

Important Issues of the Day

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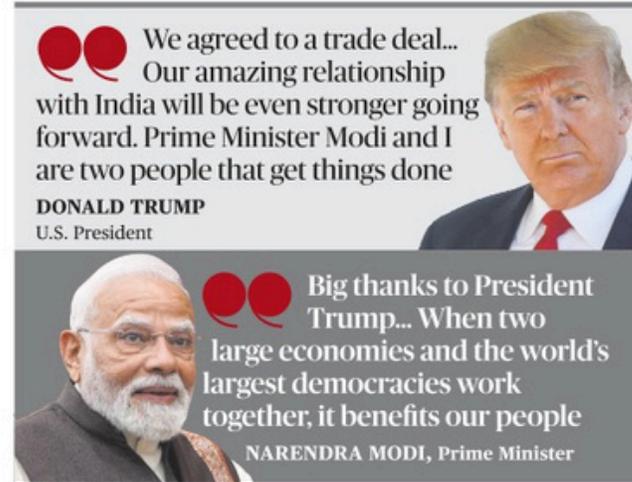
U.S. tariff on India reduced to 18%, say Modi and Trump

After a phone call with Prime Minister, U.S. President says the countries have 'agreed to a trade deal', and India will stop buying oil from Russia

Kallol Bhattacharjee
NEW DELHI

Indicating a positive turn in a bilateral relationship that had been under strain because of multiple issues, Prime Minister Narendra Modi announced that "Made in India" products would "now" attract a "reduced tariff of 18%" in the U.S., after a telephonic conversation with President Donald Trump on Monday.

The move is expected to significantly reduce the impact of the 50% penalty tariffs that Mr. Trump had imposed on India in August 2025. Minutes earlier, Mr. Trump had announced on the social media platform Truth Social that In-



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← Truth Details

95 replies



Donald J. Trump  

@realDonaldTrump

It was an Honor to speak with Prime Minister Modi, of India, this morning. He is one of my greatest friends and, a Powerful and Respected Leader of his Country. We spoke about many things, including Trade, and ending the War with Russia and Ukraine. He agreed to stop buying Russian Oil, and to buy much more from the United States and, potentially, Venezuela. This will help END THE WAR in Ukraine, which is taking place right now, with thousands of people dying each and every week! Out of friendship and respect for Prime Minister Modi and, as per his request, effective immediately, we agreed to a Trade Deal between the United States and India, whereby the United States will charge a reduced Reciprocal Tariff, lowering it from 25% to 18%. They will likewise move forward to reduce their Tariffs and Non Tariff Barriers against the United States, to ZERO. The Prime Minister also committed to "BUY AMERICAN," at a much higher level, in addition to over \$500 BILLION DOLLARS of U.S. Energy, Technology, Agricultural, Coal, and many other products. Our amazing relationship with India will be even stronger going forward. Prime Minister Modi and I are two people that GET THINGS DONE, something that cannot be said for most. Thank you for your attention to this matter!

PRESIDENT DONALD J. TRUMP



Narendra Modi ✓

@narendramodi



Wonderful to speak with my dear friend President Trump today. Delighted that Made in India products will now have a reduced tariff of 18%. Big thanks to President Trump on behalf of the 1.4 billion people of India for this wonderful announcement.

When two large economies and the world's largest democracies work together, it benefits our people and unlocks immense opportunities for mutually beneficial cooperation.

President Trump's leadership is vital for global peace, stability, and prosperity. India fully supports his efforts for peace.

I look forward to working closely with him to take our partnership to unprecedented heights.

[@POTUS](#)

[@realDonaldTrump](#)

11:02 PM · Feb 2, 2026 · **1,313** Views

Mains Question

Trade has emerged as both a bridge and a barrier in India–USA relations.

Discuss how economic complementarities and geopolitical considerations shape trade negotiations between India and the United States.

(250 words)

“व्यापार भारत–अमेरिका संबंधों में सेतु (Bridge) और बाधा (Barrier) – दोनों के रूप में उभरा है।”

भारत और संयुक्त राज्य अमेरिका के बीच व्यापार वाताओं कोआर्थका पूरकताएँ (economic complementarities) तथा भू–राजनीतिक कारक (geopolitical considerations) ककस प्रकार आकार देते हैं, इस पर चचा ाकीजजए।

(250 शब्द)

Rise in southern States' share of funds gives no relief to T.N.

The share of Tamil Nadu, which was 4.079% in the 15th Finance Commission, rose to 4.097% in 16th panel, with a rate of increase of only 0.44%; weights assigned to per-capita GSDP came down too

T. Ramakrishnan
CHENNAI

Despite five southern States being assigned a collectively higher share under the vertical distribution scheme of the 16th Finance Commission (FC) than in the past, Tamil Nadu's share has seen only a marginal rise.

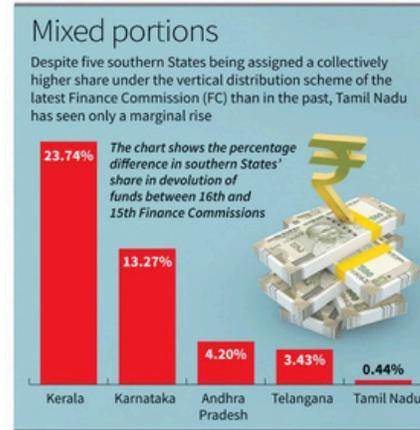
The share of Tamil Nadu, which was 4.079% in the 15th FC, rose to 4.097% now, accounting for a rate of increase of 0.44%. This was followed by Telangana with a rise of 3.43% and Andhra Pradesh with 4.2%. Only Karnataka and Kerala have witnessed a double-digit rate of increase – 13.27% and 23.74%, respectively.

At the all-India level, Kerala's degree of rise is only next to Haryana's 24.52%, while the third slot goes to Karnataka.

'Virtually nothing'

Veteran experts in public finances say Tamil Nadu has got virtually nothing extra. "Yet again, unfair treatment," is the refrain of the experts.

One of the experts contends that this time, the 16th FC included contribution to Gross Domestic Product (GDP) as one of the criteria for horizontal devolution. But for this element, the share of Tamil Nadu may have gone down. The criterion of tax and fiscal efforts has been



removed, while the weights assigned to the criteria of area, demographic performance and per-capita GSDP (Gross State Domestic Product) have reduced. Only the criterion of population has seen an increase of weight from 15% to 17.5%, which, however, does not benefit the southern States including Tamil Nadu and Kerala.

K.R. Shanmugam, former Director of the Madras School of Economics, says the increase in the vertical devolution for the south seems to have been achieved by decreasing the share of six northern States such as Uttar Pradesh, Madhya Pradesh and Bihar, besides West Bengal. The combined share of the seven States, which stood at 51.2%, has been brought

down to 49.93%.

Pointing out only relief and temporary restoration works are covered under disaster response fund schemes, a veteran policy maker suggests that the Union government follows the example of the Tamil Nadu government, which had created, in the light of the December 2015 floods in Chennai and surrounding areas, a project preparation fund of ₹100 crore for the formulation of projects to be posed to funding agencies.

Subsidy levels

The 16th FC has dealt elaborately with the subject of subsidies, an area where the south has been a trendsetter. "At ₹78,453 crore, Tamil Nadu had the highest absolute level of subsi-

dy in 2023-24, followed by Karnataka, Andhra Pradesh and Telangana at ₹70,149 crore, ₹63,951 crore and ₹62,847 crore respectively," the panel records.

Pointing out that the absolute subsidy levels are "somewhat misleading" given the State's size, the Commission names Telangana as one of the States wherein subsidy levels, as a proportion of respective GSDP, exceeded 5% during 2024-26, and Andhra Pradesh having the subsidy level standing between 3% and 5%.

As for channelising subsidies to the eligible beneficiaries, the latest FC report refers to measures taken by Andhra Pradesh, Telangana and Tamil Nadu governments. It acknowledges that by employing information technology (IT) enabled data analysis on integrated databases, such States have been able to de-duplicate and streamline beneficiary listing, leading to substantial savings.

Though the southern States had taken a similar stand on many issues, they differed among themselves over revenue deficit grants meant for bridging the revenue gap. While Karnataka expressed scepticism, Andhra Pradesh, Kerala and Tamil Nadu stood for the continuation of such grants. However, the 16th FC's recommendation was against the grants.

- **Finance Minister Nirmala Sitharaman tabled the 16th Finance Commission (FC) report in Parliament on February 1, 2026, alongside the Union Budget. The government has accepted its key recommendation to maintain the states' share in central taxes at 41% for the period of 2026-31.**
- **The Finance Commission (FC) is a constitutional body constituted by the President under Article 280 of the Constitution. It consists of a chairman and 4 other members to be appointed by the President.**
- **They are eligible for re-appointment.**

Table: Devolution Criteria – 15th FC vs. 16th FC

<u>Criteria</u>	<u>15th FC Weight</u>	<u>16th FC Weight</u>	<u>Key Change</u>
<u>Income Distance</u>	45%	42.5%	Slight reduction.
<u>Population (2011)</u>	15%	17.5%	Increased weight.
<u>Demographic Performance</u>	12.5%	10%	Redefined (uses pop. growth 1971-2011).
<u>Area</u>	15%	10%	Reduced weight.
<u>Forest & Ecology</u>	10%	10%	Now includes open forests & growth in forest cover.
<u>Tax Effort</u>	2.5%	0%	Dropped entirely.
<u>Contribution to GDP</u>	0%	10%	New parameter rewarding economic size.
<u>Total</u>	100%	100%	

- **Qualifications of the members are to be decided by the Parliament, as provided in the Constitution.**

Accordingly, the Parliament has specified the following specifications:

- **The Chairman should be a person with experience in public affairs.**
- **The members should be selected from amongst:**
- **A Judge of the High Court or one qualified to be appointed as one.**
- **A person who has specialized knowledge of finance and accounts of the government.**
- **A person who has wide experience in financial matters and administration.**
- **A person who has special knowledge of economics.**
-

- **The Finance Commission makes recommendations to the President on**
- **Distribution of net tax proceeds between the Centre and States and allocation between the states of respective shares of such proceeds.**
Principles that govern grants-in-aid to the States by the Centre.
- **Measures needed to augment the Consolidated Fund of State to supplement**
- **resources of Panchayats and municipalities in the state.**
Any other matter referred to it by the President in the interests of sound finance.
The Commission submits its report to the President, who lays it before both houses
- **of the Parliament.**
- **The recommendations made by the Finance Commission are only advisory in nature and not binding on the government.**

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The Government of India has established NITI Aayog to replace the

(a) Human Rights Commission

(b) Finance Commission

(c) Law Commission

(d) Planning Commission

Consider the following:

- 1. Demographic performance**
- 2. Forest and ecology**
- 3. Governance reforms**
- 4. Stable government**
- 5. Tax and fiscal efforts**

For the horizontal tax devolution, the Fifteenth Finance Commission used how many of the above as criteria other than population area and income distance?

- (a) Only two**
- (b) Only three**
- (c) Only four**
- (d) All five**

Wetlands as a national public good

Page No. 8, GS 3

On February 2, 2026, the world marked World Wetlands Day 2026 under the theme, 'Wetlands and traditional knowledge: Celebrating cultural heritage'. In India, this theme feels especially apt. There is a rich history of communities sustaining themselves through wetlands following practices that inherently safeguarded ecosystems.

Traditional practices in Tamil Nadu's wetlands revolve around ancient water management and community livelihoods, human-made tanks or *kulams*, forming cascading irrigation networks for paddy and other crops. In Wayanad, Kerala, shallow wells called *kenis*, crafted over 200 years ago, support drinking water, rituals, and festivals, while wetlands in Srikakulam, Andhra Pradesh, sustain traditional fishing practices. Such stories can be told from any part of India, where communities have thrived for generations around wetlands that are both ecology and economy, habitat and heritage, essential to social wellbeing.

But we must be honest. Although the benefits and services of wetlands abound, wetlands remain among the most threatened ecosystems because they sit at the intersection of land, water, and development.

Policy background, challenges at home

Policy and regulatory frameworks are often blamed, but India does not lack laws. It lacks consistent, high-quality implementation. The Wetlands (Conservation and Management) Rules, 2017 provide a framework for identifying, notifying, and managing wetlands through authorities to restrict damaging activities. However, nearly 40% of India's wetlands have vanished over the last three decades, and around 50% of what remains show signs of ecological degradation.

Updated guidelines under the National Plan for Conservation of Aquatic Ecosystems (NPCA) push for structured planning, monitoring and outcome-oriented management. The Coastal Regulation Zone (CRZ) framework aims to maintain the ecological integrity of coastal wetlands, while Ramsar site designation offers global recognition and responsibility. The 98 Ramsar sites in India are not just badges but commitments that encourage action.

These instruments span freshwater, coastal, urban, natural, riparian and high-altitude wetland but must be coordinated into a single operational rhythm that starts with mapping, leads to notification and enhanced protection, enables restoration where needed, and continues monitoring through adaptive management.

Through site-based wetland conservation and restoration initiatives, organisations such as the M.S. Swaminathan Research Foundation have worked with State governments, local communities and stakeholders to support wetland mapping, participatory management



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Rupesh K. Bhomia

is Director – Wetlands, M.S. Swaminathan Research Foundation (MSSRF)

There is a need to shift the focus from 'projects' to programmes and 'beautification' to ecological functionality, and ensure watershed-scale governance

planning, and livelihood-linked conservation.

Wetlands are "multiple-use" systems, which make them valuable and vulnerable. In a highly populated country, encroachment and land conversion have already erased around 40% of natural wetlands, replacing them with infrastructure, real estate and road networks. Even where wetlands persist, their catchments are often irreversibly altered, and old cadastral maps rarely match current ground realities.

Wetlands rely on timing and flow of water. Dams, embankments, channelisation, sand mining and groundwater over-extraction disrupt these flows, eroding their natural characteristics. Riparian wetlands and floodplains are especially vulnerable because they are treated as spare land rather than active river space. Urban wetlands are expected to store floodwater, receive storm runoff, absorb sewage, and remain clean and biodiverse, often without legal buffers.

Growing pollution results in the eutrophication of water bodies when untreated sewage, industrial effluents, agricultural runoff, and solid waste are pushed into wetlands. When a wetland becomes a dumping ground, its biodiversity collapses, along with its ability to buffer floods and purify water. In coastal areas, sea-level rise, cyclones and shoreline change collide with ports, tourism, aquaculture and settlement growth. Mangroves and lagoons face a double bind: development pressure on landward sides and rising seas on seaward sides, leaving them little room to migrate.

Lastly, a major challenge is capacity constraints. State wetland authorities are often understaffed, underfunded, and stretched across competing mandates. Training gaps in hydrology, ecology, GIS, legal enforcement, and community engagement often translate into weak management plans, weaker implementation and continued degradation of valuable wetlands.

Pragmatic and contextual approaches

There is an urgent need to shift from "projects" to programmes, from "beautification" to ecological functionality, and from "departmental silos" to watershed-scale governance. Through coordinated, efficiently monitored approaches, we can begin to address this complex problem.

Here are some ideas to start with.

First, notification and safety of wetland boundaries. The 2017 Rules are only as strong as notification and demarcation, which should be paired with publicly accessible maps, grievance redress and participatory ground-truthing with communities where disputes are likely.

Second, treat wastewater before it meets wetlands. For urban and peri-urban wetlands, a key action is ensuring treated inflows. Wetlands cannot substitute for sewage treatment plants. Where feasible, constructed wetlands can complement but not replace primary treatment.

Third, protect the wetland's catchment and hydrological connectivity. Wetlands must be managed as part of a basin or catchment system – restore feeder channels, prevent blockages by roads and embankments, stop solid waste dumping, and regulate extraction that alters water regimes.

Fourth, make coastal and riparian wetlands central to disaster risk reduction. Mangroves, mudflats, floodplains, and urban wetlands are nature-based infrastructure. Planning authorities should treat them as risk buffers, worthy of investment comparable to "grey" infrastructure. CRZ enforcement should be paired with livelihood-sensitive approaches that support coastal communities while defending ecological no-go areas.

Fifth, build skills and institutions. A national capacity mission for wetland managers with accredited training in hydrology, restoration ecology, GIS/remote sensing, environmental law and community-led governance. NPCA investments can be more transformative if paired with systematic capacity building and measurable performance indicators, including direct livelihood benefits to local communities.

There are already strides in this direction, with enhanced attention being given to wetlands by various state and non-state actors, and it deserves amplification. Better mapping and monitoring are now possible through satellite remote sensing, drones, and time-series analytics to track encroachment, inundation, and vegetation change.

Updated NPCA guidelines enable science-based, monitorable management plans for outcome-oriented design, while Ramsar's focus on clear boundaries and wise use aligns with India's needs – especially through community stewardship.

The 2026 World Wetlands Day theme highlights traditional knowledge that can strengthen restoration and compliance when treated as evidence.

Align science and policy

World Wetlands Day 2026 may have passed but let us make a societal pact. Governments must notify, enforce, fund, and coordinate; cities must stop treating wetlands as wastelands; industry must prevent pollution at source; research and education institutions must train the next cadre of wetland managers; and citizens must defend local lakes, ponds, floodplains, mangroves, and springs as shared heritage.

If we align science with policy, and policy with people drawing strength from both modern tools and traditional wisdom, we can restore wetlands not as museum pieces, but as thriving, working ecosystems. The future of India's water – and a significant part of India's resilience – depends on it.

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The Wetlands (Conservation and Management) Rules, 2017 provide a framework for identifying, notifying, and managing wetlands through authorities to restrict
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However, nearly 40% of India’s wetlands have vanished over the last three decades, and around 50% of what remains show signs of ecological degradation.

-

- **Wetlands are areas of marsh or peatland with water that is static or flowing, fresh, brackish or saline, including areas of marine water the depth of which at low tide does not exceed 6 m.**
- **Wetlands are transition zones (ecotone) between terrestrial and aquatic ecosystems.**
- **Wetlands are habitat to aquatic flora and fauna, numerous species of native and migratory birds.**
- **Wetlands are an important resource for sustainable tourism.**
- **They carry out water purification, filtration of sediments and nutrients from surface water.**
- **They help in nutrients recycling, groundwater recharging and stabilisation of local climate.**
- **Play an important role in flood mitigation by controlling the rate of runoff.**

- Ahead of World Wetlands Day 2026, the Prime Minister welcomed the addition of Patna Bird Sanctuary (Uttar Pradesh) and Chhari-Dhand (Gujarat) as Ramsar sites, raising the national total to 98. World Wetlands Day is observed every year on 2nd February to highlight the ecological importance of wetlands and to commemorate the signing of the Ramsar Convention on Wetlands in 1971 at Ramsar, Iran.

Chhari-Dhand (Gujarat)

- It is a seasonal saline wetland between the Banni grasslands and Kutch salt flats, expanding to nearly 80 sq km during the monsoon in the arid Kutch region. It is Gujarat's only Conservation Reserve and a key stopover on the western migratory flyway, serving as an important wintering ground for waterfowl. It supports about 30,000 Common Cranes annually, large populations of Greater and Lesser Flamingos, and threatened species such as the critically endangered Sociable Lapwing and the vulnerable Common Pochard.
-
- Seasonal waters provide essential feeding and roosting habitats, surrounding drylands support chinkara, caracal, and desert fox, and the area is known for the "Chir Batti" phenomenon seen after sunset.

Patna Bird Sanctuary (Uttar Pradesh)

- **Located in the Jalesar subdivision of Etah district, it spans just over 1 sq km, making it among Uttar Pradesh's smallest wildlife sanctuaries.**
- **The sanctuary includes freshwater marshes, woodlands, and grasslands within an agricultural landscape, supporting diverse habitats.**
- **During winter, it hosts tens of thousands of migratory birds such as the Rosy Pelican, Eurasian Spoonbill, and Northern Pintail, underscoring its role on the Central Asian Flyway.**
- **It records 178 bird species and 252 plant species, sustains key water bird populations, and is designated an Important Bird and Biodiversity Area by BirdLife International.**

RAMSAR CONVENTION

About

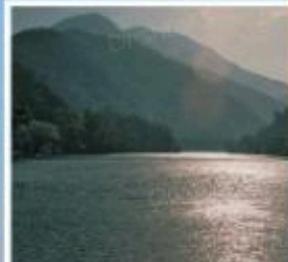
- Also known as the Convention on Wetlands.
- An intergovernmental treaty, adopted in 1971, in Ramsar, Iran.
 - Entered into force in 1975.
- Wetlands that are of international importance are declared as Ramsar sites.
- **Largest Ramsar Site in World: Pantanal: South America**

Montreux Record

- Adopted in Montreux (Switzerland) in 1990.
- Identifies Ramsar sites that need priority conservation attention at national or international level.

Wetlands

- A place in which the land is covered by water – salt, fresh, or somewhere in between – either seasonally or permanently.
- Take many forms including rivers, marshes, bogs, mangroves, mudflats, ponds, swamps, billabongs, lagoons, lakes, and floodplains.
- **World Wetlands Day: 2nd February**

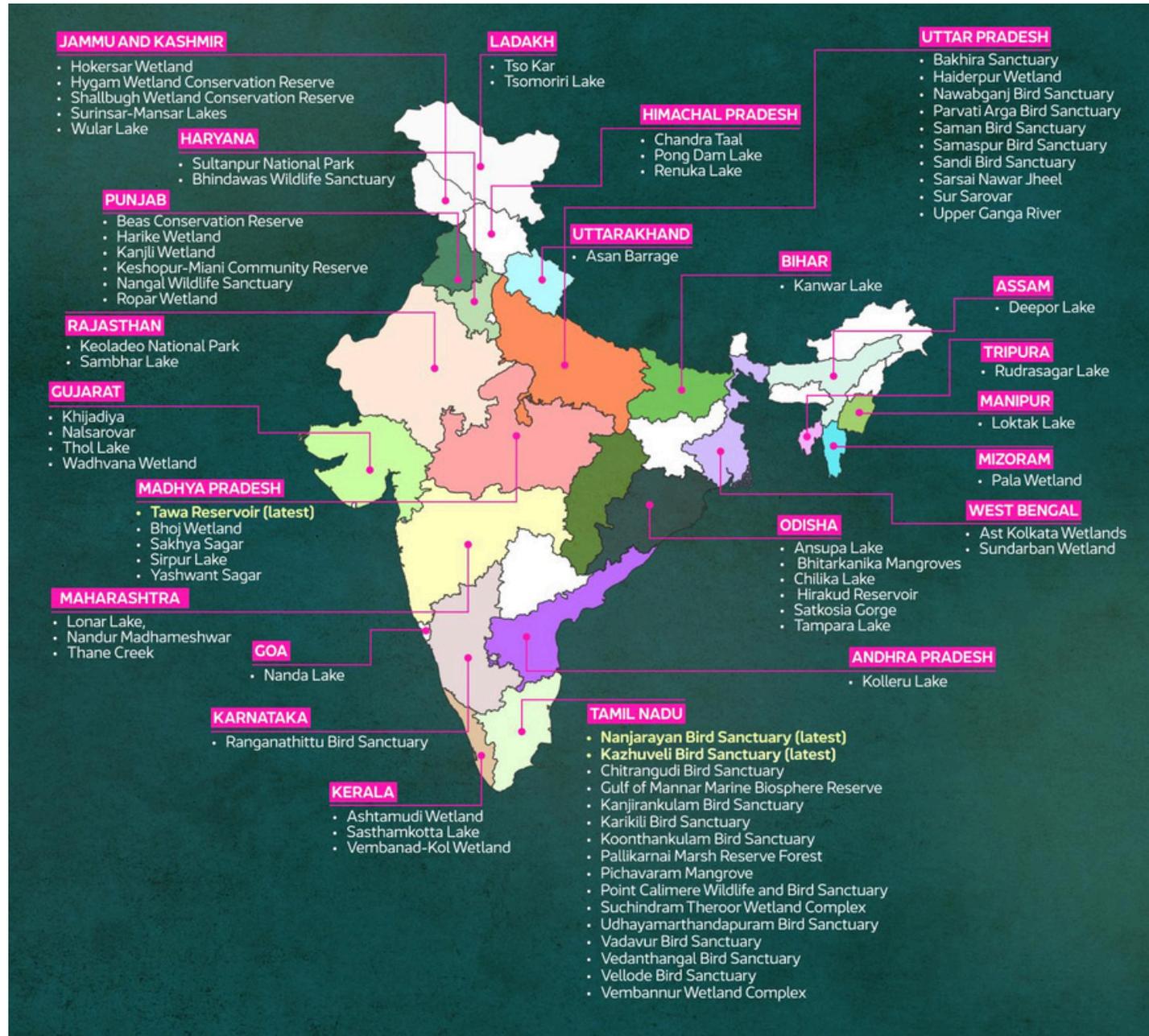


India & Ramsar Convention

- Came into force in India: **1982**
- **Total Number of Ramsar Sites: 85**
 - Chilika Lake (Odisha), Keoladeo National Park (Rajasthan), Harike Lake (Punjab), Loktak Lake (Manipur), Wular Lake (Jammu and Kashmir), etc.
- **Related Framework in India**
 - The Ministry of Environment, Forest and Climate Change (MoEF&CC) has notified Wetlands (Conservation and Management) Rules, 2017 under the provisions of the Environment (Protection) Act, 1986 as regulatory framework for conservation and management of wetlands.
 - The 2017 Rules decentralise wetlands management and provide for the constitution of the State Wetlands Authority or Union Territory Wetlands Authority.

Key Facts

- **Largest Ramsar Site: Sunderbans, West Bengal**
- **Smallest Ramsar Site: Vembannur Wetland Complex, Tamil Nadu**
- **State with the maximum number of Ramsar Sites: Tamil Nadu (14)**
- **Wetlands in Montreux Record:**
 - Keoladeo National Park: Rajasthan
 - Loktak Lake: Manipur



A full stop

Making access to menstrual hygiene for girls a fundamental right is a big step

The perspicacious judgment of the Supreme Court last week encapsulating the right to menstrual health and hygiene into the fundamental right to life and dignity under Article 21 of the Constitution is precisely the kind of intervention needed, with all the power of Thor's hammer. A Bench of Justices J.B. Pardiwala and R. Mahadevan wrote in their sterling judgment that takes a rare, rights-based, 360 degree view of the problem: "Autonomy can be meaningfully exercised only when girl children have access to functional toilets, adequate menstrual products, availability of water, and hygienic mechanisms for disposal." Shifting the onus, the judges called upon the state to make menstrual health accessible to all girls and remove the triptych of stigma, stereotyping and humiliation that girls who do not have access to these facilities are regularly subject to. The judges noted that this violates the bodily autonomy of menstruating girl children. Terming it as 'menstrual poverty', the Bench said that it hinders menstruating girls from exercising their right to education with dignity equal to their male counterparts, or students who can afford sanitary products. The Court ordered States and Union Territories to ensure that every school has functional, gender-segregated toilets, and wrote in punitive action for non-compliance. The state will be held accountable if government-run schools did not comply, and private schools can be derecognised.

The lack of access to health-care products during menstruation, even clean water and toilets, arises from a clear, gendered lack of equity. While the National Family Health Survey (NFHS)-5 data claim that the percentage of women aged 15-24 years using hygienic methods during their menstrual cycles has risen to 77.3% in NFHS-5 from 57.6% in NFHS-4, it still leaves about a fourth of all women of eligible age in the country adrift, without support. While the Ministry of Drinking Water and Sanitation under the Swachh Bharat Abhiyan has said that it has developed guidelines on menstrual hygiene management for creating awareness in rural areas, implementation has always been patchy and the energy is project-based, not sustained. Fragmented, though well-meaning, efforts by non-governmental organisations have formed the bulk of interventions for years now, but the ability to erase the stigma requires a larger force to act. With the judgment there is finally a chance of that happening. Commitment from a policy and financial perspective alone can ensure menstrual hygiene for all young girls and women and enable them to achieve their full potential. As the judges said, inspired by the motto of The Pad Project: "A period should end a sentence, not a girl's education."

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Visible progress, invisible exclusion

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Budget 2026-27 signals a transition away from pandemic-era crisis management to what is now a borrowing-heavy doctrine for financing growth and capital expenditure (capex) spending.

By guiding fiscal deficit to 4.3% of GDP and scaling public capital expenditure to ₹12.2 lakh crore, the government aims to project a broader infra-capex enabled vision of a 'Viksit Bharat' while giving a necessary push to MSMEs in manufacturing this time. That public infrastructure and MSME growth are no longer framed as areas of temporary stimulus, but part of the structural backbone of the economy is reassuring.

And yet, beneath the veneer of macro-economic stability, the fiscal math, as projected by the Finance Minister, masks a more precarious reality. As manufacturing scales in strategic frontiers like MSMEs, semiconductors, and biopharma, the mechanism connecting this massive capital expansion to actual employment outcomes has become increasingly tenuous. While capital formation successfully drives headline GDP, absorption of labour is stalled. This suggests that India is perfecting a growth model designed to function with clinical efficiency, while quietly leaving its vast labour force behind.

Towards a growth doctrine

For much of India's fiscal history, capex played a secondary role. It expanded when revenues permitted and was restrained when deficits widened. That changed after the pandemic. From 2020-21 onwards, capex expenditure ceased to function as a counter-cyclical instrument and instead became the organising principle of fiscal policy.

The data capture this shift. Capex expenditure as a share of total expenditure rose from roughly 12% in 2020-21 to over 22% in recent estimates. The underlying logic is well established. Public infrastructure



Deepanshu Mohan

Professor and Dean,
O.P. Jindal Global
University



Ankur Singh

Research Analyst with
the Centre for New
Economics Studies

India is perfecting a growth model designed to function with clinical efficiency, while quietly leaving its vast labour force behind

spending is expected to crowd in private investment, raise productivity, and generate employment. Yet, the labour indicators running alongside this expansion reveal a disconnect. The youth NEET rate (share of people who are not in education, employment, or training) for ages 15-29 remains in the 23%-25% range, materially higher than several peer economies. Nearly one in four young Indians is structurally outside employment, education, or training even as public investment accelerates.

Structural U-turn

Construction reflects the sector most directly fuelled by public investment in the post-2015 infrastructure push. Agriculture reflects the sector a developing economy typically sheds labour from as productivity rises elsewhere. The trajectories of the two have moved in directions opposite to what development theory would anticipate across periods.

Construction's employment elasticity declined from 0.59 in the pre-COVID period of 2011-12 to 2019-20 to 0.42 in the post-COVID years of 2021-22 to 2023-24. This occurred when infrastructure spending was at record levels. The implication is stark: each additional unit of capex is now associated with fewer construction jobs than before.

Agriculture is the more troubling story. Employment elasticity rose sharply from 0.04 during 2011-12 to 2019-20 to 1.51 during 2021-22 to 2023-24. Rather than releasing labour, the sector has been reabsorbing it. This reflects distress-driven fallback into low-productivity activity. Taken together, the pattern resembles a structural U-turn. India is modernising its physical asset base while its workforce is being pulled back towards subsistence.

The weak employment is rooted in the kind of production structure the capex turn reinforces. Public investment, as

currently configured, systematically favours capital intensity. This is visible in the widening gap between productivity and wages. Net value added per worker has risen sharply, while average emoluments remain far lower. The divergence suggests that efficiency gains enabled by infrastructure are being captured largely as profits rather than transmitted as labour income.

The industrial structure compounds this bias. The Annual Survey of Industries shows that a large majority of factories remain small, employing fewer than 100 workers, yet contribute modestly to output. Large firms, capable of integrating into new logistics and infrastructure networks, dominate value creation while remaining relatively labour light. Labour-intensive MSMEs struggle to scale, automate, or compete.

The result is a dual economy: a capital-intensive upper layer drives headline GDP growth with limited employment generation, while a vast lower layer absorbs labour through informality and self-employment with low productivity and weak income growth.

New economic citizen?

Read together, fiscal strategy and labour outcomes point to an implicit reordering of priorities. Employment no longer appears as a variable that must be directly engineered and the state is quite incapacitated in doing that at this point. It is treated as an eventual by-product of growth rather than a co-equal objective.

Official projections reinforce this orientation. Formal skills, urban location, and compatibility with automation determine inclusion. Those outside this profile adjust downward, into informal work, own-account activity, or agriculture. Even within the organised sector, wage growth remains subdued.

The economy does not stall. It simply advances without requiring broad-based labour absorption.

- **Budget 2026-27 signals a transition away from pandemic-era crisis management to what is now a borrowing-heavy doctrine for financing growth and capital expenditure (capex) spending.**
- **By guiding fiscal deficit to 4.3% of GDP and scaling public capital expenditure to ₹12.2 lakh crore, the government aims to project a broader infra-capex enabled vision of a 'Viksit Bharat' while giving a necessary push to MSMEs in manufacturing this time.**
- **That public infrastructure and MSME growth are no longer framed as areas of temporary stimulus, but part of the structural backbone of the economy is reassuring.**

- **As manufacturing scales in strategic frontiers like MSMEs, semiconductors, and biopharma, the mechanism connecting this massive capital expansion to actual employment outcomes has become increasingly tenuous.**
- **While capital formation successfully drives headline GDP, absorption of labour is stalled.**
- **This suggests that India is perfecting a growth model designed to function with clinical efficiency, while quietly leaving its vast labour force behind.**
- **For much of India's fiscal history, capex played a secondary role. It expanded when revenues permitted and was restrained when deficits widened.**

- That changed after the pandemic. From 2020-21 onwards, capex expenditure ceased to function as a counter-cyclical instrument and instead became the organising principle of fiscal policy.

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Employment Elasticity is defined as the percentage growth in employment for one per cent

- growth in GDP.

