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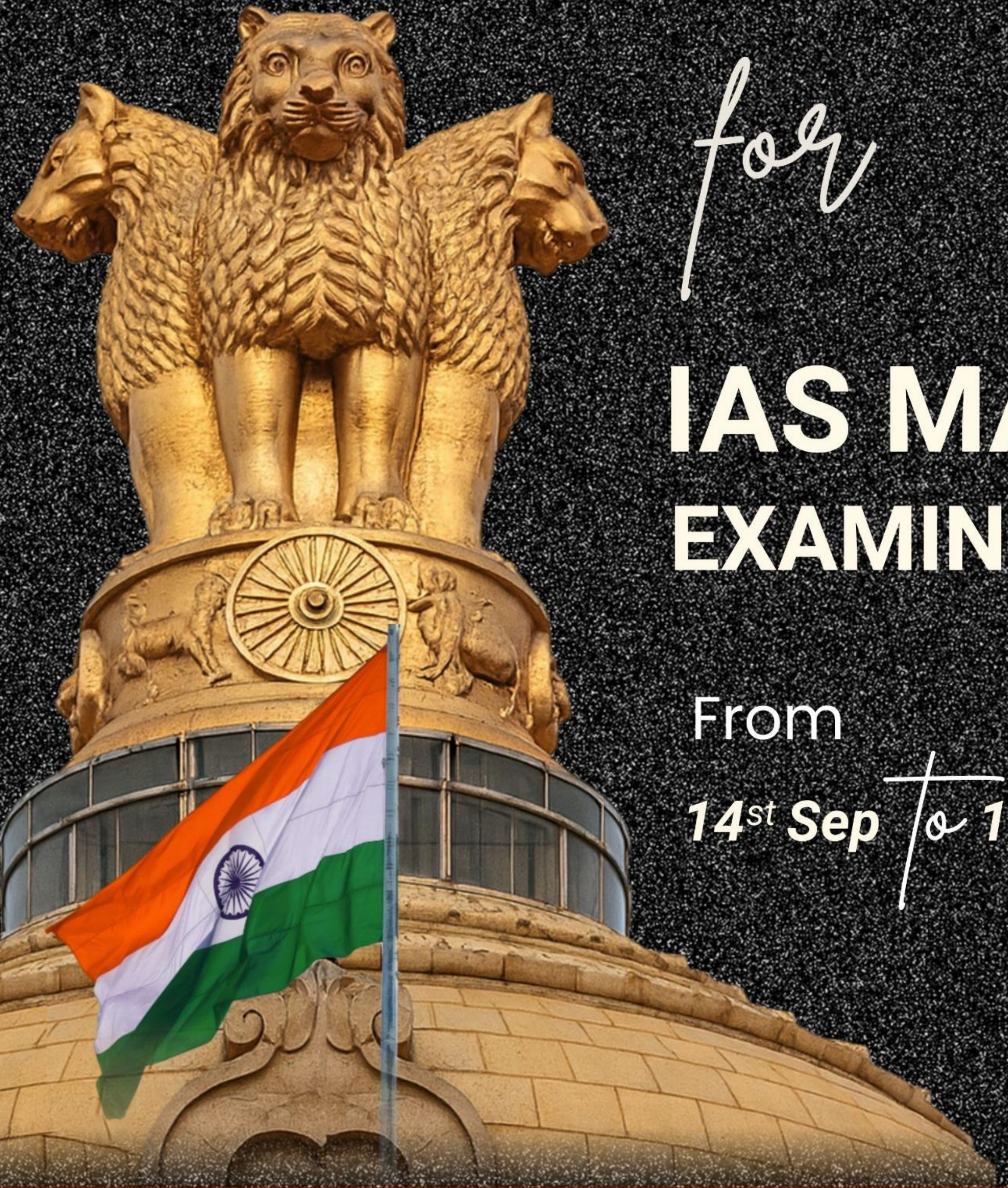

for

IAS MAINS EXAMINATION

From

14st Sep to 19th Sep 2026

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1.1. POLITY & GOVERNANCE

1.1.1. UNIFORM CIVIL CODE: CONSTITUTIONAL BALANCE BETWEEN EQUALITY AND DIVERSITY

Context

The UCC debate has gained momentum with **Uttarakhand implementing its UCC from 27 January 2025**, while questions remain over gender justice, religious freedom and cultural diversity.

Introduction

The Uniform Civil Code seeks to establish common civil laws governing personal matters, aiming to reconcile **gender equality and equal citizenship** with India's rich religious, cultural and customary diversity.

What is Uniform Civil Code?

1. **Meaning:** UCC envisages a **common secular framework** for marriage, divorce, maintenance, adoption, custody and inheritance, irrespective of religion.
2. **Constitutional mandate: Article 44** directs the State to endeavour towards a UCC; being a **Directive Principle**, it is non-justiciable but constitutionally significant.
3. **Legal foundation: Concurrent List, Entry 5** enables Parliament and States to legislate on marriage, divorce, adoption and succession, while existing personal laws govern these matters.
4. **Constitutional balance:** UCC must reconcile **equality and gender justice** with **religious freedom, cultural diversity and individual dignity**, making reform legally and socially sensitive.

Constitutional framework

1. **Article 44:** Directs the State to endeavour to secure a UCC throughout India, but its placement in **Part IV makes it non-justiciable**.
2. **Article 14:** Requires equality before law, providing a constitutional basis for removing discriminatory personal-law provisions.
3. **Article 15(1):** Prohibits discrimination on grounds including religion and sex, strengthening the case for gender-neutral family laws.
4. **Article 25:** Protects freedom of conscience and religious practice, subject to **public order, morality, health and other Fundamental Rights**.
5. **Article 29:** Protects the right of sections of citizens to conserve their distinct culture, creating concerns about cultural autonomy.
6. **Concurrent List, Entry 5:** Parliament and State Legislatures can legislate on marriage, divorce, adoption, succession and related family matters.

Laws/Provisions Supporting UCC-Oriented Reform

1. **Special Marriage Act, 1954:** Provides a **religion-neutral legal framework for marriage and divorce**, demonstrating that common civil regulation across religious communities is already possible within Indian law.
2. **Hindu Marriage Act, 1955 & Hindu Succession Act, 1956:** Codified Hindu personal laws and introduced statutory regulation of **marriage, divorce and inheritance**, showing how personal-law codification can advance legal reform.
3. **Anand Marriage Act, 1909 (amended 2012):** Enables legal registration of **Sikh marriages**, illustrating how community-specific laws coexist within India's broader civil-law framework.
4. **Muslim Personal Law (Shariat) Application Act, 1937:** Statutorily applies Muslim personal law to specified matters, highlighting the **existing plurality of personal laws** that a UCC seeks to harmonise.

Important reports and judicial perspective

1. **Law Commission Consultation Paper, 2018:** Considered a UCC "neither necessary nor desirable at this stage" and preferred reform of discriminatory provisions within existing family laws.
2. **Law Commission approach:** Emphasised **"equality within communities"** between men and women rather than merely "equality between communities."
3. **Ambedkar's approach:** During Constituent Assembly debates, Dr. B.R. Ambedkar envisaged the possibility of making a UCC initially **voluntary**, allowing citizens to opt into it.
4. **Shah Bano case (1985):** Highlighted the intersection of personal law, maintenance rights and gender justice, keeping UCC within constitutional discourse.
5. **Shayara Bano case (2017):** The Supreme Court invalidated **instant triple talaq**, demonstrating that discriminatory practices within personal laws can face constitutional scrutiny.

Significance of UCC

1. **Gender justice:** Common rules could establish equal rights in marriage, divorce, maintenance, adoption, custody and inheritance irrespective of religion.
2. **Legal uniformity:** A common framework could reduce differences in personal laws and simplify civil-law administration.
3. **Constitutional morality:** Reform can strengthen substantive equality where customary or personal-law practices disadvantage women.
4. **National integration:** Supporters argue that common civil obligations can reinforce equal citizenship while retaining freedom of religious belief.
5. **Existing precedent:** The Supreme Court has repeatedly examined discriminatory personal-law practices through the lens of **Articles 14, 15 and 21**.

Social and constitutional concerns

1. **Religious freedom:** Communities may perceive externally imposed personal-law reform as interference with religious practices protected under Article 25.

2. **Cultural diversity:** India's plural society contains diverse customary practices, particularly among tribal communities, making a single framework difficult to design.
3. **Uniformity versus equality:** Identical rules do not automatically guarantee substantive equality if the social consequences differ across communities.
4. **Tribal autonomy:** Exemptions for protected tribal communities can create a tension between preserving customary institutions and achieving nationwide uniformity.
5. **Federal dimension:** Personal-law reform requires careful coordination between Parliament and States because **Entry 5 is in the Concurrent List**.

Way forward

1. **Rights-based reform:** Prioritise gender equality, dignity and non-discrimination rather than uniformity for its own sake.
2. **Wide consultation:** Involve religious groups, women's organisations, tribal communities, States and legal experts before nationwide implementation.
3. **Incremental harmonisation:** Reform discriminatory provisions across personal laws while progressively creating common minimum standards.
4. **Uttarakhand as a case study:** Its UCC, operational since **27 January 2025**, provides an important governance experience for evaluating implementation challenges.
5. **Constitutional safeguards:** Any UCC should reconcile **Articles 14, 15, 21, 25, 26, 29 and 44** rather than treating any single provision in isolation.

Conclusion

A sustainable UCC should emerge as **constitutional reform rooted in equality, dignity and consultation**, harmonising India's plural traditions with the Fundamental Rights framework.

Q. *What are the challenges to our cultural practices in the name of secularism? 10 Marks / 2019*

1.2. INTERNATIONAL RELATIONS

1.2.1. INDIA–CHINA RELATIONS AMID STRATEGIC COMPETITION

CONTEXT

Chinese President **Xi Jinping's India visit after seven years**, ostensibly for the BRICS Summit, assumes wider significance amid **post-2020 LAC stabilisation, persistent strategic distrust, China–Pakistan convergence, trade asymmetry and competing visions of BRICS**.

INTRODUCTION

Xi Jinping's visit presents India with a delicate diplomatic opportunity: **stabilise India–China relations without compromising national security**, while ensuring that BRICS remains an inclusive Global South platform rather than becoming an anti-Western or China-dominated bloc.

Why XI Jinping's visit is significant for India

1. **First India visit after seven years**
    - Xi's visit marks his **first visit to India since 2019**, making it diplomatically significant after bilateral relations deteriorated sharply following the **2020 eastern Ladakh crisis**.
    - The visit provides an opportunity to assess whether **cautious normalisation can progress towards sustainable stabilisation** in India–China relations.
2. **Opportunity to consolidate post-2020 normalisation**

    Recent bilateral steps indicate limited improvement in relations:
    - **Resumption of direct flights** can restore economic, tourism and people-to-people connectivity that was disrupted during the period of heightened tensions.
    - **Resumption of the Kailash Mansarovar Yatra** can revive an important civilisational and religious dimension of India–China relations.
3. **Opportunity to restore strategic communication**
    - Xi's visit can provide an opportunity for both leaderships to establish **clear political communication channels** to prevent bilateral disagreements from escalating into military crises.
    - Regular political, diplomatic and military-level dialogue can help rebuild **minimum strategic trust** that was severely weakened after 2020.
4. **Reinforcing peace and tranquillity along the LAC**
    - The visit can strengthen the understanding that **peace and tranquillity along the border are essential for the overall development of bilateral relations**.
    - India can use the engagement to push for continued implementation of existing border-management mechanisms and greater predictability in military deployments.

Challenges in India–China relations

1. **Unresolved Boundary Dispute and LAC Tensions**
    - The **unresolved boundary question** remains the central structural challenge, with periodic standoffs and differing perceptions of the LAC continuing to create instability.
    - The legacy of **Depsang, Chumar, Doklam and the 2020 eastern Ladakh crisis** demonstrates the persistent vulnerability of the border to military confrontation.
2. **Erosion of Strategic and Political Trust**
    - The **2020 Galwan crisis** severely damaged the political and strategic trust that had developed through earlier bilateral engagement.
    - India increasingly evaluates Chinese economic and diplomatic initiatives through a **security lens**, making comprehensive normalisation difficult.
3. **Growing Chinese Economic, Military and Technological Power**
    - China's transformation from an emerging economy into a major global power has created a significant **power asymmetry** between the two countries.

- China's economic strength, military modernisation, technological capabilities and diplomatic outreach have increased its ability to shape the regional and global strategic environment.

4. **Increasing Chinese Assertiveness in the Neighbourhood**
   - China's assertive behaviour in the **South China Sea, Indo-Pacific, Taiwan Strait and along the India–China border** reflects its expanding geopolitical ambitions.
   - Its growing economic and strategic presence in South Asia also challenges India's traditional influence in its neighbourhood.
5. **China–Pakistan Strategic Nexus**
   - China's close defence, economic and strategic partnership with Pakistan adds another layer of complexity to India's security environment.
   - Projects such as the **China–Pakistan Economic Corridor (CPEC)** and China's broader strategic engagement with Pakistan have implications for India's territorial and security interests.

Recent steps taken to improve India–China bilateral relations

1. **Border disengagement and restoration of peace along the LAC:** Following the **October 2024 patrolling arrangement**, both sides completed disengagement at key friction points and have since worked through military and diplomatic mechanisms to maintain **peace and tranquillity along the border**, creating conditions for broader normalisation.
2. **Strengthening border-management mechanisms:** In the **25th Special Representatives' talks in August 2026**, India and China agreed to establish **additional military meeting points and hotline channels** in the Eastern and Middle sectors, thereby improving crisis communication and reducing the risk of unintended escalation.
3. **Resumption of direct air connectivity and visa facilitation:** Both countries have taken steps to restore **direct flights and facilitate visas**, with direct air services resuming from October 2025 and further connectivity being expanded in 2026. This aims to revive business, tourism, academic and people-to-people exchanges.
4. **Revival of people-to-people and religious exchanges:** The **Kailash Mansarovar Yatra resumed in 2025 after nearly five years**, continued in 2026, and the two sides have also reopened designated border trading points. These measures seek to rebuild societal confidence alongside diplomatic normalisation.
5. **Renewed economic and strategic dialogue:** India and China have resumed **functional dialogues on trade, investment and economic issues**, while recent discussions have focused on **market access, trade imbalance, supply-chain predictability and investment barriers**. This reflects an attempt to pursue **economic engagement without compromising national-security concerns**.

Opportunities BRICS creates for India–China relations

1. **Provides a platform for strategic dialogue and trust-building:** BRICS enables **regular India–China engagement**, helping manage the **trust deficit** and prevent bilateral tensions from escalating.

2. **Promotes issue-based cooperation:** Both countries can cooperate on **Global South concerns**, including climate change, energy security, development finance and **multilateral reforms**, despite bilateral differences.
3. **Helps India manage Chinese influence:** India can work with other BRICS members to prevent **Chinese dominance** and promote BRICS as a **non-Western rather than anti-Western** platform, consistent with strategic autonomy.
4. **Creates scope for economic and geopolitical engagement:** BRICS provides opportunities for cooperation on **trade, supply chains, investment and global economic governance**, while allowing India and China to maintain their wider strategic partnerships.

Way forward

1. Make border peace the foundation of normalisation

   India should insist that **peace and tranquillity along the LAC remain the prerequisite for sustained improvement in bilateral relations**.
2. Move beyond disengagement

   The next phase should focus on:

   Disengagement → De-escalation → De-induction → Long-term boundary management

   rather than treating disengagement from individual friction points as the final objective.
3. Strengthen confidence-building mechanisms
   - Regular military commander-level dialogue.
   - Diplomatic consultations.
   - Functional hotlines.
   - Border-management mechanisms.
   - Greater transparency regarding military activities.

   These can reduce the probability of accidental escalation.
4. Continue boundary negotiations

   India should continue negotiations through established mechanisms while recognising that **final boundary settlement may remain a long-term objective**.
5. Correct economic asymmetry

   India should simultaneously pursue:

   Export competitiveness + domestic manufacturing + reciprocal market access + supply-chain diversification.

Conclusion

Xi Jinping's visit offers a window for **cautious stabilisation, not strategic convergence**. India must combine border vigilance with selective cooperation, while shaping BRICS as an inclusive Global South platform and preserving strategic autonomy through diversified global partnerships.

Q. "The challenge for India is not to choose between confrontation and cooperation with China, but to manage competition while safeguarding its strategic interests." Examine. 15 ***Marks***

1.2.2. BRICS & NEW DEVELOPMENT BANK (NDB)

Context

BRICS has gained substantial economic and membership weight but remains under-represented in global financial governance, while internal divisions persist between an anti-Western bloc-oriented approach and India's preference for non-Western multipolarity.

Introduction

BRICS embodies the changing world order—growing economic weight but limited geopolitical cohesion. For India, its value lies in leveraging the NDB for development, financial diversification and Global South cooperation, rather than anti-Western bloc politics.

Why BRICS Matters: World & India

For the World

- **Global Governance:** Pushes for greater representation of emerging economies in **IMF, World Bank and other institutions**.
- **Global South:** Provides a platform for **collective voice on development, trade and finance**.
- **Development Finance:** NDB expands financing for **infrastructure and sustainable development**.
- **Multipolarity:** Promotes a **more diversified global economic order** beyond traditional Western dominance.

For India

- **Strategic Autonomy:** Enables India to engage with both **Western and non-Western powers**.
- **Economic Gains:** Access to **NDB financing, markets and investment opportunities**.
- **Global South Leadership:** Strengthens India's role as a **bridge between developed and developing countries**.
- **China Balancing:** Provides space to **shape BRICS from within**, rather than allowing it to become China-centric.

Structural & Geopolitical Challenges Confronting BRICS

1. **Geopolitical Divergence:** China–Russia–Iran favour an **anti-Western orientation**, while India–Brazil–South Africa advocate **non-Western multipolarity**.
2. **De-dollarisation Dilemma:** Aggressive moves away from the dollar may **conflict with India's strategic and economic interests**.

3. **China-Centricity:** China's **economic and institutional weight** risks giving Beijing disproportionate influence within BRICS.
4. **Institutional Weakness:** Limited consensus and weak coordination can reduce BRICS' ability to **translate declarations into outcomes**.
5. **Expansion–Cohesion Trade-off:** Rapid membership expansion increases **economic and political diversity**, making consensus and collective action more difficult.

NDB: A Practical Solution for BRICS

- **Development over Geopolitics:** NDB can make BRICS more relevant through **infrastructure and sustainable-development finance**, rather than anti-Western politics.
- **Financial Multipolarity: Local-currency lending** can reduce excessive dollar dependence without pursuing abrupt de-dollarisation.
- **Global South Financing:** Expanding NDB membership and lending can provide **alternative development finance** to emerging and developing economies.
- **India's Strategic Leverage:** Strengthening NDB allows India to **benefit from BRICS while limiting China-centric financial dominance**.
- **Untapped Potential:** NDB needs **more capital, faster disbursement, wider membership and diversified currency financing** to match institutions like AIIB.

Key Structural & Strategic Challenges of the NDB

1. **Capital Constraint**
   - **Limited capital base** restricts NDB's lending capacity.
   - Equal voting shares require **proportionate capital contribution** by founders.
   - **Russia's sanctions and financial constraints** make fresh capital mobilisation difficult.
2. **Governance–Capital Dilemma**
   - New members can bring **fresh capital**, but founding BRICS members must retain at least **55% collective voting power**.
   - Hence, expanding membership must balance **capital needs with founder control**.
3. **Sanctions & Credit-Rating Constraint**
   - NDB halted new lending to Russia after **March 2022** to protect its **credit rating and access to global funding**.
   - Shows that NDB remains constrained by the **global financial and sanctions architecture**.
4. **De-dollarisation Contradiction**
   - BRICS advocates reduced dollar dependence, but NDB itself remains dependent on **dollar funding and global capital markets**.
   - **Lesson:** India should promote **currency diversification**, not abrupt de-dollarisation.

5. **China-centricity Risk**
    - Excessive reliance on **RMB-based financing** could increase China's financial influence.
    - India should push for **greater use of the rupee and other member currencies**.

Way Forward: Strengthening NDB & BRICS

1. **Strengthen NDB's Capital Base:** Increase paid-up capital and induct **creditworthy developing economies** to expand lending capacity without weakening governance.
2. **Fast-track Rupee Financing:** Operationalise the **rupee bond** and promote local-currency lending to deepen India's bond market and reduce currency risks.
3. **Ensure Currency Diversification:** Promote a **multi-currency NDB**—Rupee, Real, Rand, Renminbi, etc.—rather than replacing dollar dependence with RMB dependence.
4. **Improve Lending Efficiency:** Reduce the gap between **project approval and disbursement** through faster appraisal, stronger project pipelines and better implementation monitoring.
5. **Safeguard Institutional Credibility:** Maintain prudent lending standards and **creditworthiness**, while navigating sanctions and global financial-market constraints.
6. **Expand Global South Outreach:** Increase financing for **infrastructure, climate action and sustainable development** across emerging and developing economies.
7. **Pursue Strategic Autonomy:** India should use BRICS and NDB to advance **multipolarity and Global South representation**, while avoiding both **Western bloc politics and China-centric financial dominance**.

Conclusion

India should seek neither a Western-dominated nor a China-dominated financial order. By transforming the NDB into a well-capitalised, efficient and genuinely multi-currency development bank, India can turn BRICS from a platform of geopolitical contestation into an instrument of constructive multipolarity.

Q. *The New Development Bank can provide India a way to deepen BRICS cooperation without turning the grouping into an anti-Western bloc. Discuss. 10 Marks*

1.3. HEALTH

1.3.1. BRIDGING THE GAP: REFORMING INDIA'S PUBLIC HEALTHCARE SYSTEM AND FINANCING

Context

The government health expenditure stands at **1.43% of GDP** (2022–2023), significantly below the **2.5% target** set by the **National Health Policy 2017**. While visible inputs like medical colleges, the **AIIMS network**, and the **Ayushman Bharat** programme have expanded, a recent **Parliamentary Standing Committee** report highlights a system still struggling with basic capacity, affordability, and regulatory oversight.

Introduction

India's healthcare expansion has largely been measured through countable inputs—such as institutional seats and insurance cards—rather than actual health outcomes. The core unresolved tension is that the public system is expected to deliver universal care on inadequate financing, forcing a reliance on an under-regulated private sector. This dynamic leaves families financially exposed, underscoring that genuine reform must begin with robust public financing.

Structure of the Public Healthcare System

1. **Constitutional Mandate:** Public health and hospitals are a **State subject** under the Seventh Schedule, with the Centre functioning primarily through centrally sponsored schemes.
2. **Tiered Delivery Network:** Rural healthcare operates across three tiers: **sub-centres**, **primary health centres (PHCs)**, and **community health centres (CHCs)**, backed by district and medical college hospitals.
3. **Shifting Disease Burden: Non-communicable diseases (NCDs)** now account for approximately 66% of total deaths, predominantly driven by cardiovascular and chronic respiratory diseases.
4. **Primary Care Scale:** Over **1,85,000 Ayushman Arogya Mandirs** (formerly health and wellness centres) are currently operational across the country.

Significance of Recent Healthcare Expansions

1. **Infrastructural Growth**

   The number of **medical colleges has increased to 818**, raising undergraduate medical seats to 1,28,875 to address the overall doctor-to-population ratio.
2. **Financial Protection for the Vulnerable**

   Ayushman Bharat has functioned as one of the world's largest publicly funded health insurance programs, helping millions afford essential hospital care.
3. **Digital and Remote Access**

   The **Ayushman Bharat Digital Mission** ensures portable health records, while the **eSanjeevani** telemedicine service connects remote primary facilities to urban specialists.
4. **Affordable Medicines**

   The **Pradhan Mantri Bhartiya Janaushadhi Pariyojana** provides low-cost generic drugs, directly targeting the high medicine-related out-of-pocket expenses for households.

Challenges in the Healthcare Sector

1. **Stagnant Public Financing**

   Health spending is stuck at **1.43% of GDP**. Furthermore, only about 40% of public health funds reach primary care, missing the two-thirds target set by the National Health Policy 2017.
2. **The "Missing Middle" and High OOP**

   Over **40 crore Indians** fall into the "missing middle"—too wealthy for government schemes but too poor for private insurance. Consequently, **Out-of-Pocket (OOP) spending** remains high at 43.4% of total health expenditure.

3. **Skewed Infrastructure and Staffing**

   Public capacity is highly urbanized, with **73% of public hospital beds in urban areas**. Conversely, rural CHCs face massive **specialist shortages of 70 to 80%**, and 17,788 sub-centres lack their own buildings.

4. **Commercialization and Weak Regulation**

   With over **60% of hospitalizations** managed by the private sector, the lack of national cost-capping mechanisms allows prices to soar. Insurance pays these bills but fails to control the underlying inflation of healthcare costs.

5. **Misallocation of Health Cesses**

   Revenue generated specifically for health often fails to reach its intended destination. The CAG reported a **Rs 43,000 crore gap** in the transfer of health cess funds to the **Pradhan Mantri Swasthya Suraksha Nidhi**.

Way Forward

1. **Ring-Fence Primary Care Financing**

   The government must legally ring-fence a rising share of the health budget strictly for **primary and preventive care**, ensuring compliance with the two-thirds allocation target through annual reporting.

2. **Outcome-Linked Central Transfers**

   Instead of rewarding mere expenditure, central health transfers should be tied to **state-level outcome indicators**, encouraging actual capacity building (e.g., adapting models like Kerala's decentralized system).

3. **Address Rural Specialist Deficits**

   Make rural service a mandatory condition for subsidized medical education, linking postings directly to **districts that lack specific medical specialties**.

4. **Automate Health Cess Transfers**

   Ensure the automatic and transparent transfer of collected health cesses to dedicated funds, mandating the disclosure of closing balances in annual budget documents.

5. **Enforce Strict Private Sector Regulation**

   States must strictly enforce the **Clinical Establishments (Registration and Regulation) Act, 2010** to implement published standard treatment guidelines and establish rational rate ranges for high-cost private procedures.

Conclusion

True healthcare reform relies on robust public financing rather than merely counting institutional inputs. Achieving universal healthcare requires shifting focus from passive insurance coverage to an adequately funded, strictly regulated, and equitably distributed public health infrastructure.

Q. *In a crucial domain like the public healthcare system, the Indian State should play a vital role to contain the adverse impact of marketisation of the system. Suggest some measures through which the State can enhance the reach of public healthcare at the grassroots level. 15 marks 2024*

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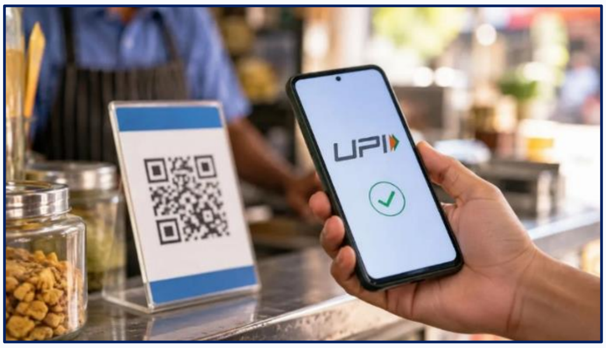
2.1. ECONOMY

2.1.1. THE UPI MDR RECALIBRATION: ANATOMY OF DIGITAL PAYMENT MONETIZATION

Context

The government and NPCI have mandated a **0.4% Merchant Discount Rate (MDR)** on **person-to-merchant (P2M) UPI transactions** exceeding **₹2,000**, shifting from a complete zero-charge regime to a self-sustaining payment architecture.



Introduction

The **Unified Payments Interface (UPI)** is India's foundational **Digital Public Infrastructure (DPI)** for instant payments. Transitioning from public subsidies to a commercial revenue model ensures the long-term operational health, capacity scaling, and security of payment operators.

NPCI and UPI Merchant Discount Rate (MDR)

1. **NPCI: Institutional Framework**
    - Premier umbrella organisation for India's retail payment and settlement systems.
    - Incorporated in **2008 as a Section 8 non-profit company** under the joint initiative of **RBI and IBA**.
    - Promoted by a consortium of major commercial banks.
2. **Key Digital Payment Infrastructure**
    - Operates major payment platforms such as **UPI, RuPay, IMPS, Bharat BillPay, FASTag (NETC) and AePS**.
    - Supports the development of **accessible, interoperable and nationwide digital payment infrastructure**.
3. **UPI MDR: Meaning & Applicability**
    - **Merchant Discount Rate (MDR)** is the transaction fee charged to merchants for processing digital payments.
    - It is applicable to **merchant (P2M) transactions**, while **P2P UPI transactions generally do not attract MDR**.
    - The rate and applicable limits depend on the **payment instrument and prevailing regulatory framework**.
4. **Purpose & Revenue Distribution**
    - MDR compensates participants in the payment ecosystem, including **acquiring banks, payment intermediaries and network/payment infrastructure providers**.
    - It is a **payment-processing/network fee, not a government tax**, intended to support the functioning of the digital payments ecosystem.

Why has NPCI Introduced MDR on UPI Transactions?

- **Escalating Operational Demands:** Processing billions of monthly transactions requires continuous heavy capital for **cloud storage**, server bandwidth, and low-latency networks.
- **Cybersecurity Mitigations:** Advanced threat landscapes and **AI-driven fraud vectors** consume over a fifth of annual budgets, requiring dedicated defense funding.
- **Subsidy Unsustainability:** Long-term reliance on **state budgetary incentives** is fiscally inadequate to finance future hardware and software capacity upgrades.
- **Market Incentivization:** A predictable commercial revenue model attracts **private sector innovation** and encourages healthy market competition.

Significance of MDR on UPI Transactions

- **Financial Viability:** Secures a dependable revenue stream to cover the structural **maintenance costs** of participating financial institutions.
- **Consumer Protection:** Safeguards everyday users and micro-vendors by keeping low-ticket retail purchases up to **₹2,000** completely charge-free.
- **Technological Resilience:** Injects vital capital to upgrade **real-time anti-fraud architectures** against automated cyber attacks.
- **Commercial Viability:** Replaces unviable zero-cost mandates with a **self-sustaining business framework** that spurs tech development.
- **DPI Strengthening:** Fortifies the structural resilience of India's **Digital Public Infrastructure** against outages during peak transaction volumes.

Challenges

- **Cost Pass-Through:** The persistent risk that merchants may unlawfully add **covert surcharges** onto retail buyers despite official advisories.
- **Behavioral Friction:** Potential consumer resistance causing a temporary contraction in **large digital payments** or a reversion to cash.
- **Regulatory Enforcement:** Administrative hurdles in auditing millions of **dispersed semi-urban merchants** against unauthorized fees.
- **Intermediary Margin Compression:** Heavy operational and compliance costs impacting the profitability of **mid-sized fintech aggregators**.
- **Inclusion Trade-Off:** Navigating the complex policy balance between **revenue generation** and sustaining universal digital adoption.

Way Forward

- **Strict Statutory Penalties:** Enforce strict punitive actions against merchants who **unlawfully transfer MDR costs** to retail consumers.
- **Turnover-Based Safeguards:** Retain explicit fee exemptions for **micro-enterprises** with annual turnovers below the ₹50 crore threshold.

- **Transparent Digital Receipts:** Mandate payment aggregators to display **itemized transaction invoices** to prevent hidden markups.
- **Dedicated Security Pooling:** Channel a fixed portion of collected MDR into a **national cybersecurity and anti-fraud fund**.
- **Hybrid Technical Support:** Provide targeted public grants to assist **regional and cooperative banks** with core processing upgrades.
- **Targeted Awareness Drives:** Conduct nationwide literacy campaigns clarifying that **P2P transfers and essential daily purchases remain charge-free**.

Conclusion

The calibrated implementation of the UPI MDR balances commercial sustainability with consumer affordability. By establishing a transparent, self-funded ecosystem, policymakers guarantee that India's digital public infrastructure remains resilient, secure, and financially inclusive.

Q. *Examine the rationale behind introducing the Merchant Discount Rate (MDR) on UPI transactions. How can policymakers balance digital infrastructure sustainability with consumer inclusion? 15 Marks*

2.1.2. THE SOVEREIGN DEBT CONUNDRUM: ANATOMY OF THE GLOBAL BOND YIELD SURGE

Context

Over the past few months, government bond yields across major economies have surged to multi-year highs. This global rise in borrowing costs is increasing fiscal pressure on governments and tightening financial conditions worldwide.

Introduction

A government bond is a debt instrument issued to fund fiscal deficits, with its yield representing the sovereign cost of borrowing. Because government bonds are treated as the safest assets, changes in their yields set the benchmark interest rate for the entire economy.

What Are Bonds?

- **Definition:** A bond is a formal debt instrument where an investor lends capital to a government or corporation for a defined period.
- **Face Value:** The stated principal amount that the borrower promises to repay upon maturity.
- **Tenure:** The fixed lifespan of the borrowing, ranging from short-term treasury bills to multi-decade bonds.
- **Coupon:** The fixed or variable interest amount paid by the borrower to the investor at scheduled intervals.

Relationship Between Bond Prices, Yields, and Interest Rates

- **Inverse Price-Yield Link:** Because a bond's coupon payment is fixed in absolute terms, a higher market price lowers its effective yield, while a falling price increases its yield.
- **Impact of Policy Interest Rates:** When central banks increase benchmark rates, newly issued bonds offer higher returns. As a result, older bonds with lower rates lose value, causing their prices to drop until their yields align with current market rates.

Why Are Bond Yields Rising?

- **High Government Debt:** Sizable fiscal deficits—notably in the US, where national debt exceeds $40 trillion—have led to heavy bond issuances, requiring higher yields to attract investors.
- **Persistent Inflation:** Geopolitical conflicts, especially in West Asia, alongside trade tariffs have kept energy and logistics costs high, reducing the real value of fixed bond payouts.
- **Prolonged Monetary Tightening:** Central banks have held interest rates high and delayed cuts to ensure inflation moves back to targets.
- **Loss of Policy Credibility:** Market interventions, unconventional debt buybacks, and questions over central bank independence have prompted investors to demand higher risk premiums.

Impact on Stock Markets

- **Shift to Safer Assets:** Higher bond yields provide attractive, guaranteed returns, encouraging investors to shift funds out of risky equities and into bonds.
- **Lower Equity Valuations:** Rising yields increase the discount rate applied to future corporate earnings, which depresses stock valuations.
- **Higher Corporate Borrowing Costs:** As benchmark rates climb, companies face higher loan expenses, which reduces profit margins and slows private business expansion.

Significance

- **Squeezed Government Budgets:** Higher interest obligations consume a larger portion of tax revenues, reducing public spending on healthcare, education, and infrastructure.
- **Costlier Consumer Loans:** Sovereign yields determine overall loan rates, raising borrowing costs on home, auto, and commercial loans.
- **Capital Flight from Emerging Markets:** Attractive US bond yields pull foreign portfolio investments away from emerging economies toward developed debt markets.
- **Currency Pressure and Imported Inflation:** Capital outflows cause local currencies to depreciate, raising the landed cost of imported goods like crude oil.
- **Tighter Global Liquidity:** Higher yields increase external financing expenses, making it harder for companies to refinance foreign debt.

Challenges

- **The Growth-Inflation Dilemma:** Raising rates to fight inflation slows economic growth, whereas lowering rates can entrench inflation and push yields higher.

- **Debt Traps:** Refinancing older, low-cost debt at current elevated interest rates compounds overall government debt burdens.
- **Limited Fiscal Room:** High debt-to-GDP levels leave sovereign nations with little budgetary space to support their economies during downturns.
- **Pressure on Forex Reserves:** Emerging market central banks must spend foreign currency reserves to defend their exchange rates against rapid depreciation.
- **Rebuilding Market Trust:** Restoring investor confidence after policy missteps requires sustained fiscal discipline, which is difficult to achieve quickly.

Way Forward

- **Credible Fiscal Consolidation:** Governments must contain fiscal deficits through responsible spending curbs, targeted subsidies, and stronger tax compliance.
- **Clear Inflation Targeting:** Central banks should maintain firm, transparent commitments to their official inflation targets to keep long-term yields steady.
- **Boosting Productive Growth:** Expanding the real economy through productivity-enhancing structural reforms helps reduce debt-to-GDP ratios naturally.
- **Deepening Domestic Bond Markets:** Emerging economies must expand their domestic investor base to reduce vulnerability to external capital shifts.
- **Careful Debt Maturity Management:** Sovereign debt managers should extend borrowing tenures during market dips to reduce short-term rollover risks.
- **Easing Geopolitical Tensions:** Diplomatic resolutions to ongoing global conflicts are essential to stabilize energy supply chains and ease worldwide inflation.

Conclusion

The global rise in bond yields signals an end to the era of cheap money and debt-heavy public spending. Restoring stability will require strict fiscal discipline, central bank credibility, and productivity-led growth across major economies.

Q. *Analyze the key factors driving the recent surge in global sovereign bond yields. How does this trend impact macroeconomic stability in emerging economies like India? 15 Marks*

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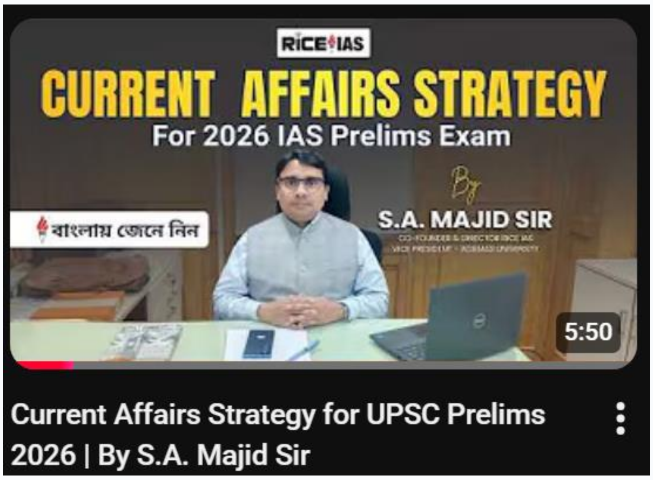

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