

Dear Students

This compilation brings together the **Complete Economic Survey for UPSC Prelims** in a concise, exam-focused format to strengthen your UPSC Prelims preparation. To watch the complete explanation, [click here](#).

It covers the most important and high-yield topics and updates—all in one place for quick revision.

Questions from the **Economic Survey** are regularly asked in UPSC Prelims, directly or indirectly, making it a significant source for exam preparation. Every concept you revise adds clarity and improves your accuracy.

Stay consistent, revise regularly, and keep building your understanding step by step.

Whenever you need direction, remember—you are not alone. We are with you, every step of the way.

With best wishes

Team Sleepy Classes IAS

Economic survey

UPSC prelims 2026

STATE OF THE ECONOMY: PUSHING THE GROWTH FRONTIER

GDP Growth

- Real GDP growth in 2026-27 is projected in the range of 6.8% to 7.2%.
- In 2025-26, GDP is estimated to grow by 7.4%, higher than 2024-25 (6.5%).
- Growth in 2025-26 is largely driven by domestic demand.

Demand and Supply side drivers of growth

Demand side

- Private Final Consumption Expenditure (PFCE)
- Government Final Consumption Expenditure
- (GFCE)
- Gross Fixed Capital Formation (GFCF)
- Exports

Supply side

- Agriculture, Livestock, Forestry & Fishing
- Industry
- Services

Share as % of Nominal GDP, Percent				
Production Approach (Supply Side)				
	H1: FY25	H1: FY26	FY25 (PE)	FY26 (FAE)
Agriculture, Livestock, Forestry & Fishing	14.0	13.2	16.3	15.2
Industry	24.5	24.3	24.6	24.3
Mining & Quarrying	1.6	1.4	1.6	1.4
Manufacturing	12.7	13.0	12.6	12.8
Electricity, Gas, Water Supply & Other Utility Services	2.5	2.4	2.4	2.3
Construction	7.7	7.6	7.9	7.8
Services	52.6	53.6	49.9	51.1
Trade, Hotels, Transport, Communication & Services related to Broadcasting	15.1	15.0	15.9	15.8
Financial, Real Estate & Professional Services	23.7	24.3	20.8	21.4
Public Administration, Defence & Other Services	13.7	14.3	13.2	13.8
Expenditure Components (Demand Side)				
Private Final Consumption Expenditure (PFCE)	61.1	61.4	61.4	61.5
Government Final Consumption Expenditure (GFCE)	10.0	9.6	10.0	9.9
Gross Fixed Capital Formation (GFCF)	30.6	30.5	29.9	30.0
Exports	21.1	21.2	21.2	21.5
Source: MoSPI				

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Private Final Consumption Expenditure (PFCE)

PFCE

- Expenditure incurred by the **resident households** and **non-profit institutions** serving households (NPISH) on final consumption of goods and services, whether made **within or outside the economic territory**.
- Share of PFCE in GDP rose to **61.5 per cent** in FY26, the highest level since FY12.

.

Private Final Consumption Expenditure (PFCE)

Broad-Based Consumption

- Rural + Urban
- Different income groups



Growth more stable and sustainable

NABARD Survey

- **79.2% rural households increased consumption**
- Spending share of income rose to ~67% (**highest ever**)

Reason

- GST rationalisation
- Softer inflation
- Rise in non-farm income

Government Final Consumption Expenditure

GFCE measures the current expenditures of government on goods and services that are used for the direct satisfaction of individual or collective needs.

Gross fixed capital formation (GFCF)

Investment

- GFCF in GDP remained steady at 30.5 per cent in H1 of FY26
- well above the pre pandemic average of 28.6 per cent

Meaning

- Investment is **strong and consistent**
- Not falling → good for long-term growth

Gross fixed capital formation (GFCF)

Investment Growth

- GFCF growth = **7.6% (H1 FY26)**
- Higher than:
 - Last year
 - Pre-COVID average (7.1%)

Meaning:

- Investment activity is **accelerating**

Gross fixed capital formation (GFCF)

Reason

- Strong **capital expenditure (capex)** by government
- Private Investment Revival

External Sector (Exports)

- While domestic drivers remained the primary source of growth in FY26, **external demand**, with a share of 21.6 per cent of GDP, also supported growth

Reason

Trade Diversification

- India is exporting to:
 - More countries
 - More sectors
- Reduces dependency on one market

Services Exports = Stable Anchor

- Services exports (IT, business services, etc.) are stable

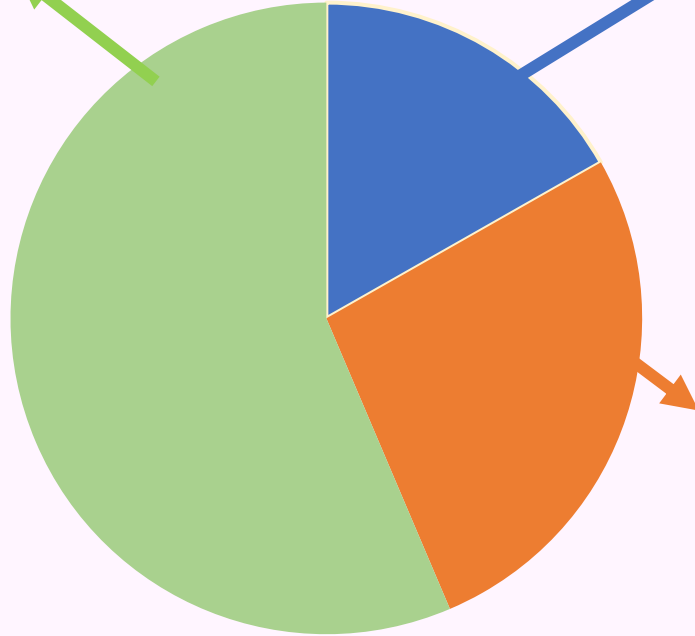
Supply side drivers of growth

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Source: MoSPI				

**Agriculture, Livestock, Forestry
& Fishing (15.2%)**

Industry (24.3%)

**Manufacturing > Construction > Electricity gas , water
& other utility services > Mining & Quarrying**



Services (51.1%)

Financial, Real Estate & Professional Services



**Trade, Hotels, Transport, Communication &
Services related to Broadcasting**



**Public Administration, Defence & Other
Services**

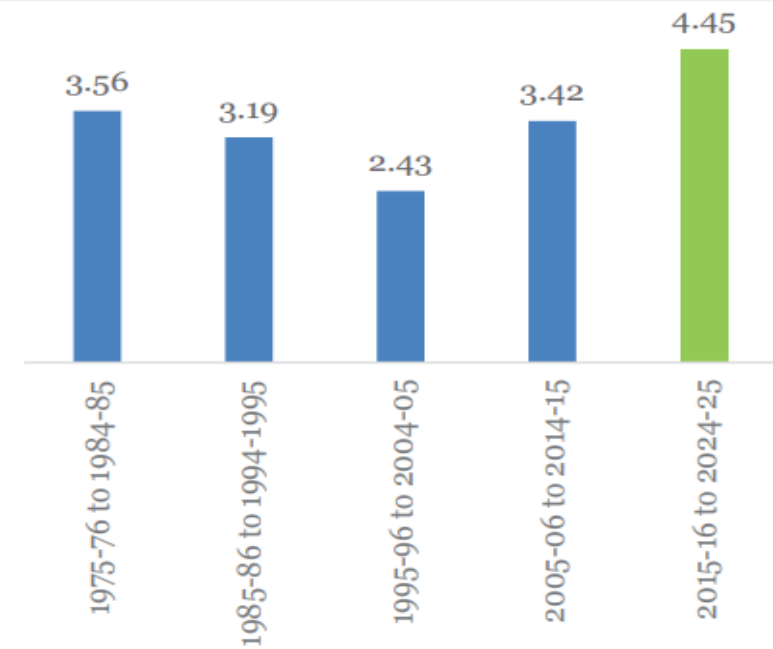
Agriculture

Agriculture and allied activities

India's agricultural progress is increasingly supported by the expansion of **allied sectors** such as **livestock, dairy, poultry, and fisheries**.

- Recorded the **highest decadal growth** between 2015-16 and 2024-25 (4.5%).
- Sub-sectors **of livestock (7.1%), fishing (8.8%), and crops (3.5%)** have observed a strong performance.
- The agriculture sector grew at **4.6% in 2024-25**.
- It account for **46.1 per cent** of the country's workforce

Chart VI.2: Decadal performance of the Agricultural sector



Source: Ramesh Chand's Presidential Address at 24th IASSI Annual Conference, 10-12 October 2025.

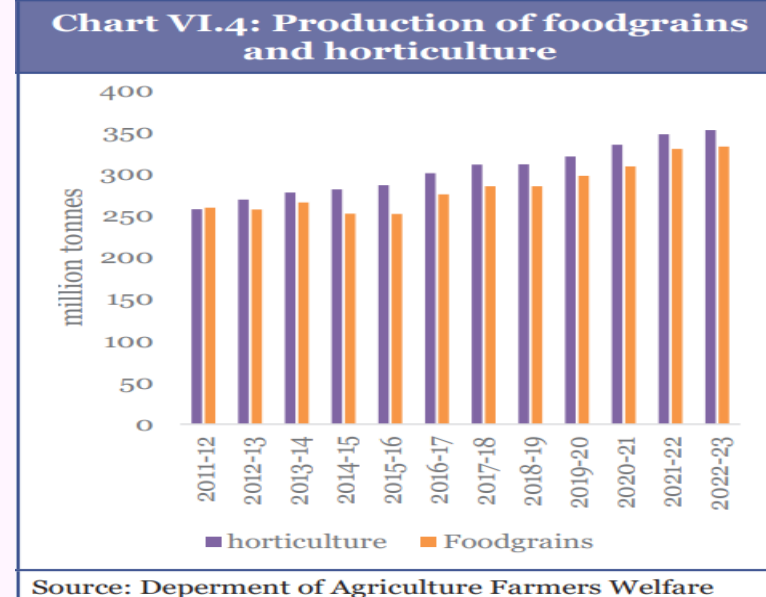
Agriculture and allied activities

Horticulture

- **Horticulture** – (Includes:Fruits , Vegetables , Spices)
- Production: ~**362 MT**
- Higher than foodgrains (~**329 MT**)

Meaning

- Agriculture is shifting from:
 - Low-value crops to **High-value crops**



Agriculture and allied activities

Quick Facts

- Onion- **India is world's largest producer of dry onions**, contributing nearly 25 per cent of global output.

Vegetables, fruits, and potatoes

- India also **ranks second** worldwide in the production of vegetables, fruits, and potatoes, accounting for around 12-13 per cent of global output in each category.

Agriculture and allied activities

Yield

- Yields across several crops, including cereals, maize, soybeans, and pulses, **continue to trail global averages**.

Reasons:

Climate issues

- El Niño → low production
- La Niña → higher production

Poor inputs

Low mechanisation

Agriculture and allied activities

Why Madhya Pradesh and Gujarat produce more pulses and get higher yields than other states ?

- Crops grow best where climate + soil match their needs

Madhya Pradesh	
Black Soil (Regur Soil)	High moisture retention Rich in nutrients
Crop Rotation System	Maintains soil fertility

Agriculture and allied activities

Gujarat	
Semi-arid Climate	Support short-duration pulse varieties
High Seed Replacement Rates (SRR)	Higher productivity, High yield
Strong Seed Ecosystem	Cooperatives + private sector supply Quality seeds and Timely availability

State level Innovations in Agricultural Governance

Land and Resource Governance		
Resurvey Project	Andhra Pradesh	utilizes advanced technology, drones to create highly accurate maps and digitize records.
Mukhyamantri Samekit Chaur Vikas Yojana	Bihar	Aimed at transforming underutilised waterlogged lowlands (locally known as Chaur s) into productive ponds for integrated aquaculture

Market Reforms		
Souda Patrak initiative	Madhya Pradesh	Direct MSP based purchases from farmers through a digital platform, reducing mandi congestion
Rythu Bharosa Kendras	Andhra Pradesh	Enables farmers to sell their produce at fair prices without middlemen

Technology and Digital Agriculture		
FRUITS platform	Karnataka	Creates a centralized database for farmers. It facilitates the efficient delivery of government services, schemes
GIS-based Climate Smart Agriculture	Jharkhand	Enable farm-level tracking and climate-informed planning

Agriculture and allied activities

Irrigation

- **Gross irrigated area** as a share of the **gross cropped area has increased** from 41.7 per cent in 2001-02 to 55.8 per cent in 2022-23

Issue

- Inter-State and inter-crop disparities persist

Crop	Irrigation Coverage
Rice	67%
Pulses	26%
Millets	15%

Agriculture and allied activities

N:P:K Ratio

- N = Nitrogen (growth)
- P = Phosphorus (roots)
- K = Potassium (strength & immunity)

Ideal 4:2:1

Year	NPK ratio
2009-10	4 : 3.2 : 1 (almost balanced)
2019-20	~7 : 2.8 : 1
2023-24	~10.9 : 4.1 : 1

Meaning:

- Nitrogen (N) is being used **way too much**
- Balance is **getting worse over time**
- Urea (Nitrogen fertiliser) is very cheap

Livelihood Diversification

Global Leadership in Production



Global Rank #1

(2024-25)

Commodity

Milk

Production

247.87
Million Tonnes



Global Rank #2

(2024-25)

Commodity

Egg

Fish

Production

149.11 Billion

19.77 Million
Tonnes

Global Rank #4

(2024-25)

Commodity

Meat

Production

10.50
Million Tonnes



Source: Ministry of Fisheries, Animal Husbandry and Dairying



Industry

Industry

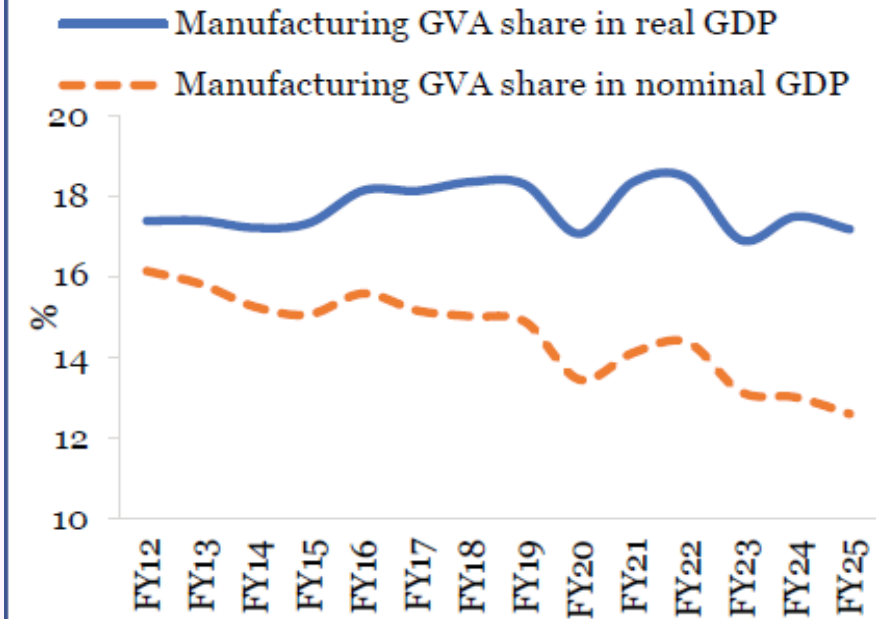
Manufacturing

- In real (constant) price terms, manufacturing's share has remained steady at around **17-18 per cent**

Core Reason = “Relative Growth + Price Effect”

- Other sectors (agriculture & services) are growing faster in **value (price × output)**
- So manufacturing looks **smaller in comparison**

Chart 1.16: Share of manufacturing remains stable in real terms



Industry

Reasons

1. Deflator Data (FY25 vs 2011-12)

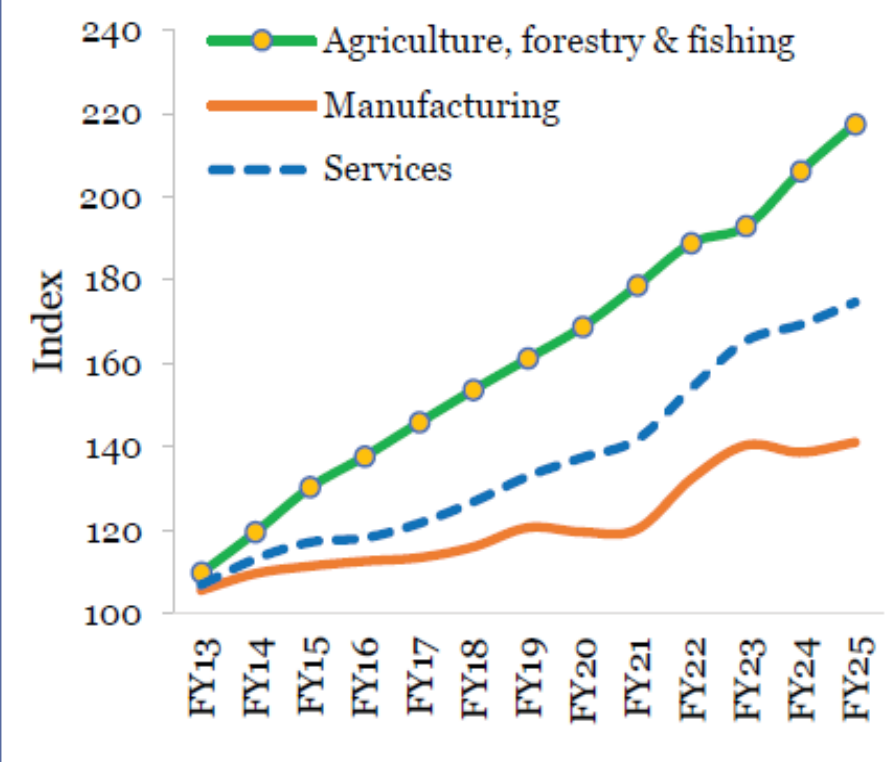
Sector	Deflator Growth
Agriculture	2.17 (highest)
Services	1.75
Industry	1.55
Manufacturing	1.41 (lowest)

Agricultural GDP deflator has grown faster than the other sectors.

Meaning:

- Agriculture prices ↑ fastest
- Manufacturing prices ↑ slowest

Chart I.15: Growth in manufacturing GVA deflator has remained moderate



Reason 2: Services are Easier (Low Regulation)

Services sector:

- Less regulation
- Lower compliance
- Faster setup

Manufacturing:

- Land issues
- Labour laws
- Compliance burden

Result:

Entrepreneurs prefer: IT , Finance , Startups

Services grow faster

Reason 3: Inverted Duty Structure

- Raw materials taxed more
- Finished goods taxed less

Result:

- Importing finished goods becomes cheaper
- Domestic manufacturing becomes expensive
- Hurts local industry competitiveness

Reason 4

- Manufacturing uses **more intermediate inputs**

So:

- Value added (GVA) = lower

Services:

High margins → high value added

- Services share rises faster

Quick Facts

Industry	Fact
Cement	India is the second-largest cement producer in the world after China.
Steel	India's position as the world's second-largest crude steel producer
Coal	Fifth-largest coal reserves and as the second-largest consumer
Automobile	World's largest market for Two-Wheelers and Three-Wheelers Third-largest market globally for Passenger Vehicles (PV) and Commercial Vehicles
Electronics	World's second-largest mobile phone manufacturer
Pharmaceuticals	World's third-largest by volume, meeting approximately 20 per cent of global generics demand India currently ranks 11th globally in pharmaceutical exports by value, with a 3 per cent share

Textiles Industry

- The Indian apparel & textile industry contributes close to **2 per cent of GDP** and accounts for about 11 per cent of the manufacturing GVA.
- India is the **world's largest cultivator of cotton by acreage (acres)**
- **largest producer of jute**, as well as the **second-largest producer of silk** and cotton.
- India is the **6th largest global exporter of textiles and apparel**, with a share of about 4 per cent in world exports in this segment

MSME

- Micro, Small, and Medium Enterprises (MSMEs) form the backbone of India's
- industrial economy, accounting for approximately **35.4 per cent of manufacturing,**
- around **48.58 per cent of exports,** and **31.1 per cent of GDP** in the country
- The sector holds its position as the **second-largest employer after agriculture.**

Research and development (R&D)

India's status

- India spends: ~**0.64%** of GDP on R&D

Developed countries:

- USA, China, Israel → **2.5%–5%**

Issue

- Not lack of talent, but
- Minimal private sector participation
- Failure to **translate** research into scalable commercial products.

Technology Readiness Levels (TRL)

TRL (7-9) -ready for market deployment

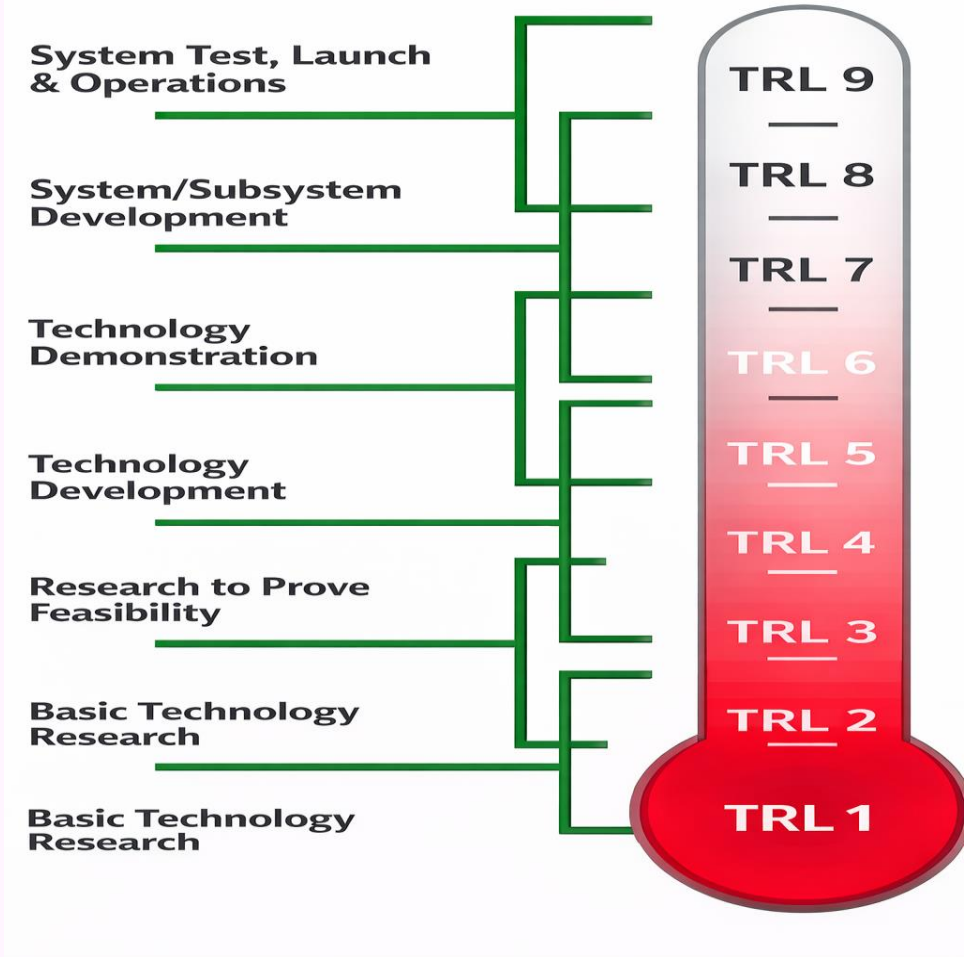


Valley of Death

- Prototyping
- Testing
- Pilot projects

TRL (1-3) – early-stage research-

Strong



Service sector

Service sector

- India is the **world's seventh-largest exporter of services**, with its **share in global services trade** more than doubling from 2 per cent in 2005 to **4.3 per cent in 2024**
- The sector continues to be the **largest recipient of foreign direct investment** inflows.

Service sector

FDI

- The services sector attracted over **80% of total FDI inflows** during FY23–FY25, up from 77.7 per cent in the pre-pandemic period (FY16-FY20)

Order

1. Information and communication services (25.8 per cent)
2. Professional services (23.8 per cent)
3. Finance and insurance (14.2 per cent)
4. Energy and gas (12.8 per cent)
5. Trading (12.2 per cent)

Service sector

Share of services in **urban employment** rose to **61.9 per cent** (on average), marginally higher than the FY21-FY22 average of 61.7 per cent

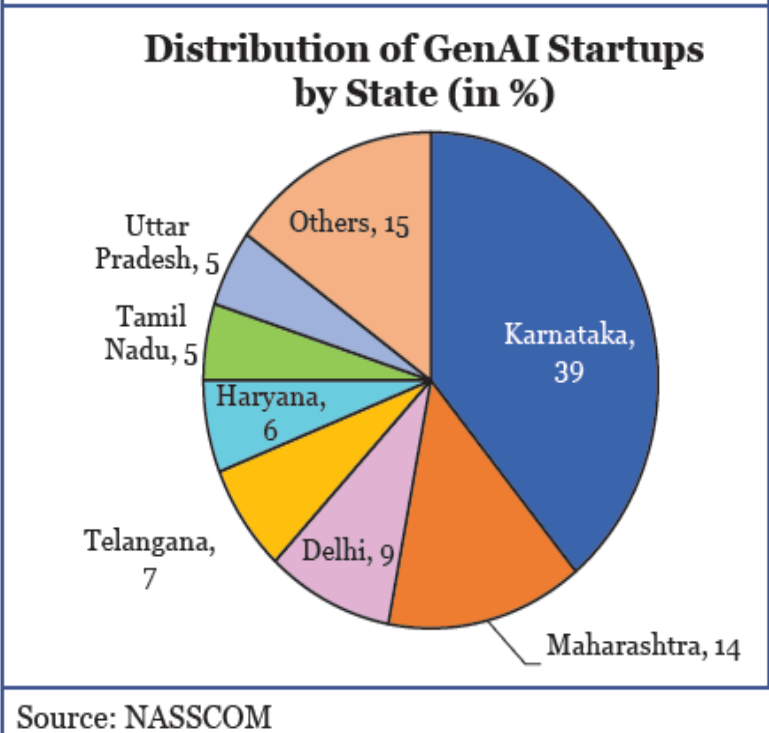
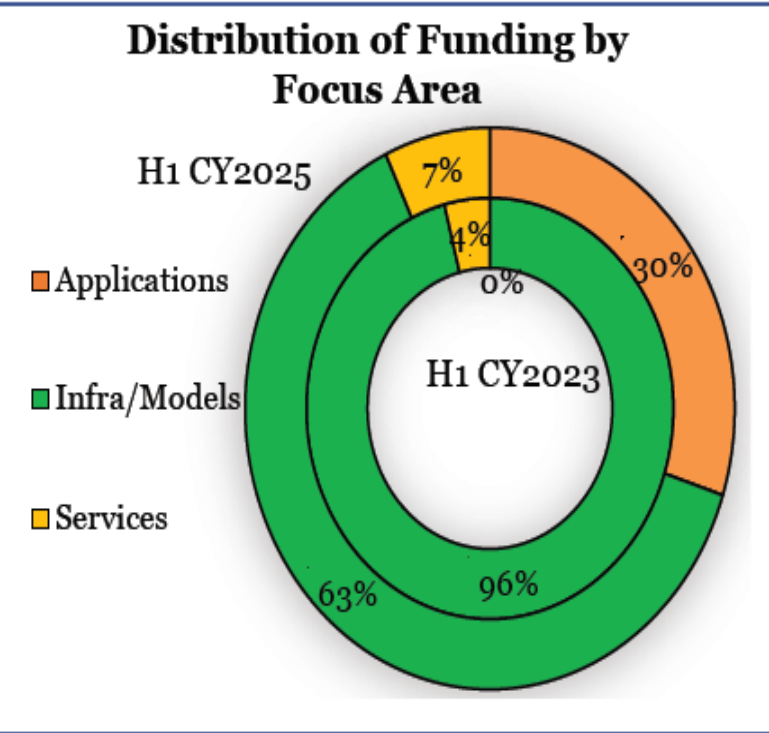
Export

- **Software services, accounting for over 40 per cent of total services exports** remain the primary growth driver
- Professional and management consulting services have emerged as the second-largest contributor

AI

Generative AI (GenAI) startups-triple in one year

Funding in GenAI increased



AI

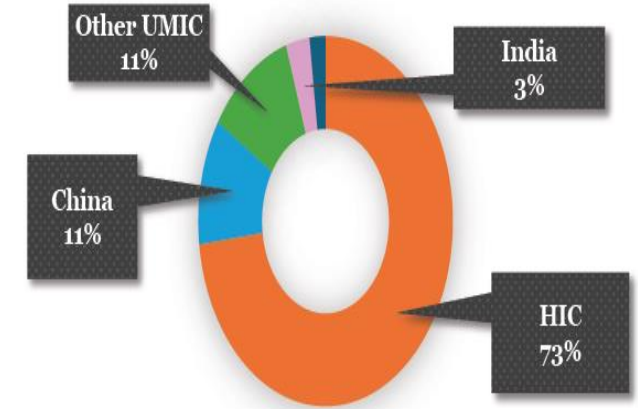
Data centre

- Despite generating nearly **20 per cent** of the world's data, India hosts only **about 3 per cent** of global data centres

Data centre capacity

- 2025-1500 MW
- Economic Survey -8 GW by 2030

Chart XIV.2: Over 70% of all data centres (by count) are located in High-Income Countries (as of June 2025)



Orange Economy (Creative economy)

- The “Orange Economy” refers to the part of the economy driven by **creativity, culture, and intellectual property**, comprising activities where value comes primarily from **ideas, knowledge, artistic expression, and cultural content**, rather than from physical goods.
- **Examples** music and entertainment, social media etc

Fiscal Developments

Fiscal Developments

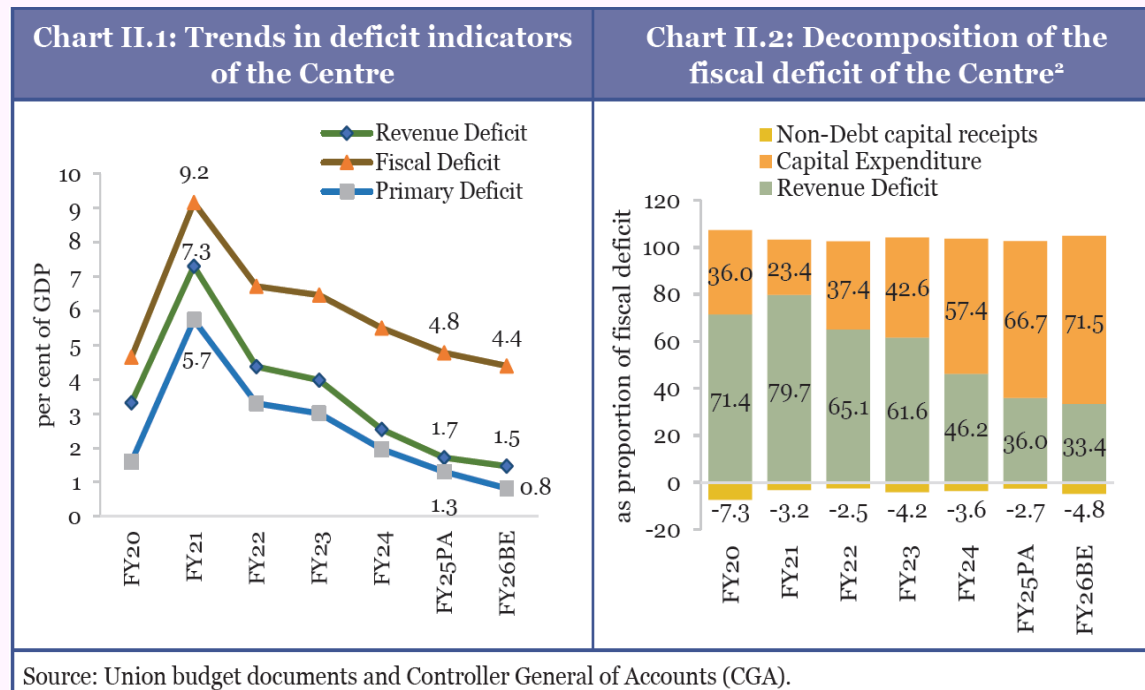
The central government is estimated to contain fiscal deficit to below 4.5% of GDP in 2025-26.

FD = Total Expenditure – Total Non-Debt Receipts

= (Revenue Expenditure + Capital Expenditure) – (Revenue Receipts + Non-Debt Capital Receipts)

= (Revenue Expenditure – Revenue Receipts) + Capital Expenditure – Non-Debt Capital Receipts

= Revenue Deficit + Capital Expenditure – Non-Debt Capital Receipts.



Higher gross tax revenue

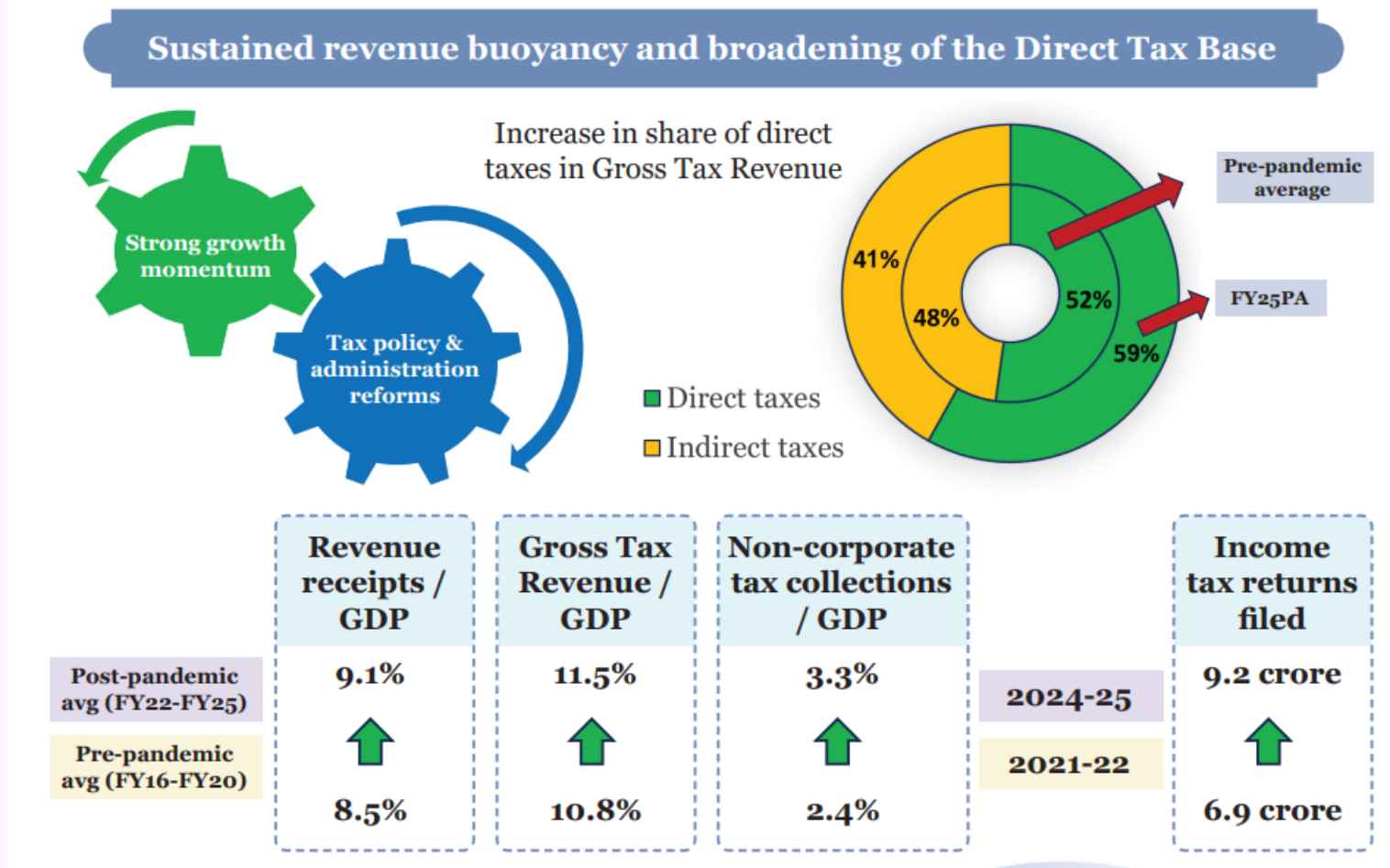
- 10.8 % of GDP (Pre pandemic)to about 11.5 %of GDP (Post pandemic)

Broadening of the Direct Tax Base

- Income **tax returns filed** increased

Non-corporate tax collections - strong performance

- Strong average **buoyancy** of 1.8



NUDGE (*Non-intrusive Usage of Data to Guide and Enable*)

- Approach adopted by the Income Tax Department, focuses on influencing taxpayer behaviour through timely information, gentle prompts, and data-driven insights rather than coercive enforcement.

Revenue Receipt (Increase)

Indirect taxes

Excise duty-Collections moderated

- Declining from 1.7 per cent of GDP in FY22 to around 0.9 per cent of GDP in FY25.
- **Reason**-reductions in excise duty rates on petroleum products in 2021 and 2022

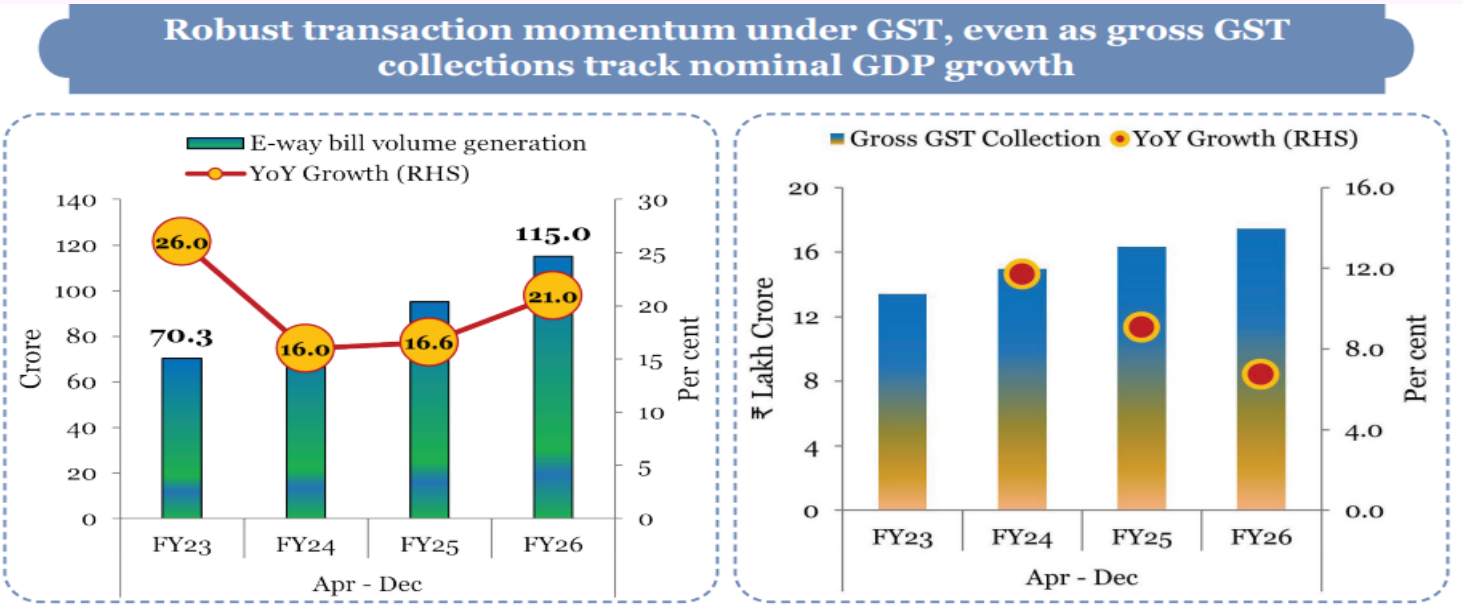
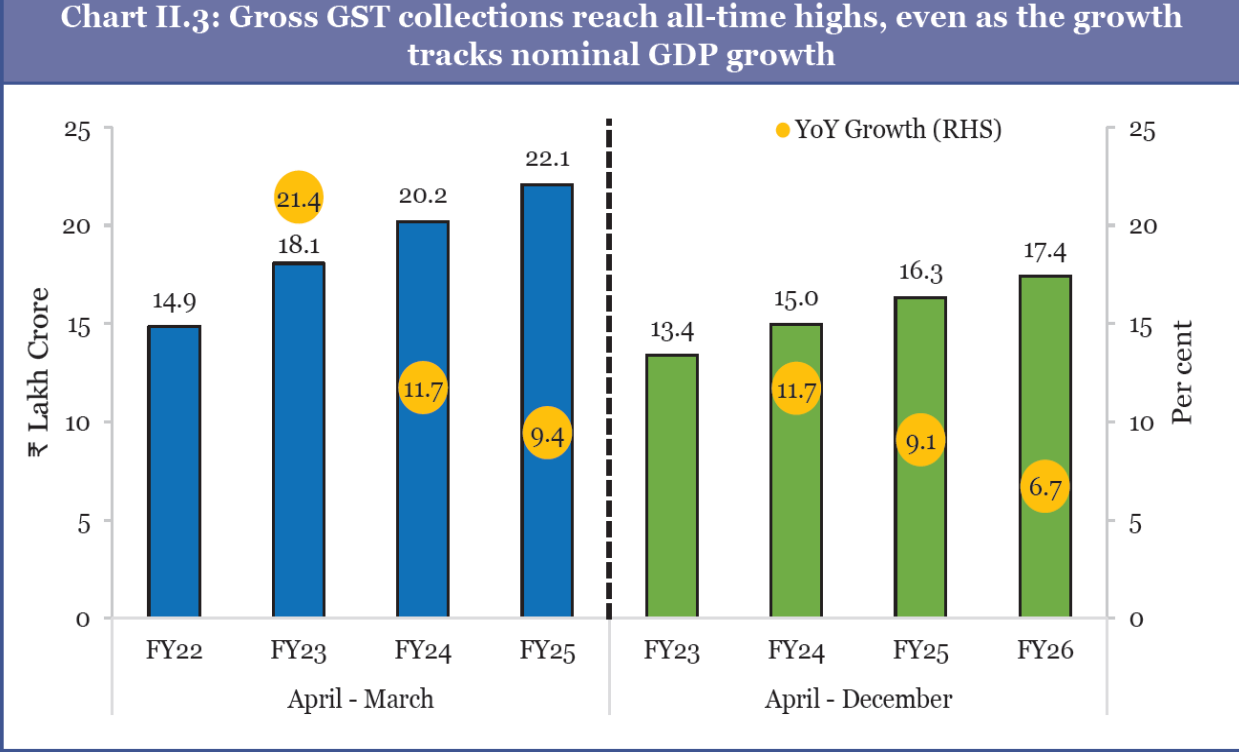
Custom duty-moderate buoyancy of 0.4

- **Reason**-reductions in basic customs duties on raw materials and essential goods to support domestic manufacturing

Revenue Receipt (Increase)

GST

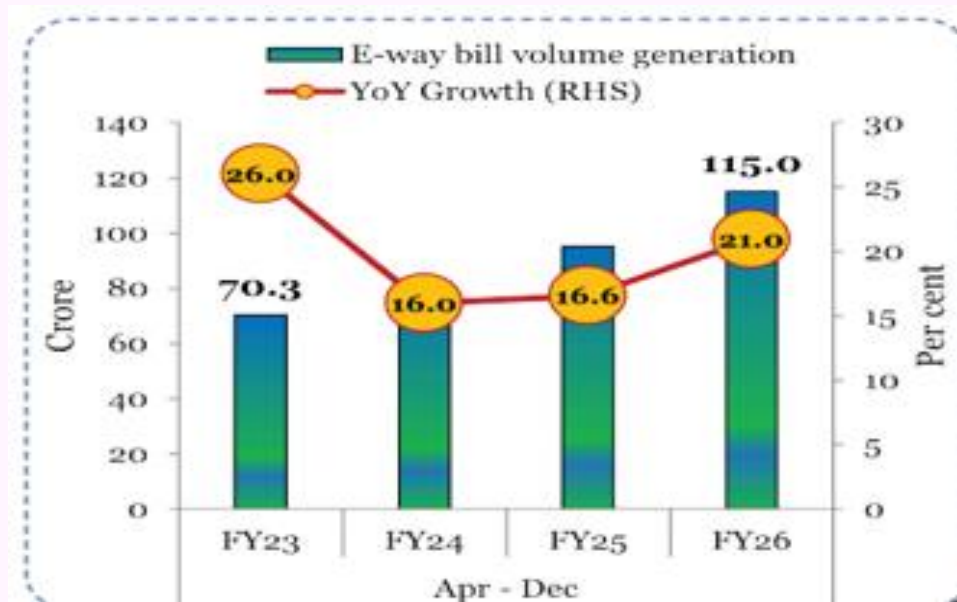
- Record collection
- Reason
- Tax base expansion
- High-frequency indicators suggest robust transaction volumes, with cumulative e-way bill



“Growth paradox”: why GST growth feels "slow" (6.7%) even though the government is collecting more money than ever before ?

Reason

- Low inflation rate in recent years
- High volume **E-Way Bills**
- Growth Active GST registrations (Tax base)





GST 2.0 reforms & impact

Two-rate
Structure

18% Standard and
5% Merit

40% De-merit/
Sin-good (incl of cess)

Expected channels of impact

CONSUMPTION BOOST

Simplified Compliance, Support household consumption, Wider Tax Base.

MANUFACTURING & TRADE

Boost Manufacturing, Enhance trade competitiveness, Encourage small businesses to formalise.

STRUCTURAL REFORMS

Resolve Inverted Duty Structure, Improve Working Capital.

Key Changes introduced in GST 2.0	
Agriculture and related items	• GST on agricultural goods (tractors, agricultural, horticultural or forestry machinery etc.) lowered to 5 per cent from 12 per cent. • GST rates on key fertiliser inputs such as Sulphuric acid, Nitric acid and Ammonia slashed to 5 per cent from 18 per cent.
Auto & Auto Parts	• GST on small cars, motorcycles (350cc & below) and three-wheelers is reduced to 18 per cent from 28 per cent. GST on buses, trucks and ambulances is reduced to 18 per cent from 28 per cent. • Uniform 18 per cent GST rate on all auto parts irrespective of their HS code. • Motorcycles (>350cc) and cars outside small cars definition have been moved to the 40 per cent slab. However, cess imposed on luxury cars has been removed.
Electronic Appliances	• ACs, TVs (larger than 32 inches), dishwashing machines, monitors and projectors set to attract an 18 per cent GST rate compared to 28 per cent earlier.

Textile & Labour-Intensive Goods	• GST rate reduction on man-made fibres from 18 per cent to 5 per cent and man-made yarn from 12 per cent to 5 per cent. • GST on labour-intensive goods such as handicrafts, marble and intermediate leather goods was lowered to 5 per cent from 12 per cent.
Everyday essentials & food	• 5 per cent GST rate on hair oil, toilet soap bars, shampoos, toothbrushes, toothpaste, bicycles, tableware, kitchenware and other household articles; these items were either in the 18 per cent or 12 per cent GST bracket earlier. • Zero GST on Ultra-High Temperature (UHT) milk, all Indian breads, and pre-packaged and labelled paneer. • GST lowered to 5 per cent on almost all food items such as packaged namkeens, instant noodles, chocolates, coffee, preserved meat, butter, ghee, etc. Earlier, these items were subject to a GST rate of 12 per cent or 18 per cent.

Medicines & Medical Equipment	• Zero GST on select lifesaving drugs & medicines. • GST on all other drugs & medicines slashed to 5 per cent from 12 per cent. • 5 per cent GST on (a) Medical apparatus & devices and (b) Medical equipment and supplies.
Hotel & Personal Services	• Hotel accommodation services (value less than or equal to ₹7,500 per unit per day) to be subject to lower GST of 5 per cent from 12 per cent earlier. • Beauty and physical well-being services (gyms, salons, barbers, yoga centres, etc.) to see a lower GST rate of 5 per cent from 18 per cent.
Insurance Policies	• GST exemption to all individual life and health insurance policies as well as to reinsurance of these individual policies.

Revenue Receipt (Increase)

Non-tax revenues

broadly remained stable at around 1.4 per cent of GDP

Reason

- **Reserve Bank of India (RBI)**, approved a record surplus transfer of ₹2.68 lakh crore for FY26 — a 27% increase over the previous year.
- Growth in **CPSE Performance**

Expenditure

Revenue expenditure

- Revenue expenditure has moderated from 13.6 per cent of GDP in FY22 to 10.9 per cent in FY25

Reason

- Decrease Expenditure on **major subsidies** (1.9 per cent of GDP in FY22 to 1.2 per cent in FY25)
- **Beneficiary coverage expanded** nearly sixteen-fold from about 11 crore to 176 crore over the past decade

Reform

- streamlining the design of subsidy schemes, efficiency gains from the Direct Benefit Transfer (DBT) by **curbing fiscal leakages**

Expenditure

Just-in-Time (JIT) Fund Release Reforms

- The Central Government has undertaken a major public financial management reform by shifting to a Just-in-Time (JIT) fund release system to improve cash management, **reduce idle balances, enhance transparency, and strengthen expenditure efficiency.**
- It replaces the **earlier credit-push model** of bulk fund releases with a **debit-pull model**, under which **funds are released only when expenditure is incurred**

Two model

- **SNA-SPARSH** (Single Nodal Account-Samyochit Pranali Ekikrit Shighra Hastantaran) for Centrally Sponsored Schemes (CSS)
- **Treasury Single Account (TSA) and TSA Hybrid models** for Central Sector (CS) schemes.

In the context of public financial management, the term Just-in-Time (JIT)

Fund Release refers to:

- (a) Immediate release of the entire sanctioned budget at the beginning of the financial year
- (b) Release of funds only when required for actual expenditure
- (c) Transfer of funds directly from Reserve Bank of India to states
- (d) Emergency release of contingency funds during fiscal crises

Expenditure

Revenue expenditure

Interest payments

- Another major component of the Centre's revenue expenditure,
- **Increased** from an average of about **3.1 per cent of GDP** in the pre-pandemic years to around **3.4 per cent of GDP** in the post-pandemic period,

Meaning

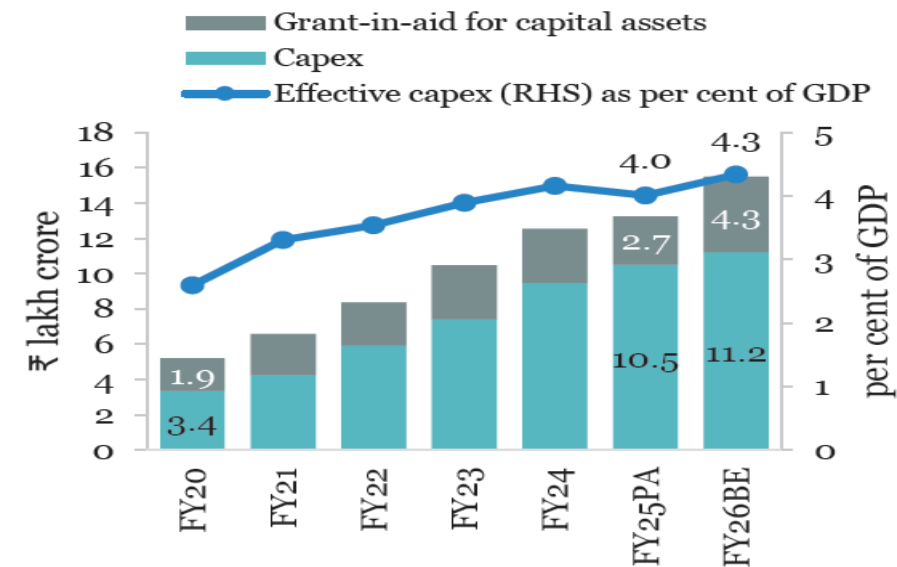
- Reflecting higher borrowing undertaken to support **economic recovery during the pandemic**.

Expenditure

Capital expenditure

- The Centre has progressively scaled up capital expenditure from an average of **1.7 per cent of GDP** in the pre-pandemic period to an average of **2.9 per cent of GDP** in the years after the pandemic
- The **effective capital expenditure** of the Central government rose from an average of **2.7 per cent of GDP** in the pre-pandemic period to **about 3.9 per cent post-pandemic**, and to a higher **4 per cent of GDP** in FY25.

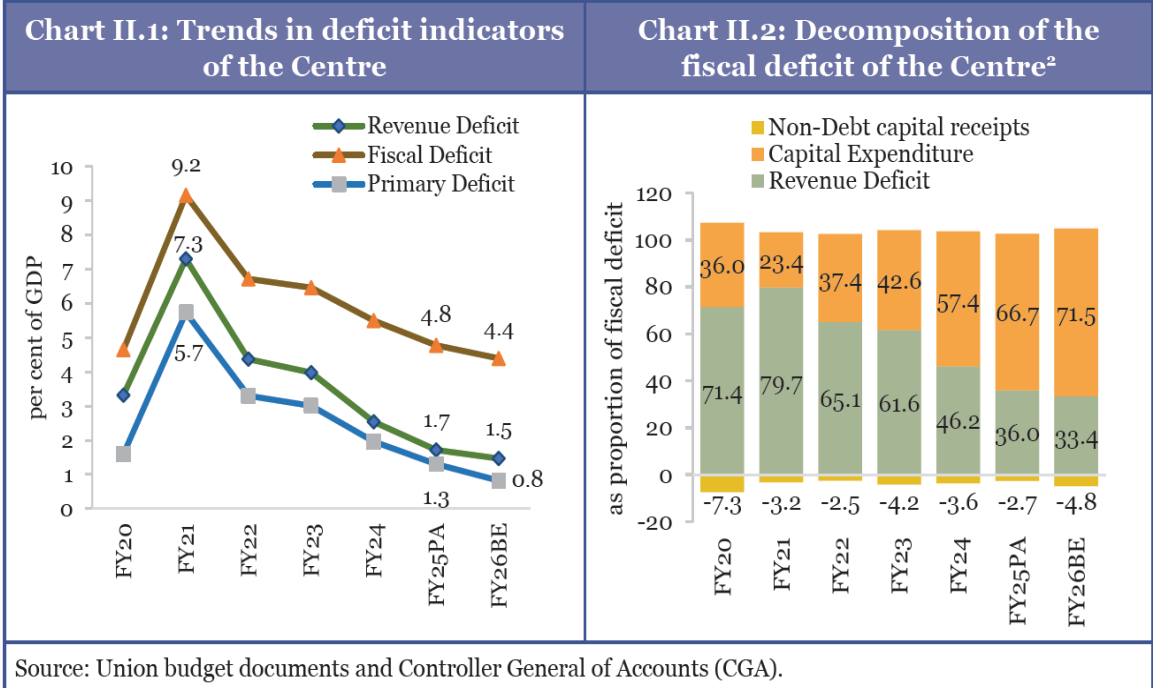
Chart II.5: Trends in effective capex



Source: Union Budget documents, CGA and MoSPI.

Primary Deficit

= Fiscal Deficit – Interest Payments



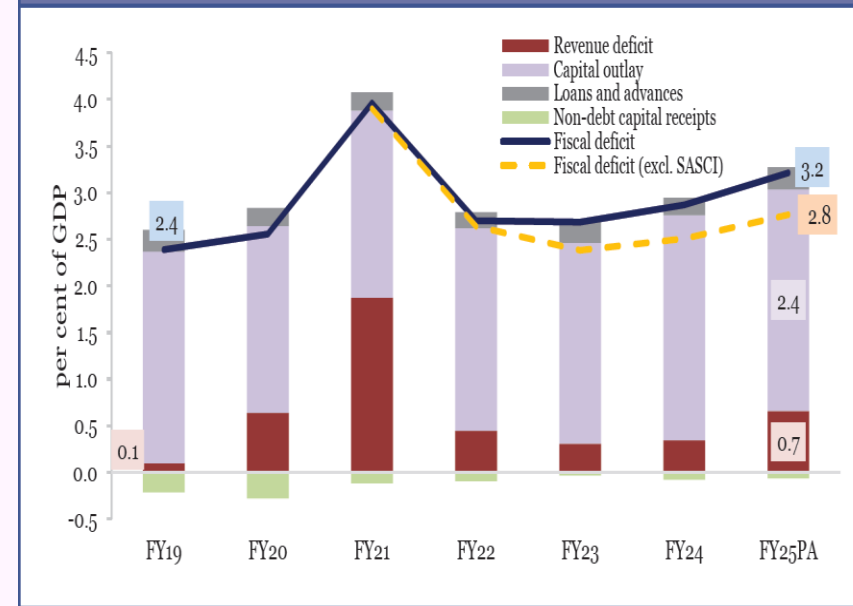
Source: Union budget documents and Controller General of Accounts (CGA).

Performance of State Finances

Increasing revenue and fiscal deficit while capex remains intact

- The combined **fiscal deficit of State Governments**, as a proportion of GDP, has, on average, remained broadly stable at around **2.8 per cent** in the post-pandemic period, similar to pre-pandemic levels. However, after the sharp correction from the pandemic induced
- spike of around 3.9 per cent, State deficits have gradually edged up again over the **past three years to 3.2 per cent**, reflecting emerging **pressures on State finances**.
- **Excluding SASCI** - the Scheme for Special Assistance to States for Capital Investment under which the **Centre provides 50-year interest-free loans** to states exclusively for capital expenditure – the fiscal deficit is back in the **range of 2.8 per cent**.

Chart II.9: Deficit indicators of States



Enhanced borrowing limit

- The XV-FC has recommended a Net Borrowing Ceiling (NBC) of **3 per cent of GSDP** for the States in FY26.
- In addition, States may avail performance-linked **additional borrowing** of up to **0.5 per cent of Gross State Domestic Product (GSDP)** for the **power sector**, over and above the normal borrowing ceiling. This dispensation, originally applicable from FY21 to FY25 and later extended to FY26, is **linked to improving the operational and economic efficiency** of the sector and promoting a sustained increase in paid electricity consumption.
- Furthermore, States are permitted to borrow over and above their normal
- borrowing limits by an **amount equal to the pension contributions** (both employer's and employees') that they deposit under the National Pension System (NPS)

Repo rate

- RBI's Monetary Policy Committee (MPC) cumulatively reduced the **repo rate by 100 basis points** during its meetings from **April to December 2025**.
- As of December 2025, the repo rate stands at **5.25 per cent**.
- MPC's stance was changed from **accommodative to neutral in June 2025**. This neutral stance has been consistently maintained since then

Stance	Vibe	Interest Rate Trend	Main Priority
Accommodative	Supportive	↓ Likely to fall	Economic Growth
Hawkish	Aggressive	↑ Likely to rise	Fighting Inflation
Dovish	Gentle	↓ Likely to fall	Job Creation/Growth
Neutral	Balanced	↔ Could go either way	Stability

Currency circulation

Reserve Money (Mo) = Currency in circulation + Banker's deposits with RBI + Other deposits with RBI.

CRR Cut (2025)

- CRR reduced by **100 basis points (4% → 3%)**
- Meaning:
- Banks now keep **less money with RBI**
 - More money available for lending

Immediate Effect on M0

- M0 growth fell (2.9%)

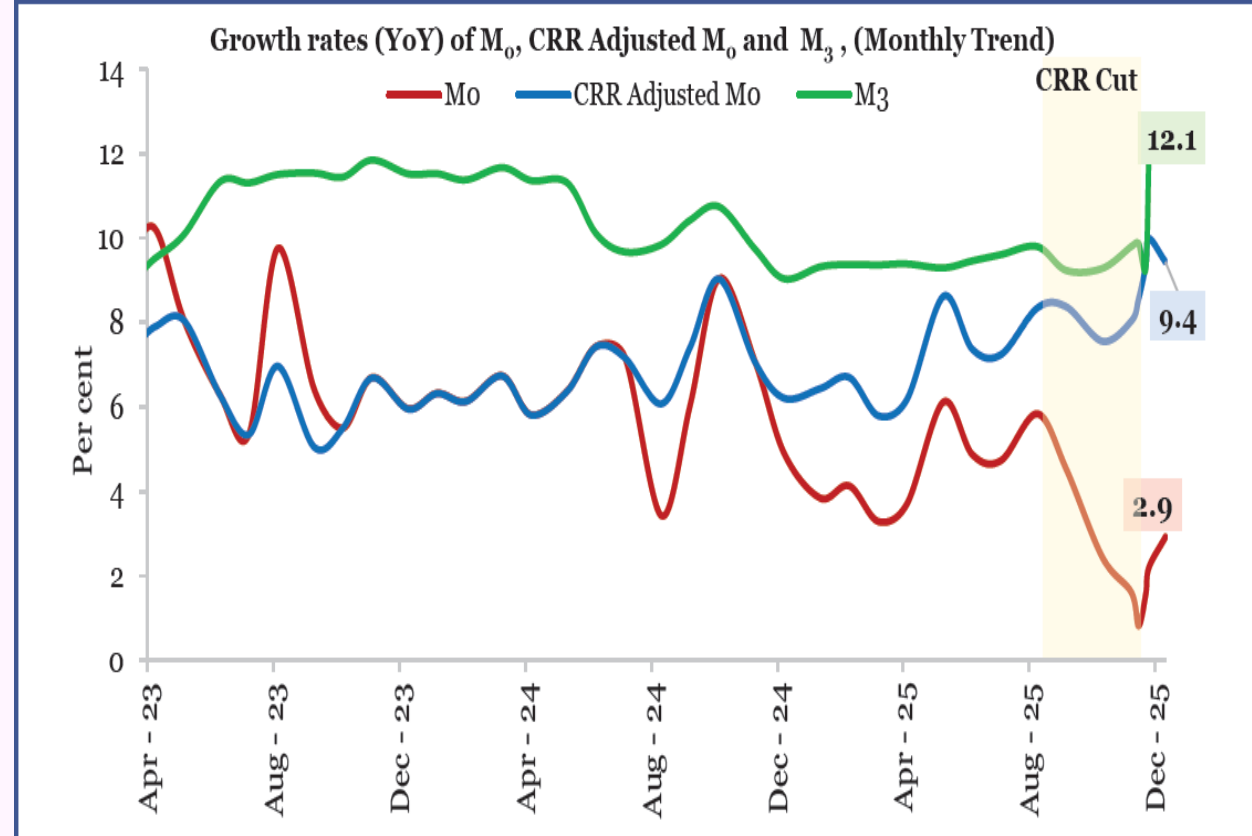
Real picture

CRR-adjusted M0

- 6.2% to 9.4%

M3 growth: 9% → 12.1%

Chart III.3: Monetary developments reflect easing financial conditions



Source: RBI.

Note: M_0 – Reserve Money, M_3 – Broad Money.

Performance of the banking sector

GNPA (Gross NPA)

- Peak: ~11.2% (around 2018)
- Now: ~2.2% (2025)

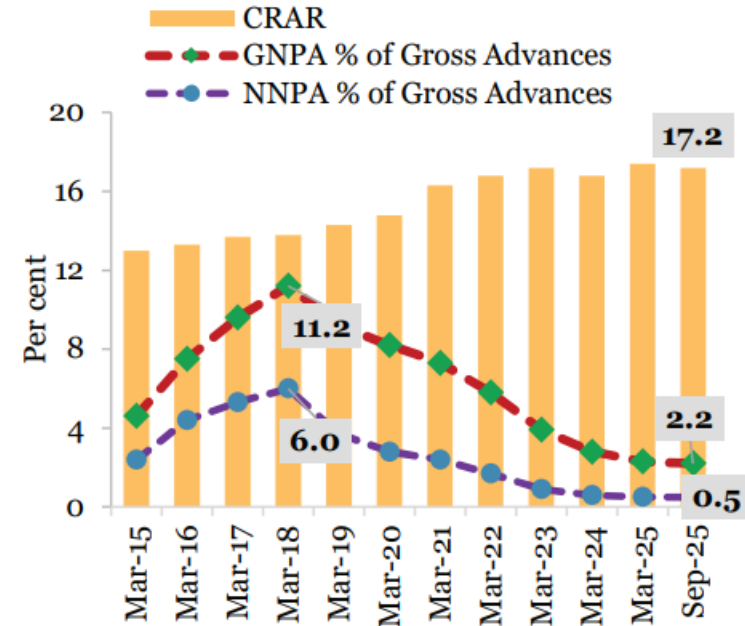
NNPA (Net NPA)

- Peak: ~6%
- Now: ~0.5% (record low)

CRAR (Capital Strength)

- Current: 17.2% (Sept 2025)

Chart III.6: Trends in GNPA of SCBs and CRAR



Performance of the RRB

Govt effort to improve performance

Structural Consolidation: "One-State-One-RRB"

- **Number:** The government merged these small banks and dropped number from **196** to just **28**.
- **Logic:** In the past, there were hundreds of tiny rural banks, which made them hard to manage and expensive to run.
- **Modernization:** These banks now use a **Core Banking Solution (CBS)**
- **Logic-** Same high-tech system used by big city banks — and a common logo to build a national brand.

Performance of the RRB

Govt effort to improve performance

Financial Profitability

- **FY24:** Achieved a record consolidated net profit of **₹7,600 crore**.
- **FY25:** Reported their second-highest profit of **₹6,800 crore**.

Reason for Slight Decline:

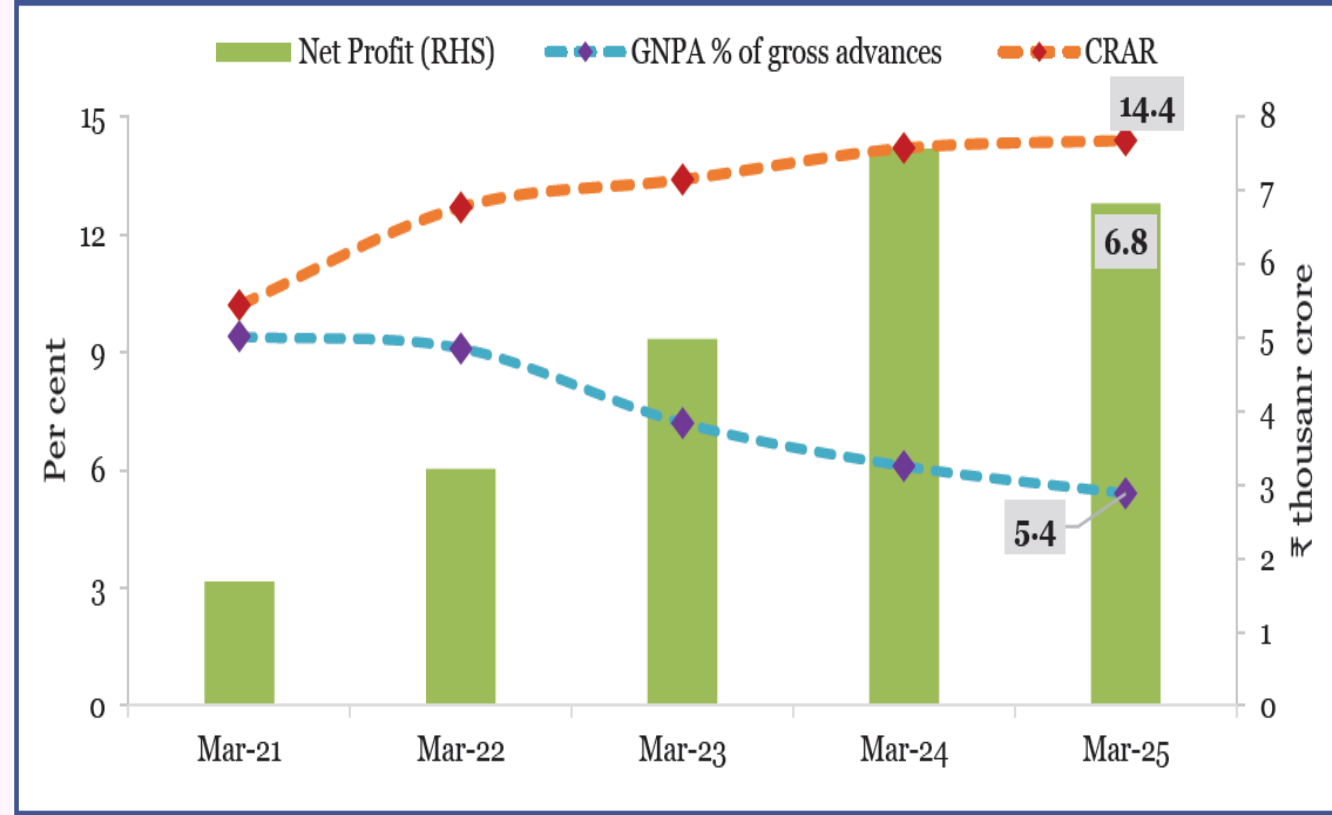
- Not due to poor business
- "one-time" costs: implementing a **retrospective pension scheme** (dating back to 1993) and paying off **computer increment liabilities**.

Performance of the RRB

Improving Asset Quality

- **GNPA Reduction:** From 6.1% (FY24) to 5.4% (FY25).
- 5.4% figure represents the **lowest NPA level in 13 years**

Chart III.11: Performance of the RRBs





COURSES FOR UPSC PRELIMS 2026

 **Sleepy Classes IAS**
Awakening Toppers

RAPID REVISION COURSE

Most Important topics for Prelims 2026

COUPON CODE:

CRACKIAS

~~₹4,948~~

₹3,909

PRELIMS CRASH COURSE

The most important crash course to crack Prelims 2026

COUPON CODE:

CRACKIAS

~~₹8,249~~

₹6,517

EPIC BATCH

Extreme proficiency in current affairs course

COUPON CODE:

CRACKIAS

~~₹3,499~~

₹2,764

INDIVIDUAL RAPID REVISION

Revising most important topics for prelims 2026

COUPON CODE:

CRACKIAS

~~₹2,199~~

₹1,737

RBI's FREE-AI Framework for Responsible AI

RBI is creating rules to ensure **safe + fair + innovative use of AI**

Current Situation of AI in Finance

- Only **21% banks/financial institutions** are using or developing AI
- Limited to **big banks**

Why smaller banks lag?

- Lack of data infrastructure
- Shortage of skilled talent
- Low IT budget

RBI's FREE-AI Framework for Responsible AI

The RBI's FREE-AI Framework

- Designed to foster innovation while ensuring robust risk management
- Framework also supports the India AI Mission and aligns with the Digital Personal Data Protection Act

Seven Sutras

- RBI gives 7 guiding principles:
 1. **Trust** → System should be reliable
 2. **People First** → Human welfare priority
 3. **Innovation over restraint** → Encourage AI use
 4. **Fairness & equity** → No bias/discrimination
 5. **Accountability** → Someone responsible
 6. **Understandable by design** → Explainable AI
 7. **Safety & resilience** → Secure and stable

Microfinance and financial inclusion

Who are the borrowers?

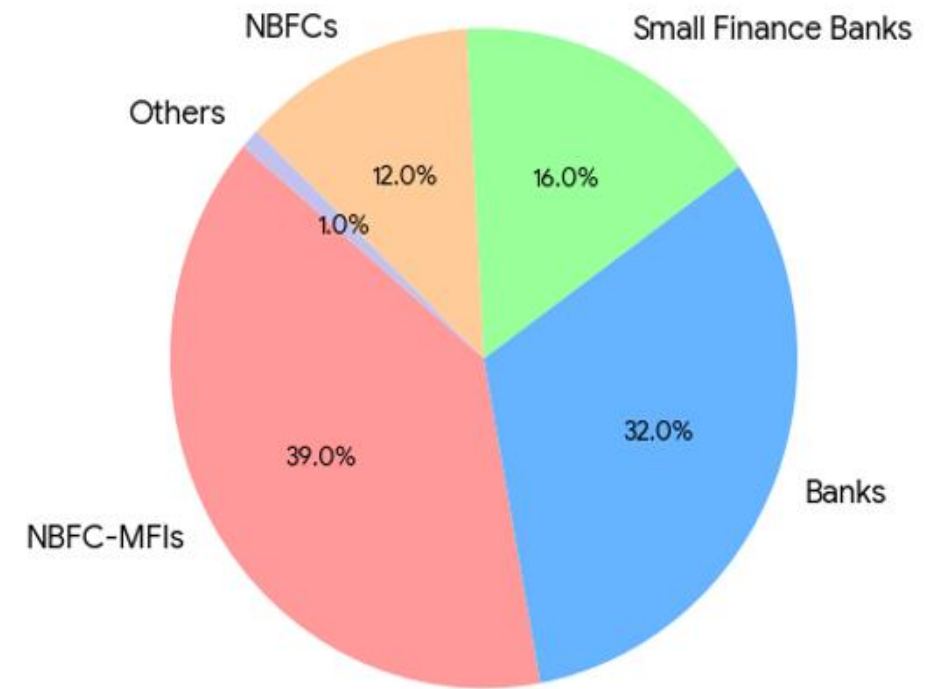
- 95 per cent women borrowers
- 80 per cent rural areas

Geographic Spread

- Covers **685 districts**
- Across **28 states + 5 UTs**

Regional concentration:

- Eastern + Southern India = **62%**



Who provides the loans? (Market share)

Microfinance and financial inclusion

The microfinance sector experienced a reversal in growth in FY25

- Loan outstanding declining by 14 per cent on a YoY basis.

Reason

- Driven by credit overexposure in the sector, following a rise in pent-up demand after the pandemic period.

RBI response

- Reducing the minimum qualifying assets mandated for microfinance from **75 per cent to 60 per cent** of total assets for NBFC-MFIs.
- This is expected to enable NBFC-MFIs to manage their portfolio risks more effectively

Evolving patterns of household financial savings in India

Earlier (Traditional pattern)

People preferred:

- Bank deposits (FD, savings) ,Gold ,Real estate
- **Logic:**Low risk, low return

Now (New trend)

People are moving towards:

- Stocks (equity) ,Mutual funds ,SIPs
- **Logic:**Higher risk, higher return

Evolving patterns of household financial savings in India

Equity ownership increased

- FY14 → ~11%
- 2025 → ~18.8%
- **Meaning:** More individuals investing in stock market

Mutual fund/SIP boom

- SIP: ₹4,000 crore → ₹28,000 crore/month
- **Meaning:** People investing regularly

Evolving patterns of household finan

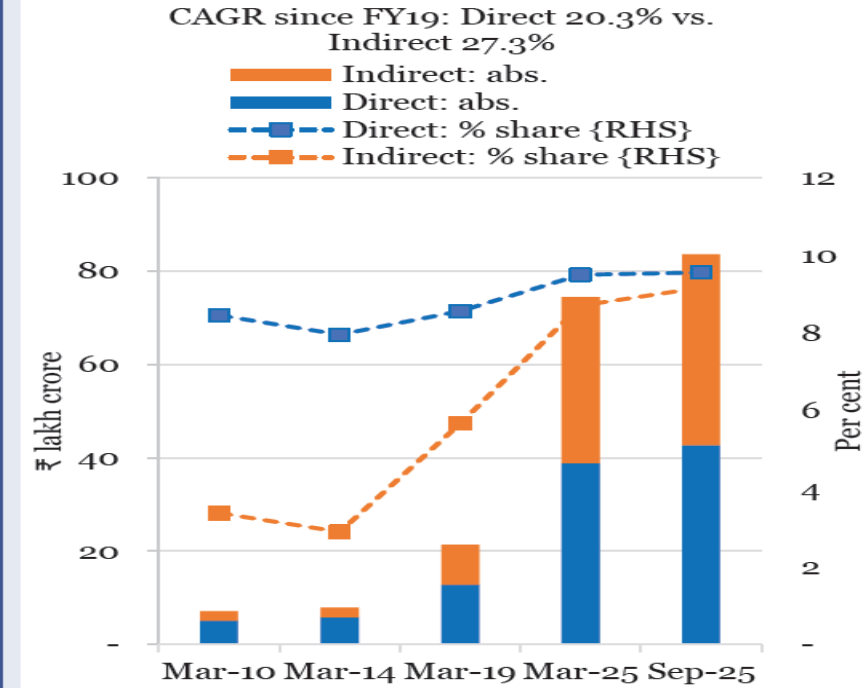
Direct vs Indirect investment

- **Direct (buying stocks yourself):** Small increase (8% → 9.6%)
- **Indirect (via mutual funds):** Increased a lot (tripled)
- **Meaning:** People prefer professional management (mutual funds)

Bank deposits

- Earlier → 58% share
- Now → ~35%
- **Meaning:** Declining importance

Chart III.14: Ownership trends of individual investors



Evolving patterns of household

Total financial assets accumulated till that time

Deposit share:

- FY19 → 46.3%
- FY25 → 39.6%

Where NEW savings are going each year

Deposit share:

- FY12 → 57.9%
- FY25 → 35.2%

Share of equity and investment funds in total household financial Assets

- 2019- 15.7 %
- 2025- 23 %

Chart III.16: Composition of financial assets in FY19 vs FY25

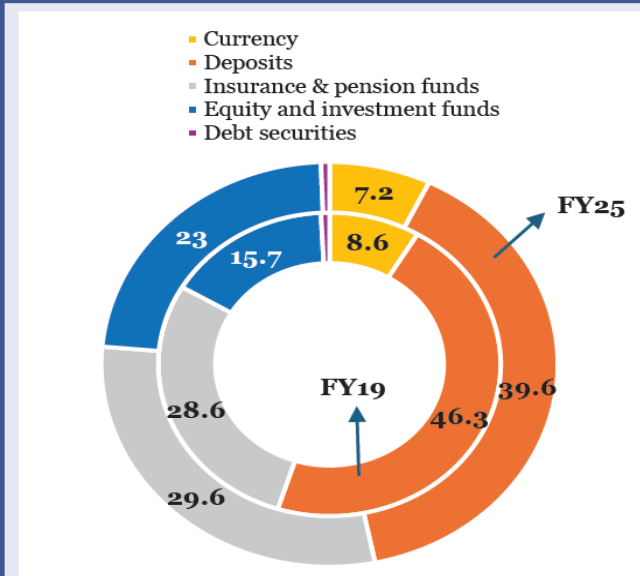
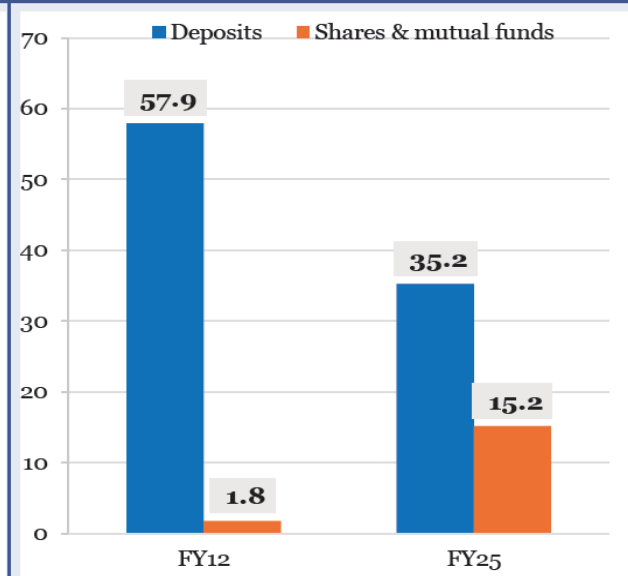


Chart III.17: Composition of annual financial savings for select products (% share)



Evolving patterns of household financial savings in India

Evolving pattern

- **Since the pandemic**, domestic retail participation has witnessed an unprecedented surge, both direct (trading in markets through their demat accounts) and indirect channels (through mutual funds).
- Indian households are **shifting from safe savings (FDs) → market-linked investments (equity, mutual funds)**

Performance of the Insurance Sector

Vision

vision of 'Insurance for All by 2047- every citizen possesses appropriate life, health and property insurance cover.

Premium income

- FY21 → ₹8.3 lakh crore
- FY25 → ₹11.9 lakh crore
- **Meaning:** Strong growth

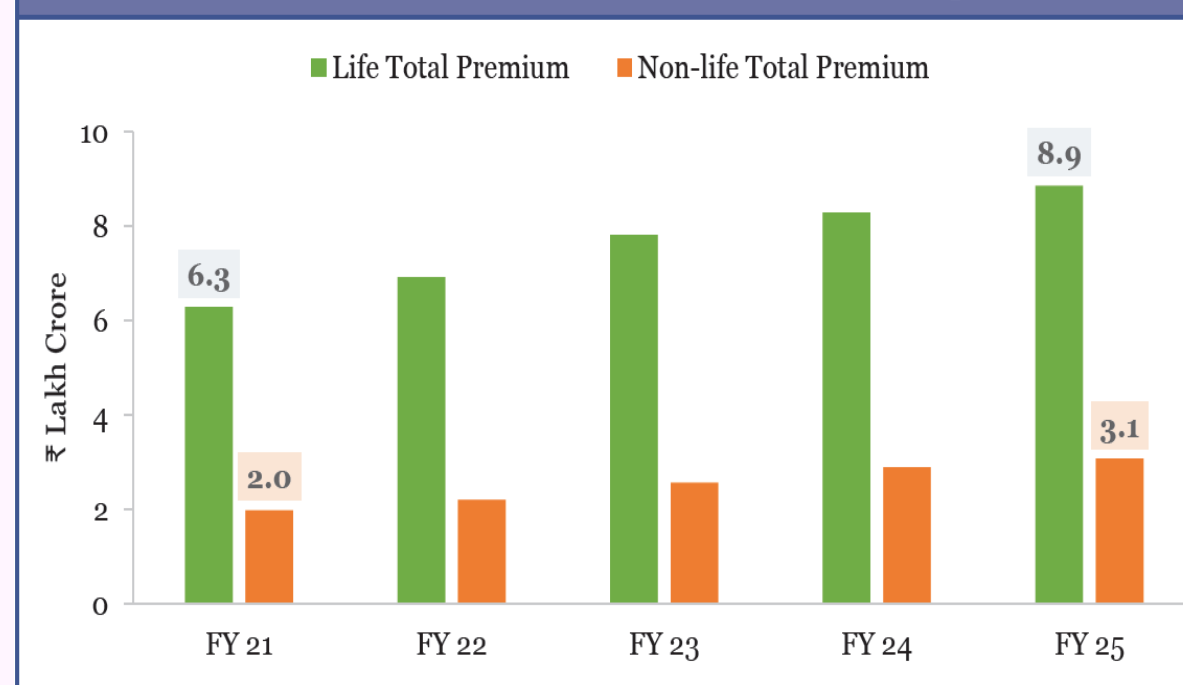
Life Insurance (dominant)

- 91% of AUM
- 75% of premiums

Focus:

- Long-term savings
- Family protection

Chart III.24: Total amount of life and non-life insurance premiums



Performance of the Insurance Sector

Big Shift

- Health insurance = **41% share** (Now bigger than motor insurance)

Reason:

- Rising medical costs
- COVID awareness

Performance of the Insurance Sector

Challenges

High Operating Costs

- Agents / intermediaries
- Commissions
- Marketing
- **Result:** Protection Gap (Many people not insured)

Paradox

Insurance Density ↑ but Insurance Penetration ↓

- Insurance **density** has risen steadily to **USD 97** in **FY25**
- **Insurance penetration** has stagnated and declined to 3.7 per cent.

Meaning:

- Successful in 'deepening' revenue from existing customers
- Fail in 'widening' the risk pool.

Performance of the Insurance Sector

Efforts

- The exemption in GST on life insurance and individual health insurance policies, introduced from September 2025,
- **Increased FDI limit:** The amendment has raised the FDI limit in Indian insurance companies from 74 per cent to 100 per cent.

Need

- Lowering overall
- improve affordability to tap into the 'missing middle'

GLOBAL TRADE DYNAMICS

Geostrategic Globalisation

Countries are still connected BUT:

- ✓ Trade is selective
- ✓ Partners are chosen carefully
- ✓ Security matters

GLOBAL TRADE DYNAMICS

Friendshoring

Trade with **politically friendly countries**

✓ Increasing (2025 ↑)

Example:

- US shifting trade to allies

Friendshoring Index

- is calculated as trade-weighted political proximity as measured by the United Nations' voting patterns

The FPSIM dataset (Foreign Policy Similarity)- "friendship meter"

- **Alliance Ties:** It looks at formal military or political treaties
- UN General Assembly (UNGA) Voting

GLOBAL TRADE DYNAMICS

Nearshoring

Trade with **geographically close countries**

✓ Slight improvement

Example:

- US → Mexico

What does this mean?

- Trade is no longer just economic
- It is a mix of: Economics ,Security ,Technology and Politics

Measurement

- Nearshoring Index is calculated as the reverse of the trade-weighted average distance in km.
- **Distance goes DOWN = Index goes UP:** This means you are sourcing from closer partners

India export

India's Global Position

Between 2005 → 2024:

- Merchandise exports: 1% → 1.8% (nearly double)
- Services exports: 2% → 4.3% (more than doubled)

Total Exports (FY25)

- Total exports = \$825.2 billion (Highest level ever)

Total import

- Total imports also hit a high of USD 919.9 billion

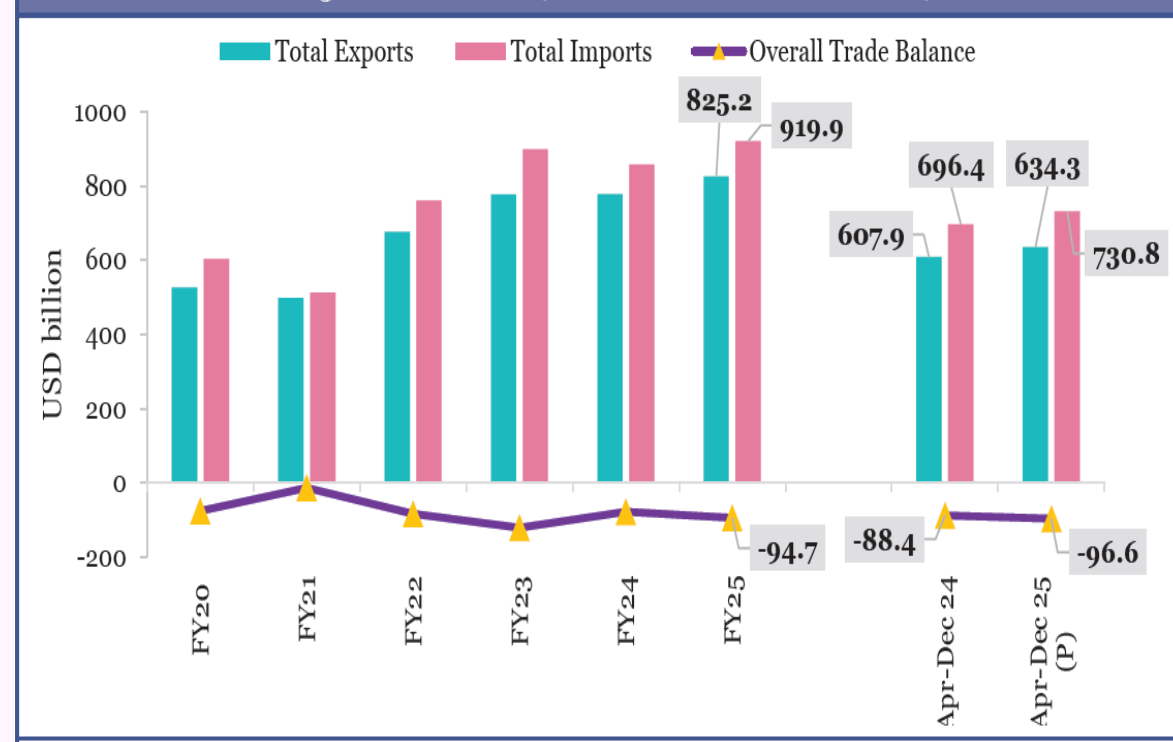
Deficit

- Deficit = $919.9 - 825.2 = \$94.7$ billion

Cushion

- India usually has a "Merchandise Deficit"
- Service surplus acts like a **cushion**.

Chart IV.5: India's total (merchandise and services) trade



India export

Agriculture

- India is the **world's second-largest agricultural producer** by value. But, country's share in global agricultural exports has increased only modestly from **1.1 per cent in 2000 to 2.2 per cent in 2024**

Developments in the current account

$CAD = (\text{Export of Goods \& Services} - \text{Import of Goods \& Services}) + \text{Net Income from Abroad} + \text{Net Transfers}$

Merchandise (Goods) Trade → DEFICIT

- India imports more goods than it exports

Net Services (Positive)

- FY25: +189 billion USD

Net Transfers (Remittances)

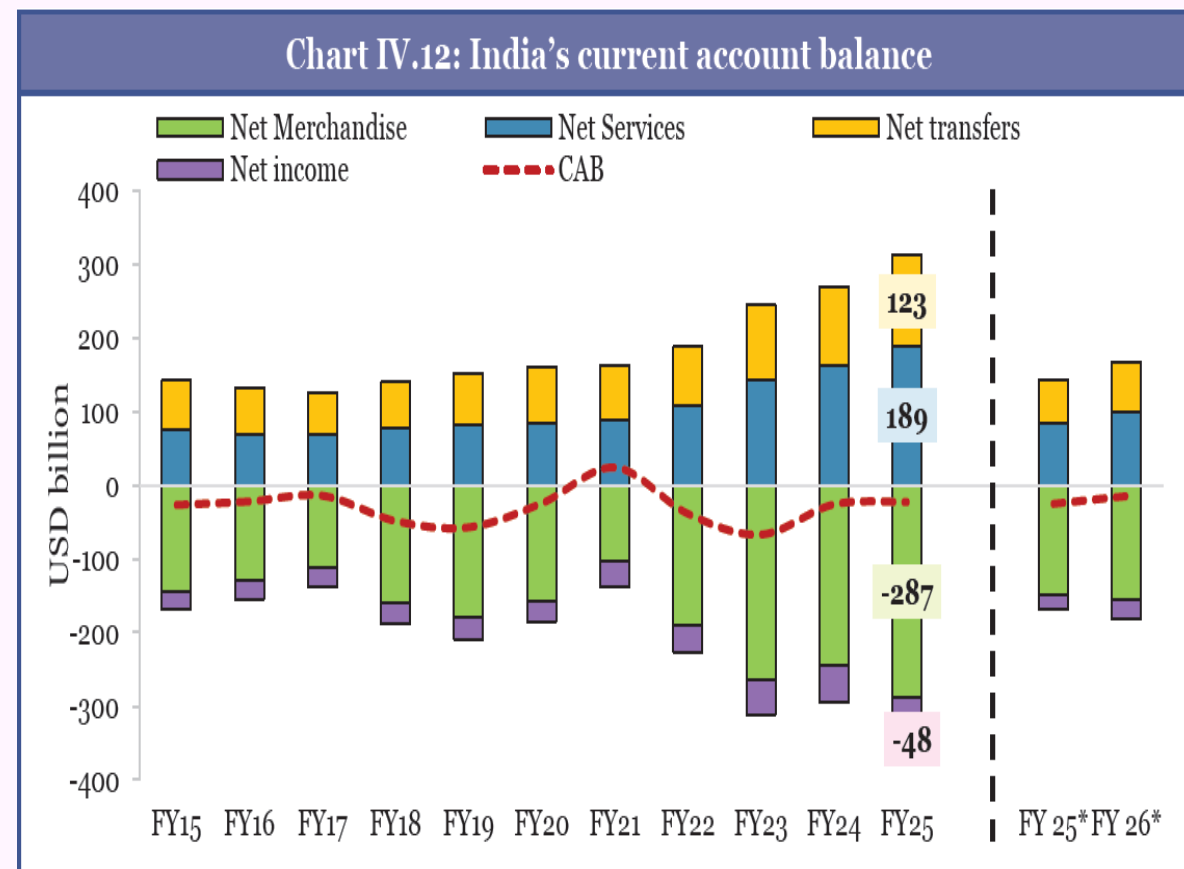
- FY25: +123 billion USD

Net Income (Negative)

- FY25: -48 billion USD

Why negative?

- Profit repatriation by foreign companies
- Interest payments



Developments in the current account

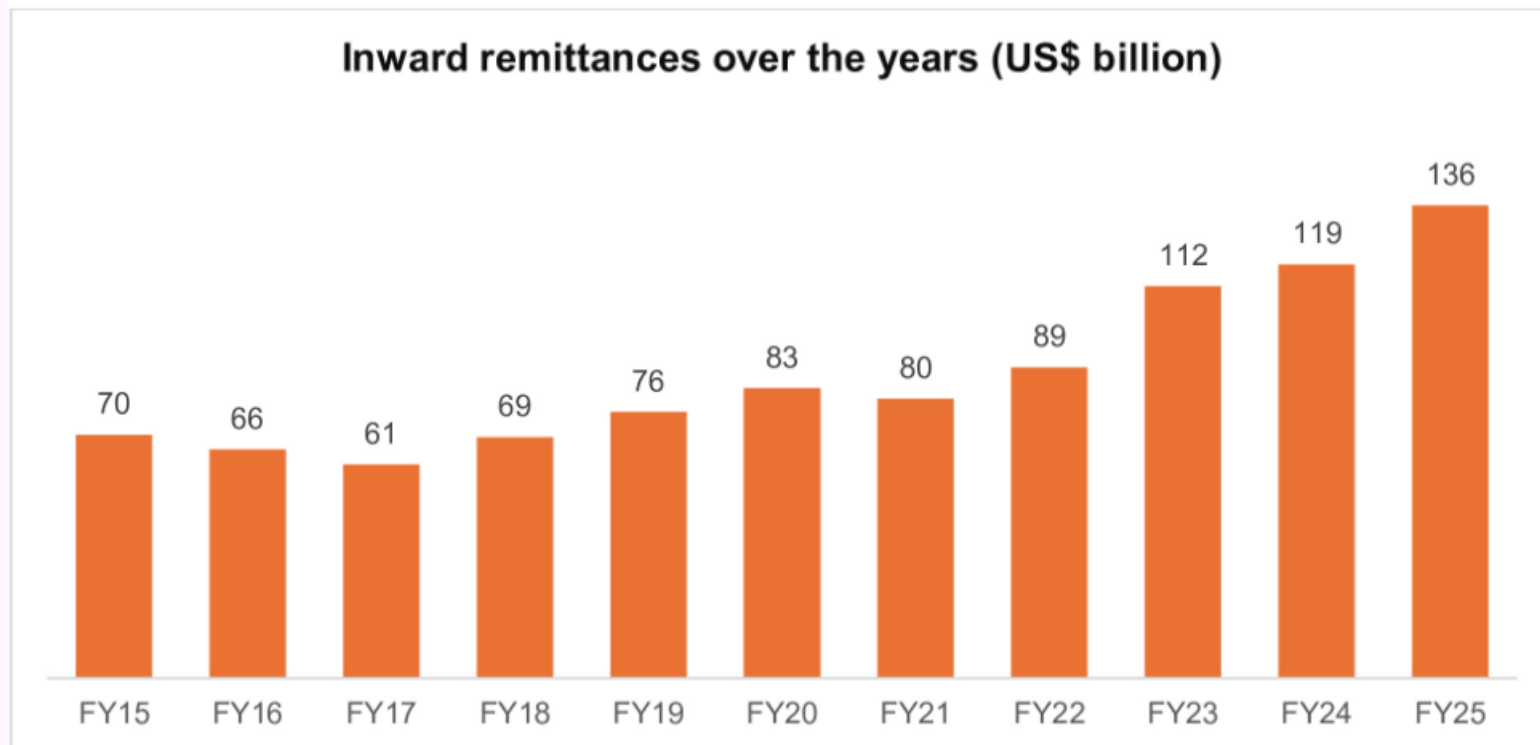
CAD

- These components have collectively kept the current account deficit (CAD) within manageable levels.
- In H1 FY26, the CAD moderated to USD 15 billion (**0.8 per cent of GDP**) from USD 25.3 billion (1.3 per cent of GDP) in H1 FY25.

Remittances

Trend over time

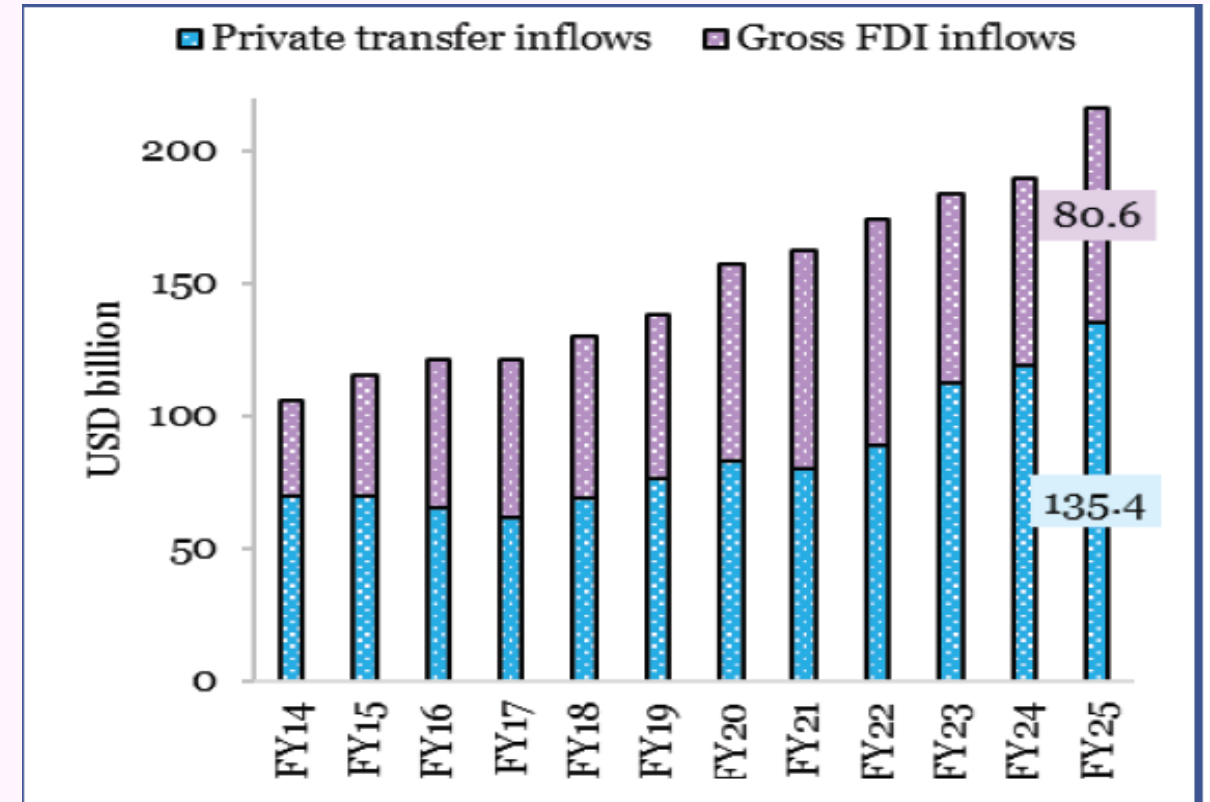
- FY11 → \$55.6 billion
- FY25 → \$135.4 billion
- **Meaning:** More than 2x increase



Remittances

Status

- **India** World's largest recipient of remittances
- Remittances = ~3.5% of GDP
- Remittances > FDI inflows

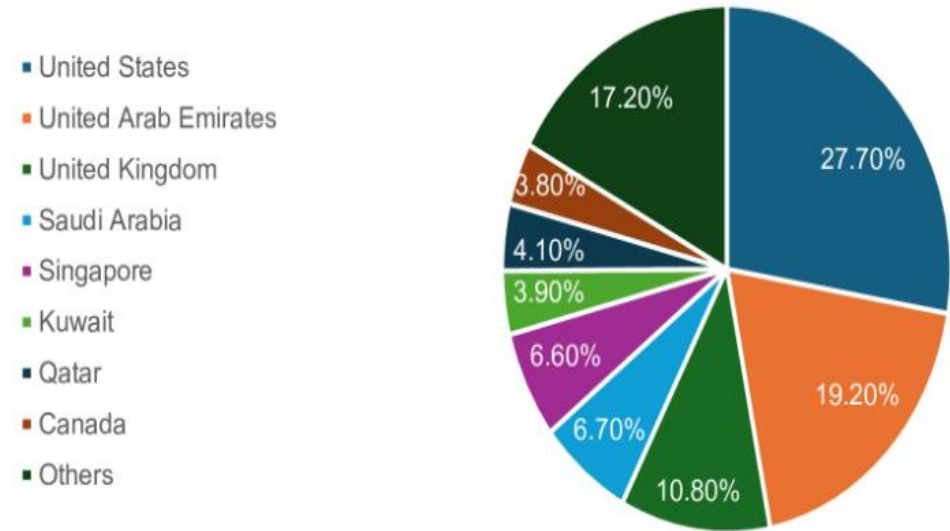


Remittances

Contribution

- While Gulf Cooperation Council countries have historically dominated India's inward remittances, AEs now contribute more, indicating a **shift towards skilled and professional workers**.

Country-wise share of India's inward remittance (FY24)



Foreign exchange reserves

Current Situation

Reserves increased:

- March 2025 → **\$668 billion**
- Jan 2026 → **\$701.4 billion**

Significance

- **Import Cover**-Can cover **11 months** of imports
- Covers **94%** of **total external debt**

Foreign exchange reserves

Components of Forex Reserves

FCA (Foreign Currency Assets) – Largest component-
Slightly soften

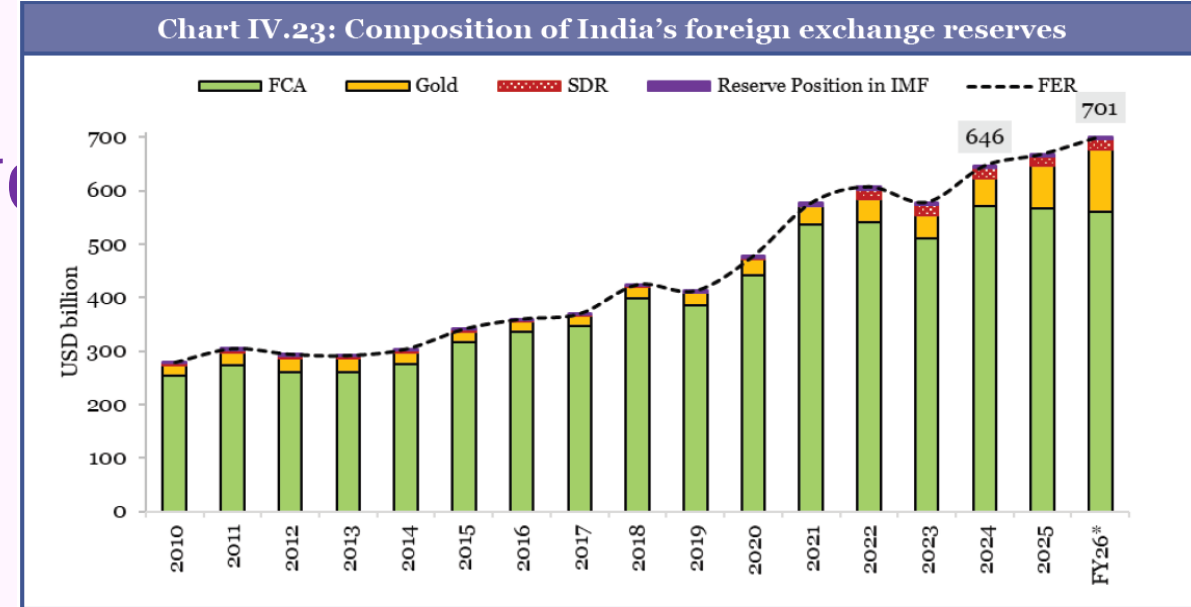
- Includes: US Dollar ,Euro ,Yen etc.
- Main part of reserves

Gold-

- Rose sharply

Reason

- Gold prices increased globally
- Central banks buying more gold
- Diversification away from dollar



Foreign exchange reserves

SDRs

- Remained stable at USD 18.7 billion,

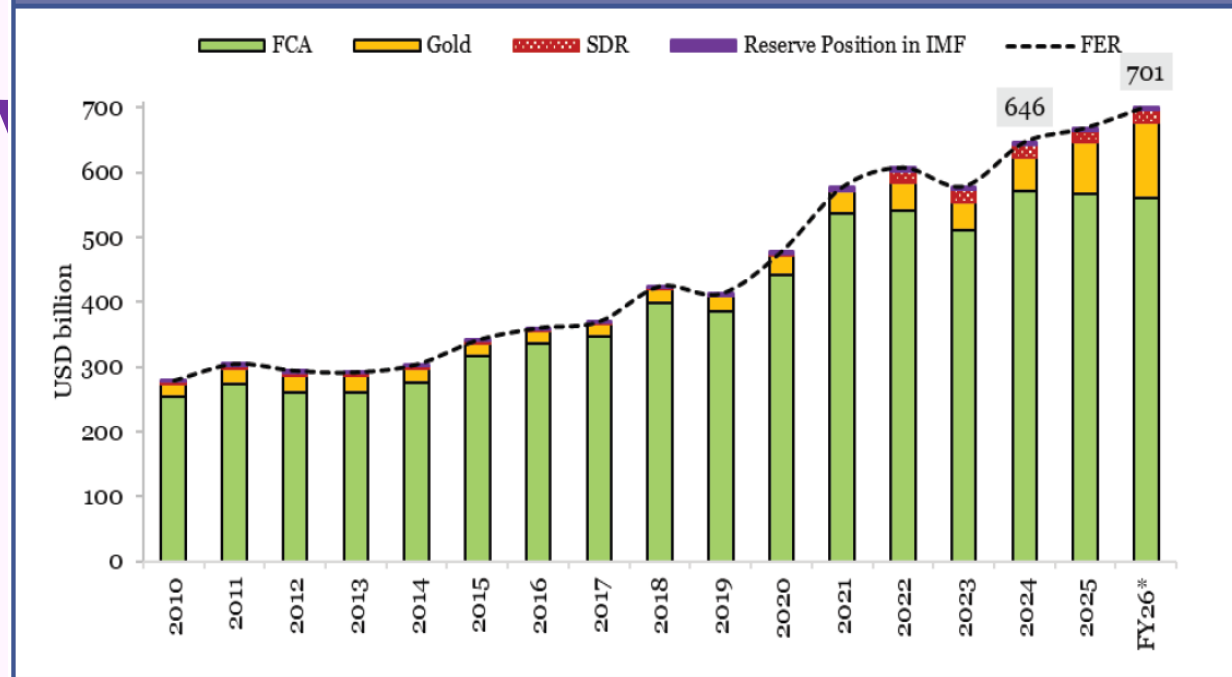
India's reserve position in the IMF

- Increased to USD 4.7 billion

Order

- $FCA > Gold > SDR > RP$
- India maintains its position among the top holders globally, trailing only China, Japan, and Switzerland

Chart IV.23: Composition of India's foreign exchange reserves



External debt

External debt

- India's external debt stood at **USD 746 billion** at end-September 2025, **up from USD 736.3 billion** at end-March 2025.

External debt-to-GDP ratio

- The **external debt-to-GDP** ratio has remained broadly stable, averaging around **20.2 per cent** over the last decade (end-March 2016 to end-March 2025).
- Another key factor is that **external debt constitutes less than 5 per cent of the government of India's total debt**, which mitigates the external sector risks.

Renewable energy (Nov, 2025)

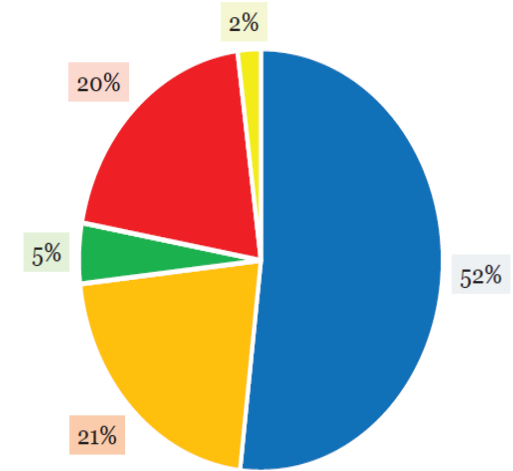
- India's energy landscape is undergoing a structural transformation, with
- Renewable energy (RE) now constituting around **49.83 per cent** of the total installed power generation capacity as of 30 November 2025.

A Record Day for Renewable Energy

On 29 July 2025, India reached its highest-ever renewable energy share in electricity generation.

That day, renewables met 51.5 % of the country's total electricity demand of 203 GW.

Chart IX.18: Total installed RE capacity: 253.96 GW (Nov'25)



■ Solar Energy ■ Wind Energy ■ Bio Energy ■ Large Hydro Power ■ Small Hydro Power

Source: Ministry of New and Renewable Energy.

Telecommunications sector

- India's telecommunications sector expanded rapidly over the last decade, accompanied by a sustained improvement in **tele-density** from **75.23 per cent** to **86.76 per cent**.

Chart IX.19: Expansion of Telecom Access

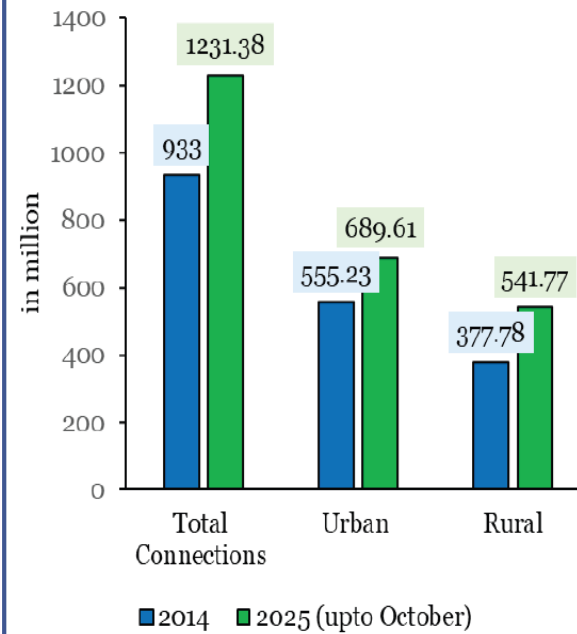
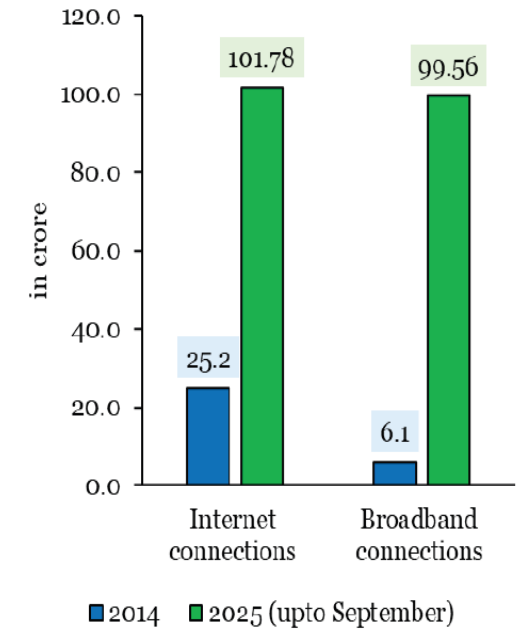


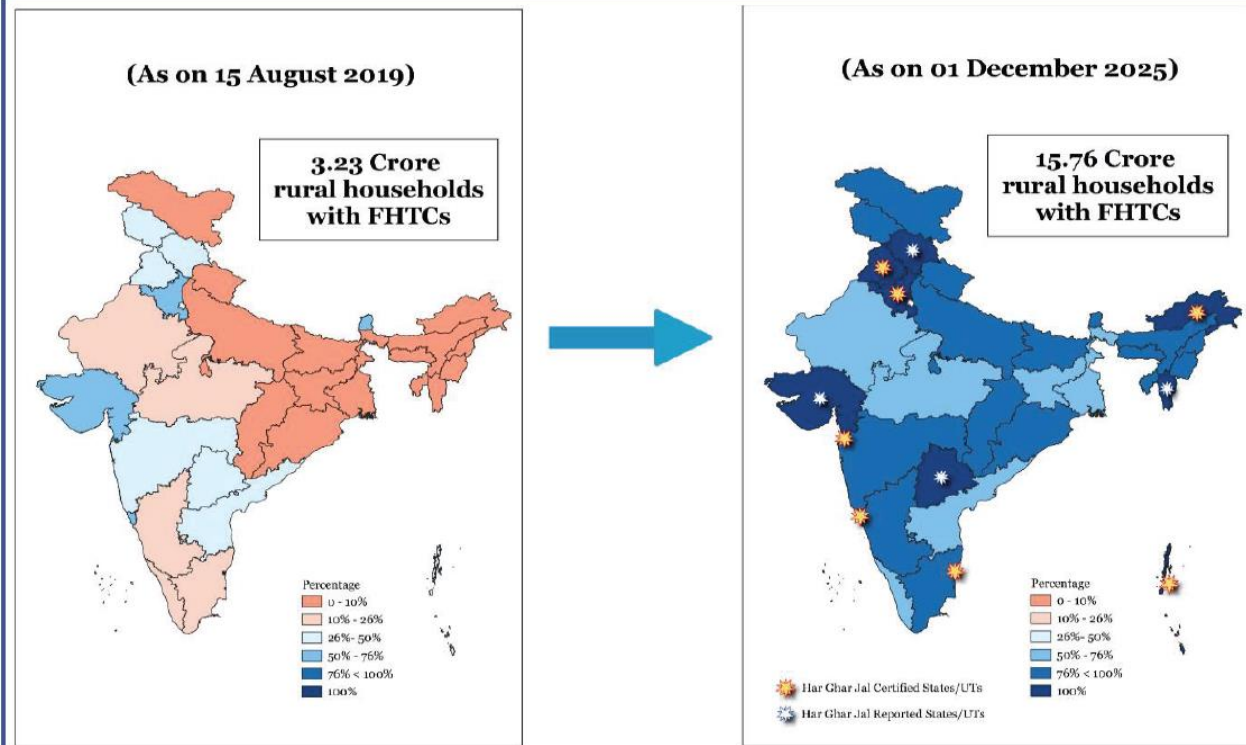
Chart IX.20: Expansion of Internet and Broadband Connectivity



Rural Drinking Water

- India has attained a significant milestone under the Jal Jeevan Mission, with **over 81 per cent of rural households now having access to clean tap water**

Chart IX.23: Status of tap water supply in rural homes under JJM



Environment

Greenium —

- The term "**Greenium**" is "Green" and "Premium." In the world of finance, it refers to a situation where a "**Green Bond**" (a loan used specifically for environmental projects) has a **lower interest rate (yield)** than a standard, "non-green" bond from the same issuer.
- In simpler terms: **The issuer gets to borrow money more cheaply because the project is green.**

Eco survey

- the yield advantage of green bonds over comparable conventional bonds — has been observed across several sovereign issuers, but its **magnitude and persistence vary** significantly by market.
- Cross-country experience shows that **greenium outcomes depend less on investor intent alone and more on market design**, liquidity, credibility, and reporting frameworks

Education

- India today operates one of the world's largest school systems, serving 24.69 crore students across 14.71 lakh schools, supported by over 1.01 crore teachers (UDISE+2024-25).

Schools

Government Schools

- **69% of total schools**
- **Enrol ~50% students**

Private Schools

- **26% of schools**
- **Enrol ~41% students**

NEP Goal (National Education Policy)

Target: (By 2030)

- **100% Gross Enrolment Ratio (GER)-** pre-primary to secondary level
-

Education

GER

- is the total enrolment in a particular level of school education, **regardless of age**, expressed as a percentage of the population of the official age-group which corresponds to the given level of school education in a given school year.

NEP Stage	Grades Included	GER Score	What this means
Foundational	Pre-Primary to Grade II	41.4	Looks low, but there is a specific reason (see below).
Preparatory	Grade III to Grade V	95.4	Excellent; nearly every child is in school.
Middle	Grade VI to Grade VIII	90.3	High, but shows a slight "leakage" or dropout rate.
Secondary	Grade IX to Grade XII	68.5	The biggest challenge. Many students drop out before finishing high school.

Education

GER (Gross Enrolment Ratio)

- $$\text{GER} = \frac{\text{Total enrolment in a level (irrespective of age)}}{\text{Population of official age group for that level}} \times 100$$

Reason

- Lower GER at the foundational stage is due to GER being calculated using Pre-Primary enrolments in recognized schools as reported by States/UTs, which **excludes Anganwadi enrolments and enrolments in standalone Private Pre-Primary Schools.**

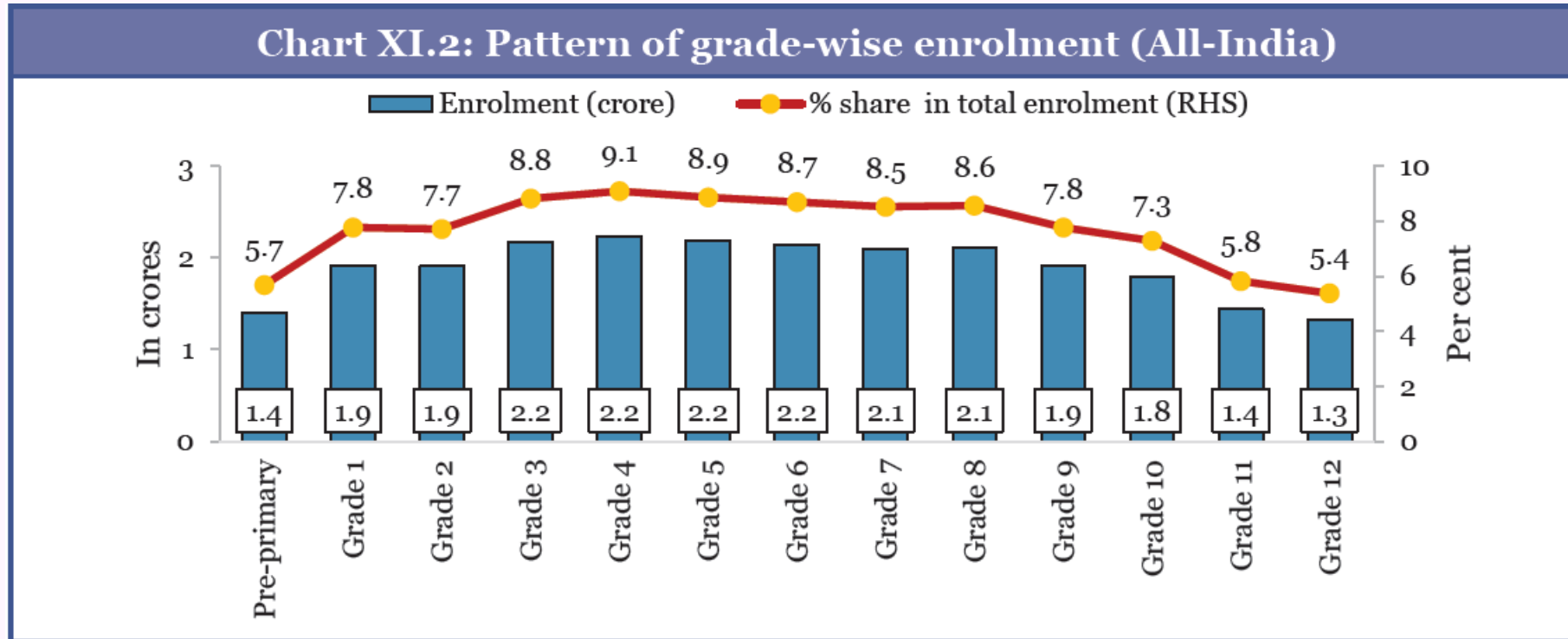
NER (Net Enrolment Ratio)

- $$\text{NER} = \frac{\text{Enrolment of official age group in that level}}{\text{Population of that age group}} \times 100$$

Education

Net enrolment ratio(NER)

- While India has improved enrolment at early levels, the secondary age-specific net enrolment (NER) remains low at 52.2 per cent, highlighting the need to retain students beyond Grade VIII



Education

Issue

Uneven distribution of schools:

Rural Areas

- **54% schools → only foundational/preparatory (primary level)**
- **Only 17.1% → secondary schools**

Urban Areas

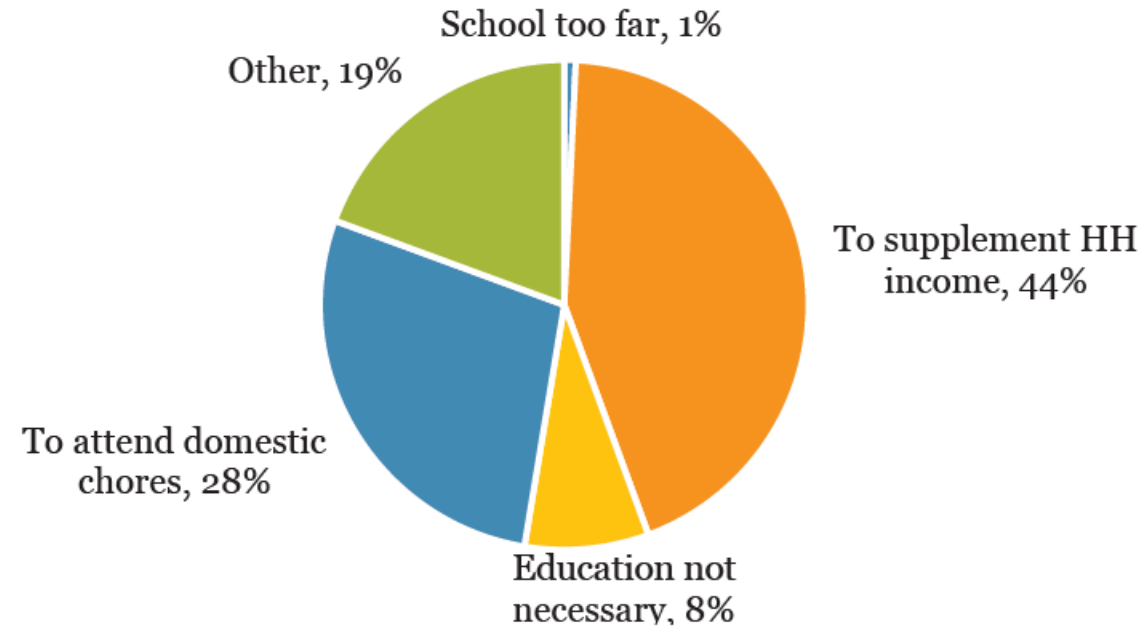
- **38.1% schools → secondary level**

Education

Enrolment pattern

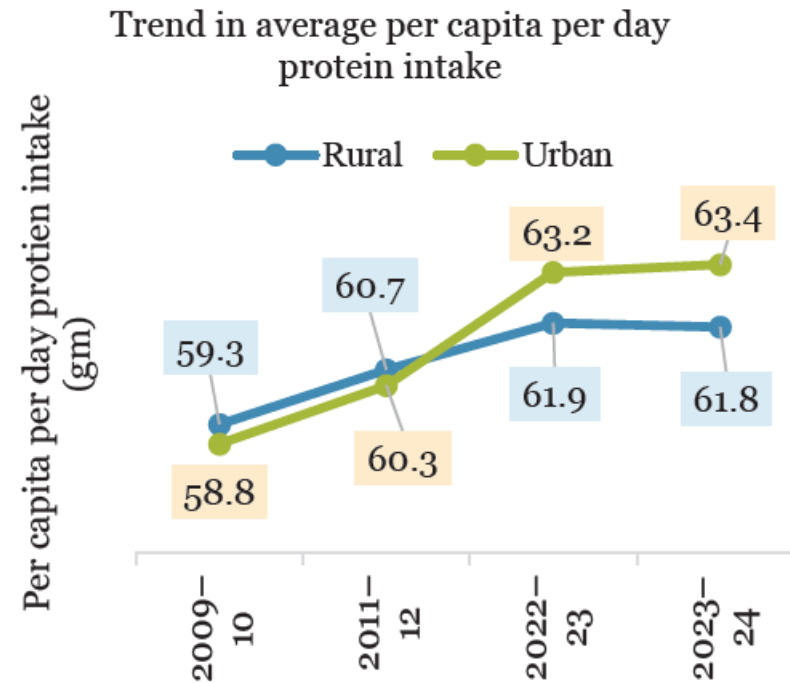
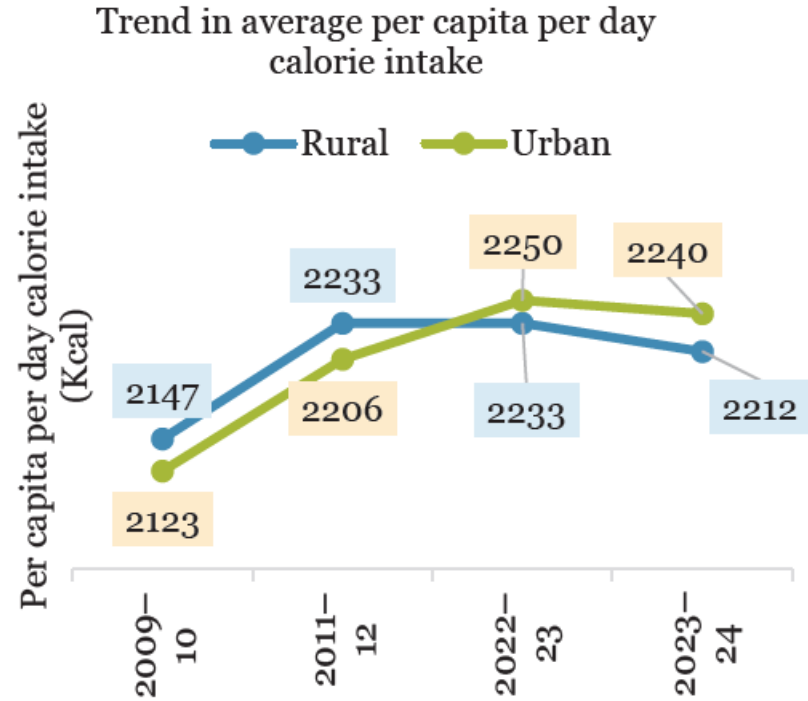
- Drop in enrolment from the **foundational and preparatory levels** to the middle and to secondary levels in rural areas
- In urban areas, **enrolment rises from the middle to the secondary level**. Grade-wise enrolment trends further highlight the decline at the secondary stage.

Chart XI.4: Reason for not attending school for out-of-school adolescents (Age 14-18 years)



Nutrient intake

Chart XI.11: Trend in average nutrient intake



Dear Students

As you complete this compilation, remember that consistent revision builds real progress in UPSC preparation.

Stay regular in your studies, trust your effort, and keep moving forward with focus.

In moments of doubt, revisit your basics and revise with clarity.

We are always with you—supporting you at every step of your journey.

With best wishes

Team Sleepy Classes IAS