triggered the revival?

A combination of cleaned-up bank balance sheets, robust corporate profitability, and targeted Production Linked Incentive (PLI) disbursements provided the necessary capital and confidence for the private sector to initiate new projects.

## ► Which sectors are leading?

Core manufacturing, particularly steel and cement, along with massive investments in renewable energy and green hydrogen infrastructure, are at the forefront of this capital formation wave.

## ► What is the macroeconomic impact?

A sustained private capex cycle reduces the burden on the public exchequer, allowing the government to focus on fiscal consolidation while maintaining overall gross fixed capital formation targets. More in the deep dive.

# 18.5 %

YOY PRIVATE CAPEX GROWTH

Corporate India's deleveraged balance sheets are finally translating into fresh capacity additions across core sectors like steel and renewables.

### QUICK FACTS

- Lead Indicator **Gross Fixed Capital Formation (GFCF)**
- Key Driver **Twin Balance Sheet Advantage**
- Previous Phase **Public-led crowding-in**
- Major Sectors **Steel, Cement, and Renewables**
- Policy Support **PLI Scheme disbursements**

### DON'T CONFUSE

**Gross Fixed Capital Formation** ≠ **Gross Domestic Savings**

GFCF measures actual physical asset creation (investments) in the economy, whereas savings refer to unspent income.

**Crowding In** ≠ **Crowding Out**

Public investment drawing private capital into the market is 'crowding in', unlike 'crowding out' where government borrowing absorbs all liquidity.

### WHERE THIS SITS IN THE SYLLABUS

- NCERT** Class 11 Indian Economic Development · Human Capital Formation in India
- LAW** Article 112
- INDIA** Domestic Corporations · Public Sector Banks · Infrastructure Developers
- WORLD** Post-pandemic industrial reshoring seen in the United States and Japan · World Bank

★ When the government builds the roads (crowding in), the private sector finally builds the factories.

# With a target of Rs 25,000 Cr in green issuance, how will the government ensure end-use tracking for climate projects?

03

BRIEF

2025-02-01

ECONOMY &amp; BUDGET

To decisively finance India's ambitious net-zero transition by 2070, Budget 2025 significantly scaled up the issuance of Sovereign Green Bonds (SGrBs). Rather than relying solely on traditional G-Secs, this targeted expansion aims to tap into specialized global climate funds and domestic ESG pools. By securing a 'greenium' (lower yield), the government intends to lower the cost of capital for critical renewable energy and clean transport infrastructure.

## ► What is the core mechanism?

The government issues bonds specifically earmarked for green projects. Investors accept slightly lower interest rates in exchange for certified environmental impact, reducing the borrowing cost for the state.

## ► Who are the primary buyers?

Institutional investors, foreign pension funds with ESG mandates, and domestic banks seeking to diversify their portfolios into sustainable assets are the primary subscribers.

## ► What is the verification process?

Strict end-use tracking under the Sovereign Green Bond Framework 2022 ensures funds are not diverted to fossil fuels. More in the deep dive.

# Rs 25,000 Cr

TOTAL PLANNED SGRB ISSUANCE

This expansion moves beyond initial pilot tranches, mainstreaming ESG financing within the government's overall market borrowing program.

### QUICK FACTS

• Regulatory Framework	<b>Sovereign Green Bond Framework 2022</b>
• Yield Advantage	<b>Greenium (lower cost of borrowing)</b>
• Target End-Use	<b>Renewable energy and clean transport</b>
• Exclusion List	<b>Fossil fuels and nuclear energy</b>
• Nodal Authority	<b>Ministry of Finance &amp; RBI</b>

### DON'T CONFUSE

#### Sovereign Green Bonds ≠ Inflation Indexed Bonds

Green bonds are strictly for environmental projects, whereas inflation-indexed bonds protect the principal against CPI inflation.

#### Greenium ≠ Premium

Greenium is the negative premium (lower yield) investors accept for green impact, opposite of a risk premium.

### WHERE THIS SITS IN THE SYLLABUS

- **NCERT** Class 12 Macroeconomics · Government Budget and the Economy
- **LAW** Article 292
- **INDIA** Ministry of New and Renewable Energy · Institutional Investors · RBI
- **WORLD** The European Union's NextGenerationEU green bond issuance program · United Nations Framework Convention on Climate Change (UNFCCC)

★ Borrowing from the future to save the future--SGrBs turn climate goals into tradable assets.

# With an outlay of Rs 15,000 Cr, can India break its over 80% import reliance on China for battery-grade minerals?

04

BRIEF

2025-02-15

ECONOMY & BUDGET

Seeking to fundamentally de-risk its strategic supply chains from geographic concentration, the government rolled out a dedicated Production Linked Incentive (PLI) scheme for critical minerals. While India has discovered raw mineral blocks, the glaring gap lies in mid-stream refining and processing technologies, heavily dominated by China. This policy provides financial buffers to domestic firms setting up capital-intensive processing facilities for lithium, cobalt, and rare earths.

## ► Why is processing the bottleneck?

Mining raw ore is only the first step. The metallurgical processing to achieve battery-grade purity requires advanced technology and high capital investment, which domestic firms currently lack.

## ► How does the PLI structure work?

Incentives are disbursed based on incremental domestic value addition and output volume, ensuring that subsidies strictly follow actual production rather than mere capital expenditure.

## ► What is the strategic outcome?

The goal is to create a closed-loop supply chain for the electric vehicle and renewable energy sectors, safeguarding against future geopolitical shocks. More in the deep dive.

## Rs 15,000 Cr

FINANCIAL OUTLAY FOR CRITICAL MINERALS

This intervention targets the mid-stream processing of lithium, cobalt, and rare earth elements indispensable for EVs.

### QUICK FACTS

- |                            |   |
|----------------------------|---|
| <b>Key Target Minerals</b> | <b>Lithium, Cobalt, Nickel, Rare Earths</b> |
|----------------------------|---|
- |                          |  |
|--------------------------|--|
| <b>Strategic Concern</b> | <b>Over 80% import dependency on China</b> |
|--------------------------|--|
- |                          |   |
|--------------------------|---|
| <b>Value Chain Focus</b> | <b>Mid-stream processing and refining</b> |
|--------------------------|---|
- |                           |   |
|---------------------------|---|
| <b>End-use Industries</b> | <b>EV Batteries, Defense, Electronics</b> |
|---------------------------|---|
- |                            |                                |
|----------------------------|--------------------------------|
| <b>Legislative Backing</b> | <b>MMDR Amendment Act 2023</b> |
|----------------------------|--------------------------------|

### DON'T CONFUSE

**Major Minerals ≠ Minor Minerals**  
*Critical minerals fall under major minerals regulated by the Union, whereas minor minerals (like sand) are state subjects.*

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**Mid-stream Processing ≠ Upstream Mining**  
*Upstream is extracting the ore from the earth; mid-stream is refining it into high-purity chemical precursors for batteries.*

### WHERE THIS SITS IN THE SYLLABUS

- **NCERT** Class 12 Geography - India People and Economy · Mineral and Energy Resources
- **LAW** Seventh Schedule (Union List - Entry 54)
- **INDIA** Ministry of Mines · Automobile Manufacturers · Battery Startups
- **WORLD** The US Inflation Reduction Act and the EU Critical Raw Materials Act · Minerals Security Partnership (MSP)

★ We found the rock in Reasi, but we need the PLI to turn the rock into a battery.

# If the vertical devolution stays near 41 %, how will demographic performance metrics alter the share of Southern states?

05  
BRIEF

2025-10-31

ECONOMY & BUDGET

The 16th Finance Commission submitted its highly anticipated interim report, establishing the baseline for tax devolution between the Centre and States. While the vertical share (the total pool given to all states) remained steady, the primary battleground was horizontal devolution. Southern states raised concerns regarding penalization for successful population control, forcing the Commission to delicately tweak the weightage given to demographic performance and income distance.

## ► What is the primary tension?

States that successfully stabilized their populations (mostly in the South) receive a smaller share if population size heavily dictates the formula, leading to claims of unfair cross-subsidization of poorer northern states.

## ► How did the Commission balance this?

By introducing specific performance-based incentives and modifying the 'income distance' criteria, the Commission sought a middle path that rewards efficiency without abandoning the constitutional mandate for equity.

## ► What happens next?

The interim report recommendations will apply to the upcoming fiscal year, while the final report will lock in the criteria for the full five-year period. More in the deep dive.

# 41%

BASELINE VERTICAL DEVOLUTION

The Commission faced intense pressure to recalibrate the horizontal distribution formula amid widening north-south demographic divergences.

### QUICK FACTS

- Constitutional Mandate **Set up under Article 280**
- Chairman **Arvind Panagariya**
- Vertical Devolution **Split between Union and all States**
- Horizontal Devolution **Formula distributing among States**
- Key Variable **Demographic Performance weightage**

### DON'T CONFUSE

#### Vertical Devolution ≠ Horizontal Devolution

Vertical is the macro split (e.g., 41% to states). Horizontal is the micro allocation formula deciding how that 41% is sliced up among individual states.

#### Income Distance ≠ Fiscal Deficit

Income distance measures a state's per capita income against the richest state to ensure equity, entirely unrelated to its borrowing deficit.

### WHERE THIS SITS IN THE SYLLABUS

- **NCERT** Class 11 Indian Constitution at Work · Federalism
- **LAW** Article 280
- **INDIA** State Finance Ministries · Union Ministry of Finance · NITI Aayog
- **WORLD** Equalisation payments in Canada and GST distribution in Australia

★ Vertical decides the size of the pie; horizontal decides who gets the biggest slice.

# By ring-fencing a \$50 Billion initial corpus, how will India use its forex reserves to secure global strategic assets?

06

BRIEF

2026-02-01

ECONOMY & BUDGET

Capitalizing on historically robust foreign exchange reserves, Budget 2026-27 announced the creation of India's first dedicated Sovereign Wealth Fund (SWF). Historically, the RBI managed forex reserves with an extreme conservative bias, prioritizing liquidity and capital protection over returns. This new SWF signals a mature, aggressive pivot, allowing the state to actively deploy surplus reserves into high-yield global equities and strategic acquisitions, particularly in advanced tech and critical minerals.

## ► Why the shift in strategy?

With reserves consistently covering over a year of imports, the opportunity cost of parking funds in low-yield US Treasuries became too high. The SWF allows for maximizing returns on the 'excess' buffer.

## ► What are the strategic targets?

Beyond mere financial returns, the fund acts as a geopolitical tool to acquire stakes in overseas lithium mines, semiconductor fabs, and rare earth processing facilities.

## ► How is it separated from RBI?

To prevent conflict of interest with monetary policy, the SWF operates under a distinct statutory authority governed by financial professionals. More in the deep dive.

# \$50 Billion

INITIAL CORPUS TARGET

Unlike traditional RBI forex management focused on currency stability, this fund is designed to actively acquire critical overseas assets.

### QUICK FACTS

- Funding Source: **Excess Foreign Exchange Reserves**
- Strategic Mandate: **Overseas asset acquisition**
- Previous Approach: **Passive liquidity protection**
- Key Acquisition Targets: **Critical minerals and deep tech**
- Global Benchmark: **Norway's Pension Fund Global**

### DON'T CONFUSE

**Sovereign Wealth Fund** ≠ **Consolidated Fund of India**

SWFs actively invest state capital in global markets for returns, whereas the CFI is the repository for domestic tax revenues meant for regular government expenditure.

**Active Investment** ≠ **Forex Sterilization**

Active investment seeks returns on assets; sterilization is an RBI operation to neutralize the inflation impact of incoming foreign capital.

### WHERE THIS SITS IN THE SYLLABUS

- NCERT** Class 12 Macroeconomics · Open Economy Macroeconomics
- LAW** Article 266
- INDIA** Reserve Bank of India · Ministry of Finance · National Investment and Infrastructure Fund
- WORLD** Singapore's Temasek and GIC, or Norway's Sovereign Wealth Fund · International Forum of Sovereign Wealth Funds (IFSWF)

★ *Forex is for a rainy day; a Sovereign Wealth Fund is for building an empire.*

# If capital expenditure increases by 15 %, how will it crowd-in private investments?

07

BRIEF

2025-02-01

ECONOMY & BUDGET

**B**udget 2025-26 announced a massive 15% hike in capital expenditure, signaling a continued reliance on infrastructure spending to drive economic growth. This capital outlay is primarily directed toward railways, roads, and defense manufacturing. The strategy aims to leverage the economic multiplier effect, creating jobs and crowding-in private sector investments that have remained sluggish.

## ► Why focus on Capex?

Capital expenditure creates long-term physical assets, yielding a higher macroeconomic multiplier compared to revenue expenditure like subsidies. It directly boosts allied industries like steel and cement.

## ► What is the PM Gati Shakti link?

A significant portion of this outlay will be routed through the PM Gati Shakti National Master Plan, ensuring synchronized infrastructure development and reducing logistics costs.

## ► What are the fiscal risks?

Sustaining such high capital outlays requires careful debt management to avoid breaching the fiscal deficit targets outlined in the FRBM Act. More in the deep dive.

15 %

CAPEX HIKE

*The government continues its reliance on the Keynesian multiplier to shield the economy from global headwinds.*

### QUICK FACTS

- Policy Lever **Capital Expenditure (Capex)**
- Primary Sector **Infrastructure & Logistics**
- Economic Theory **Keynesian Multiplier**
- Key Flagship **PM Gati Shakti**
- Constitutional Provision **Article 112 (Annual Financial Statement)**

### DON'T CONFUSE

#### Capital Expenditure ≠ Revenue Expenditure

*Capex creates assets or reduces liabilities; revenue expenditure is for day-to-day government operations.*

#### Revenue Expenditure ≠ Capital Expenditure

*Revenue pays for day-to-day running; capital creates long-term physical assets.*

### WHERE THIS SITS IN THE SYLLABUS

- **NCERT** Class 12 Macroeconomics · Government Budget and the Economy
- **LAW** Article 112
- **INDIA** Ministry of Finance · NHAI · Indian Railways
- **WORLD** China's infrastructure-led growth model of the 2000s

★ *Capex builds the bridge; Revenue pays the toll collector.*

# By rationalizing duties on IT hardware to 5 %, can India compete with Vietnam in electronics exports?

08

BRIEF

2025-02-01

ECONOMY & BUDGET

In a strategic pivot, the government rationalized basic customs duties on critical electronics and IT hardware components. Previously, high tariffs intended to protect domestic industries had inadvertently made Indian exports uncompetitive in the global market. This tariff correction aims to lower the input costs for mobile and laptop manufacturers, integrating India deeper into global value chains.

## ► Why reduce duties?

High import duties on intermediate components increase the final cost of electronic goods. Reducing them allows domestic assemblers to import parts cheaply, assemble them, and export at globally competitive prices.

## ► How does this relate to ITA-1?

India is a signatory to the WTO's Information Technology Agreement (ITA-1), which mandates zero duties on specified IT products, leading to ongoing trade disputes regarding newer technologies.

## ► What is the long-term goal?

The ultimate objective is to move from CKD (Completely Knocked Down) assembly to actual domestic fabrication of printed circuit boards and semiconductors. More in the deep dive.

5%

RATIONALIZED DUTY ON PARTS

The move aligns with the PLI scheme to shift India from pure assembly to deep-tier component manufacturing.

### QUICK FACTS

- Policy Action **Customs Duty Rationalization**
- Target Industry **Electronics and IT Hardware**
- Global Agreement **WTO ITA-1**
- Domestic Scheme **PLI for IT Hardware**
- Competitor Nations **Vietnam and China**

### DON'T CONFUSE

#### Customs Duty ≠ Excise Duty

Customs duty is levied on goods imported into the country; excise duty (now largely subsumed by GST) was on domestic manufacturing.

#### Basic Customs Duty ≠ Countervailing Duty

BCD is a standard import tax; CVD specifically neutralizes foreign export subsidies.

### WHERE THIS SITS IN THE SYLLABUS

- **NCERT** Class 11 Indian Economic Development · Economic Reforms Since 1991
- **LAW** Article 246 (Union List - Entry 83)
- **INDIA** Ministry of Electronics and IT (MeitY) · Mobile Manufacturers · CBIC
- **WORLD** Vietnam's duty-free import zones for electronics assembly · World Trade Organization (WTO)

★ You can't export the smartphone if you tax the microchip at the border.

# With the new tax regime mandating a Rs 7 Lakh rebate limit, will domestic savings plummet?

09

BRIEF

2025-02-01

ECONOMY & BUDGET

**B**udget 2025 made the simplified 'new tax regime' mandatory for specific income brackets, functionally sunsetting the old exemption-based system for millions of taxpayers. By offering lower base rates but eliminating deductions like Section 80C and HRA, the government aims to put more immediate disposable income into the hands of the middle class. This marks a profound shift from incentivizing savings to directly stimulating consumption.

### ► What changes for the taxpayer?

Taxpayers in the specified brackets can no longer claim deductions for life insurance, provident fund, or housing loan interest, but they face significantly lower marginal tax slabs.

### ► Why is the government doing this?

The old system was incredibly complex, leading to high compliance costs and litigation. A flat, no-exemption regime is easier to administer and fully digitize.

### ► What is the macroeconomic risk?

By removing tax incentives for savings, domestic household savings rates might drop, potentially reducing the pool of capital available for government borrowing. More in the deep dive.

## Rs 7 Lakh

TAX REBATE THRESHOLD

The government is aggressively phasing out the old exemption-heavy regime to simplify compliance and boost consumption.

#### QUICK FACTS

- Policy Shift **Mandatory New Tax Regime**
- Core Mechanism **Lower rates, zero exemptions**
- Rebate Limit **Income up to Rs 7 Lakh tax-free**
- Eliminated Section **Section 80C (Investments)**
- Economic Impact **Boosts consumption, risks savings**

#### DON'T CONFUSE

##### New Tax Regime ≠ Old Tax Regime

The new regime offers lower rates but no exemptions; the old regime has higher rates but allows deductions like 80C.

##### Standard Deduction ≠ Section 80C

Standard deduction is a flat reduction for all salaried taxpayers; 80C requires specific investments.

#### WHERE THIS SITS IN THE SYLLABUS

- **NCERT** Class 12 Macroeconomics · Government Budget and the Economy
- **LAW** Article 265
- **INDIA** Individual Taxpayers · Life Insurance Companies · Mutual Funds
- **WORLD** Flat tax systems in Eastern European economies

★ The government is taking away your tax loopholes, but giving you a bigger paycheck.