EDITORIAL INSIGHT

DECEMBER

COMPILATION OF THE EDITORIAL OF BUSINESS STANDARD, BUSINESS LINE, THE ECONOMIC TIMES, MINT

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01 Dec 2025

Why banks really need to move to ECL framework

The Expected Credit Loss rules will help banks evaluate and make anticipatory provisions for risks and losses

Harsimran Sandhu

The Reserve Bank of India's discussion paper on introducing an Expected Credit Loss (ECL) framework marks one of the most far-reaching prudential reforms in recent decades. For years, Indian banks have operated under a rule-based incurred-loss system in which provisions are recognised only after observable signs of stress.

While this approach ensured simplicity, it is now inadequate for a financial system that is more complex, retail-driven, and interconnected than in the past.

Today's economy depends heavily on credit, and delayed recognition of problems has repeatedly contributed to instability.

The proposed transition to a forward-looking ECL system-aligned with global standards such as IFRS 9-represents a decisive evolution in how banks measure, price, and manage credit risk. With rising household leverage, shifting corporate balance sheets, and growing macroeconomic volatility, the reform is both timely and necessary.

Under the current system, provisions rise only when borrowers show objective deterioration, often at a stage where remediation becomes difficult. This leads to pro-cyclicality: in economic expansions, risks accumulate quietly and banks book higher profits; in downturns losses surface abruptly, forcing sharp increases in provisioning.

The 2008 global financial crisis and India's corporate credit cycle of the 2010s exposed the limitations of delayed recognition. The ECL proposal addresses this by replacing reaction with anticipation. Instead of waiting for loans to go bad, banks will estimate future losses using Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD). These parameters incorporate borrower behaviour, sector-specific risks, and broader macroeconomic conditions. It shifts the system from backward-looking measurement to an early-warning, forward-looking philosophy.

A central pillar of the new framework is the requirement to use multiple macroeconomic scenarios. Banks must construct baseline, adverse, and severe scenarios and assign probability weights to each, bringing India closer to advanced jurisdictions where loss estimates vary with economic conditions.

Scenario design must be grounded in credible indicators such as inflation, GDP growth, interest rate cycles, commodity prices, and regulatory developments. Where historical data is sparse, techniques like mean reversion will be necessary to prevent distortions. Equally important is the emphasis on data discipline. Banks must maintain adequate historical loss data to build reliable PD and LGD models. The RBI insists that the data used must be complete, representative, and free from cherry-picking.

BANKS. Managing risks GETTY IMAGES

A major strength of the proposal is the governance structure attached to it. The RBI requires Board-level oversight of the entire framework. Senior management, including risk and finance heads, must validate assumptions, review model outputs, and ensure consistent application across portfolios.

Banks must maintain a model inventory, document modelling decisions, conduct back-testing, and periodically assess performance so that predicted losses align with realised outcomes. This ensures that ECL becomes a central mechanism in credit decision-making rather than a compliance formality.

The shift to ECL is supplemented by the adoption of the effective interest rate (EIR) method for income recognition. Under EIR, fees, charges, and transaction costs must be spread across the loan's life instead of being recognised upfront. This yields a more accurate view of profitability and eliminates distortions from front-loaded income. Implementing EIR will require system upgrades, particularly for banks with legacy core systems, but in the long run it aligns India with global accounting practice and enhances transparency.

CHALLENGES AHEAD

Implementing ECL will require better data infrastructure, stronger systems, and upgraded modelling capabilities. Many banks, especially those with legacy portfolios, lack granular historical information on defaults, recoveries, and collateral behaviour-data essential for accurate PD and LGD estimation.

While large private and public sector banks have made progress, smaller institutions lag behind. Regional rural banks, cooperative banks, and some small finance banks are excluded in the initial phase precisely because they lack the required infrastructure, creating a two-track regulatory system that must eventually converge.

Despite the challenges, the ECL framework represents a critical shift in India's approach to credit risk.

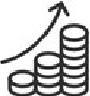
The writer is Professor of Finance, IMT Ghaziabad

01 Dec 2025

High point

Corporate revival, a feature of Q2 growth

There can be no denying that a real GDP print of 8.2 per cent for the second quarter of FY26 (7.8 per cent in Q1) comes as a surprise. The Reserve Bank of India had projected 7 per cent in October (6.8 per cent for FY26), while the Finance Ministry's monthly economic review had forecast 7-7.5 per cent growth. Apart from the festive season effect, the Centre's policy measures to boost consumption (tax cuts in the Budget), government capital expenditure and front-loading of exports ahead of the enforcement of the additional tariffs by the US have contributed to the spurt. The GST rate reductions can have a positive impact in the coming quarters.



A few caveats here: First, the statistical base effect may have pushed up the Q2 number, since growth in Q2 of FY25 was only 5.6 per cent due to general elections. Second, the convergence of nominal and real GDP growth (the former at 8.7 per cent), due to the sharp decline in inflation, could erode consumer sentiment and fiscal space. A large discrepancy to the tune of ₹1.6 lakh crore, between the output and expenditure estimates of GDP, could lead to a revision of figures. These factors, however, cannot detract from the turnaround story. On the expenditure side, the positive consumer sentiment is borne out by the 7.9 per cent growth in private expenditure, against 6.4 per cent last year. The Centre front-loading its capex has helped growth in gross fixed capital formation to 7.3 per cent in Q2. On the output side, strong real growth was driven by services and manufacturing, even as agriculture has maintained what seems to be its trend growth, of 3 per cent. Growth in manufacturing GVA of 9.1 per cent betters the 7.7 per cent growth in Q1 of FY26 and the bleak 2.2 per cent growth in Q2 of FY25.

The RBI's assessment of private non-financial companies for Q2, based on the results of 3,118 entities, is suggestive of a turnaround. There has been a sharp uptick in the sales growth of non-IT services (10.6 per cent y-o-y), manufacturing (8.5 per cent) and IT services (7.8 per cent), compared to Q1 (7.5, 6 and 6.3, respectively). Credit growth has been accelerating since June this year, surpassing deposit growth since September. Construction activity was elevated with growth of 7.2 per cent due to government's capex spends as well as home construction activity, especially in the affordable segment. Services sector which contributes around 60 per cent to the GVA recorded the highest growth at 9.2 per cent, while output in financial services, real estate and professional services grew 10.2 per cent in Q2.

The second half of FY26 is, however, likely to be a bit challenging, if the India-US deal is not clinched. The base effect will cease to influence the growth numbers. With inflation expected to increase in the fourth quarter of FY26, the GDP deflator is also expected to increase in the second half, impacting real growth. But with consumption and investment showing positive signs at time of low inflation, the RBI has a brief window of time to cut rates.

01 Dec 2025

Commerce Secretary Rajesh Agrawal

India-US trade tangle

Commerce Secretary Rajesh Agrawal, at meeting organised by FICCI on Friday said a political call is needed to clinch the US-India trade deal, which is expected by the year-end. Those following the developments wondered what Agrawal meant. Is he saying the officials have done their best, and now, it is left to the government?

Does he also mean that the officials have tried to accommodate US interests as much as possible, but the Modi government needs to approve it? Or is it some sort of optics ahead of Russian President Vladimir Putin's visit to India? A little bird says the Minister of External Affairs is going more into "geo-economics" than the Commerce Ministry. Perhaps, it is an indication that Commerce Minister Piyush Goyal is not really up there.

02 Dec 2025

KARTIKEYA BATRA
AMIT BASOLE
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Towards measuring the economy more accurately

DATA UPLIFT. The govt has upgraded statistical systems to capture job, output, income, consumption and investment data more reliably and frequently

Measuring the Indian economy is a complex task. Regional disparities, the coexistence of formal and informal sectors, and vastly different forms and kinds of work make it difficult to capture all economic activity accurately. A further challenge lies in updating information regularly and ensuring that data allow for comparisons across time — something that has often been difficult in India given the low frequency of key surveys.

Reliable and consistent measures at both the national and subnational levels are, however, essential to understanding not just how much the economy is growing and changing, but where and for whom that growth occurs. In this regard, many new initiatives of the Ministry of Statistics and Programme Implementation (MoSPI) are very encouraging. Most of these are aimed at ensuring the regular provision of high-frequency, spatially disaggregated information on key economic variables like employment, output, income, consumption and investment.

MEASURING THE UNMEASURED

The launch of the Annual Survey of Unincorporated Sector Enterprises (ASUSE) in FY 2021-22 was an important step towards the annual measurement of economic activity within the unorganised sector in manufacturing, trade and other services (excluding construction). Prior to ASUSE, surveys related to the informal sector used to happen once every few years. During the intervening period, statisticians had to rely on projections for the purpose of analysis.

Another major gap in the current system pertains to the annual measurement of the formal service sector. The Ministry has announced that it will launch the Annual Survey of Incorporated Services Sector Enterprises (ASISSE), which will capture this component of the economy. This will be yet another valuable addition, because unlike the Annual Survey of Industries (ASI) which provides annual data related to the formal secondary sector, there is no such annual survey for the service sector. Taken together, the ASUSE, ASI and ASSISE can provide the statistical backbone to generate reliable data pertaining to economic activity across sectors and regions.

HIGH-FREQUENCY INDICATORS

In 2017, India started the Periodic Labour Force Survey (PLFS), with the objective of providing annual estimates related to the country's labour force. Prior to the launch of this survey, employment-related data used to be available once every five years by means of the NSS's quinquennial Employment-Unemployment Surveys. The PLFS was a major shift towards the provision of annual estimates. In January 2025, MoSPI went a step ahead and announced that national-level PLFS estimates will now be made available on a monthly basis, and that quarterly estimates will now be available for both urban and rural areas (as opposed to only urban areas earlier).

In addition, the sampling strategy has been adjusted in a way to make the PLFS sample "more representative for district-level analysis". Going forward, high-frequency and geographically detailed employment data will make it easier to map productivity and income generation across districts. Similarly, the Household Consumption Expenditure Survey (HCES) has replaced the old series of consumption surveys, and as per sources, will be conducted more frequently.

> **Public release of datasets, clear methodological documentation, and** open consultations with researchers will ensure that the statistics produced are trusted and widely used

NEW BASE YEAR FOR GDP SERIES

All 'real' GDP estimates are associated with a base year. Currently, the Indian statistical system follows FY (Financial Year) 2011-12 for this and a base year revision is, therefore, long overdue. MoSPI is currently in the process of revising the base year. During this process, the ministry aims to introduce several potential methodological improvements in GDP estimation. For instance, going forward, new sources of information such as the GST database and data from some of the newer surveys will be used to estimate GDP.

Similarly, for multi-sector firms, their total output will be segregated across all the sectors that they operate in. The basket of goods used to calculate inflation will also be updated on the basis of data collected during the latest rounds of HCES. The new series is expected to be launched by next year. This will have implications for our understanding of inflation, and inflation adjusted output at both national and subnational levels.

NATIONAL TO SUB-NATIONAL

In addition to improving the economy's measurement at the national level, these measures will greatly enhance the precision of estimation at the sub-national levels (State and district). In October 2025, speaking at a public event, the Ministry's Secretary conveyed that they are working with State governments to come up with estimates of District Domestic Product (DDP), i.e., the district-level counterpart of GDP, using the more recent streamlined versions of the ASUSE and PLFS.

The use of the ASUSE and PLFS in this context will help capture both enterprise activity and employment structures across districts, giving policymakers a more detailed view of local economies. A reliable DDP framework will, in turn, allow comparisons across States and districts and help identify the true sources of economic growth and structural transformation.

MORE REFORMS IN THE PIPELINE

The Ministry of Statistics and Programme Implementation (MoSPI) has also conveyed its intention of launching a new annual survey — the National Household Income Survey (NHIS). If successful, the NHIS will allow for more precise estimation of household income, along with a comparison of income levels across regions and different demographic groups.

Thus far, India has relied on the NSS consumption survey to get a sense of household income through its observed spending, but this survey will provide a more direct measure of a key indicator of economic outcomes.

The ministry deserves credit for what seems to be a significant revamp of statistical systems related to the measurement of the economy. However, the success of these reforms will depend crucially on transparency and data accessibility. Public release of datasets, clear methodological documentation, and open consultations with researchers will ensure that the statistics produced are trusted and widely used.

The frequent Data User's Conferences organised by MoSPI have provided a transparent platform for government statisticians and academicians to discuss the ministry's initiatives. Such fora are vital to build credibility and ensure that the expanded data infrastructure remains accountable to its users.

In the past, concerns had been raised when MoSPI scrapped or delayed key surveys, such as the 2017-18 Consumption Expenditure Survey, which undermined confidence in the system. Avoiding such reversals will be essential if the Ministry's new agenda is to take root.

Being the birthplace of PC Mahalanobis, India has the capacity to implement and maintain a high-quality statistical system. Recent steps seem to be in the correct direction. One can only hope that the ministry's ambitious agenda is sustained in the long run.

The writers are Professors at Azim Premji University, Bengaluru

02 Dec 2025

A blueprint for responsible, resilient growth

A six-point agenda for building a resilient AI and technology ecosystem anchored in robust governance

Chandrajit Banerjee

Technology and Artificial Intelligence (AI) are reshaping global production, trade, and services, from digital payments and automated manufacturing to precision healthcare and advanced defence systems. For India to realise its Viksit Bharat vision, fully harnessing this technological transformation is essential.

With this backdrop, CII has presented its recommendations for the Union Budget 2026-27 calling for a coherent reform agenda to build a resilient AI and technology ecosystem anchored in robust governance, global standards, and strong industry-government collaboration.

Together, six priority pillars: responsible AI governance, compute and data access, skilling, digital infrastructure, intellectual property, and technology commercialisation, frame CII's strategy for enabling this transition.

India's AI ecosystem has expanded rapidly, supported by recent IndiaAI Governance Guidelines under the IndiaAI Mission. To translate this early progress into deeper, sector-wide adoption, a dedicated IndiaAI Safety & Standards Authority (IASSA) under MeitY would help ensure sector-wide implementation of responsible AI. Key functions would include the registration and evaluation of high-risk AI systems, accreditation of independent auditors, and maintenance of an AI Incident Registry interoperable with CERT-In.

High compute costs and limited availability of quality datasets remain major obstacles for AI start-ups and researchers. Addressing these constraints is essential for expanding India's innovation base. A National AI Compute Grid, developed through public-private partnership, along with incentives for AI data centres and clear anonymisation rules under the DPDP Act, would address these gaps.

A National AI Skilling Mission focused on certifying competencies in Responsible AI, security, and risk governance alongside expanded Centres of Excellence in Tier-2 and Tier-3 cities, would democratise access to advanced AI capabilities.

Complementing these talent efforts, India must also strengthen the digital foundation on which innovation depends. A PPP-led investment framework for data centres, fibre backbones, and 5G networks is essential to realising India's $1-trillion digital economy aspiration by 2030. This approach should include Viability Gap Funding, concessional finance for capital-intensive projects, revenue-sharing models, and streamlined land and utility facilitation through coordinated State-Centre mechanisms. Mandating the integration of green energy will help keep India's data centre expansion sustainable.

AI. Working for resilient growth

Extending Digital Public Infrastructure (DPI) notably Aadhaar, UPI, and ONDC to logistics, healthcare, and education will deepen the country's digital transformation. Such expansion will enable both efficiency gains and more equitable access to services.

A dedicated allocation of ₹10,000 crore can support interoperable platforms for freight movement and warehousing, strengthen the Ayushman Bharat Digital Mission, and enhance open digital learning systems. An additional outlay of ₹1,000 crore can accelerate regulatory digitisation through initiatives such as a Unified Enterprise Number, Entity Locker, API-based compliance, upgraded e-Gazette and India Code, and the National Regulatory Compliance Grid, helping reduce friction and improve transparency.

Strengthening intellectual property frameworks will be crucial for grassroots innovation. To support innovators who lack the resources for traditional patenting, a Second-Tier Patent System covering incremental innovations or utility models would enable faster, lower-cost IP protection for startups and small enterprises, mirroring successful systems in Japan and South Korea.

India's universities and public research institutions hold significant untapped intellectual property that seldom reaches commercial scale. Converting this research strength into market-ready innovations will require targeted support. A Patent Commercialisation Fund offering grants or soft loans for pilot production, validation, and scaling can bridge this gap. Existing schemes such as MSME Innovative and PACE should include a dedicated commercialisation track to streamline access and reward successful transitions from lab to market.

As the government prepares the Union Budget 2026–27, advancing these reforms across AI governance, digital infrastructure, skilling, and intellectual property will be crucial to strengthening India's technological capacity and global competitiveness.

A forward-looking Budget that supports responsible innovation, expands access to compute and data, and accelerates digital public infrastructure can position India as a global leader in the AI-driven economy and drive inclusive, long-term growth.

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02 Dec 2025

Explaining Indian growth fluctuations

ECONOMIC SPUR. Domestic diversity and trade diversity are reducing risks for India despite global uncertainty

ASHIMA GOYAL

The narrative of a K-shaped recovery, rising inequality and major structural reforms as a pre-requisite for sustained growth revived with the fall in growth to 6.5 per cent in FY25 from 9.2 per cent the previous year.

But the alternative cyclical story viewed the slowdown as due to inadvertent fiscal-monetary-financial tightening in an election year. That the reversal in these has raised growth to 8 per cent in H1FY26 despite the US tariffs supports the cyclical story.

Since many large consumer goods companies had bought into the first story they embarked on a premiumization strategy, focusing on large metros. This delivered low volumes, which confirmed the structural story for them. It also reduced investment to expand capacity, which pointed out as a weakness in sustaining growth.

But the big companies found themselves losing market share to rapidly growing regional companies that tapped into growing demand in second tier cities. The volumes were there — awaiting the appropriate price! The GST cut demonstrated this clearly as sales rose with price cuts. Of course, some of this was the strategic coincidence of the cuts with the festival season.

The cuts also underline the feasibility and utility of countercyclical policy. Not only was the slowdown and its reversal due to this, but in the post-pandemic poly shocks era, policy has again and again demonstrated its ability to counter external shocks. Of course, this is aided by the growing size and diversity of the economy, where some positives can offset any negatives. Stones thrown in a deep pond create only shallow ripples.

Reduction in growth volatility is convincing more and more companies that volume growth is possible and they have to expand capacity. If the government can and will counter external shocks, they can move ahead with their plans. The government itself needs to internalize this lesson since its focus on structural reforms, sometimes leads to a neglect of countercyclical action.

Reform is of course required, but a special subset that reduces bottlenecks supports countercyclical policy, which itself has many components in a country like India.

While typical monetary (interest rate, liquidity) and fiscal (tax, expenditure) policies can be implemented fast, their effects continue into the longer-run. The initial impact is on demand but there are longer-run impacts on supply. In a developing economy that has not reached a mature steady-state, especially, short-run actions have persistent long-run affects.

It is sometimes argued that Indian fiscal policy is contractionary because net demand from the government is falling with the fiscal deficit. A better composition of government expenditure, however, can actually increase aggregate demand.

For example, the GST and income tax cut seems to have raised household consumption expenditure more than it reduced government expenditure. Increase in demand for consumer goods firms with excess capacity will then induce them to build more capacity. A larger share of government expenditure on smart human and physical infrastructure reduces bottlenecks, logistic and other costs, enabling lower policy rates, which further stimulate investment and durable goods consumption.

Short run MSP, oil excise, food buffer stock policies also help reduce the inflationary impact of commodity price shocks. Better government finances reduce country risk and interest rate spreads and costs for all types of borrowing. Thus aggregate demand can actually increase, despite falling government deficits and contracting net exports.

In a growing economy tax revenues are buoyant. It is better to resist the temptation to splurge and instead to allocate well among current needs as well as build buffers. But keeping real interest rates low, in order to stimulate the further loops of private consumption and investment that would compensate for relatively lower government expenditure, is an essential component of this strategy. Else bond markets push up borrowing rates for government in fear of rising deficits. This has started over the last few months.

The considerable deepening of India's financial sector enables it to stretch resources to finance more investment. Finances are not a constraint to investment plans

FINANCES FOR GROWTH

But it is argued that interest rates must be high to generate the savings required to equate the supply of resources to the demand for them. But research shows that while the interest rate affects the allocation of savings it has little effect on the aggregate amount. In a high growth economy, income is more of an equilibrating variable. Analysis of components of savings and investment shows the former rises and falls with the latter. Highest growth in both came in the high growth 2000s.

The considerable deepening of India's financial sector enables it to stretch resources to finance more investment. Finances are not a constraint to investment plans. Large firms are cash rich and healthy balance sheets and prospects allow them to borrow or raise equity as required.

Venture funds are there for start-ups; and banks with the support of government programmes for MSMEs. A number of NBFCs and DFIs specialising in infrastructure finance are doing well with good asset quality and capital adequacy.

They are creating platforms to bring in more of the green finance available internationally. For example, the same fiscal deficit can finance much more investment through leveraging fund structures, using warranties to trigger private lending and blended finance to encourage private sector participation.

Critics will argue that more liquidity chasing fixed resources will create inflation. But inflation has fallen sharply, suggesting the demand for resources does not exceed their supply; equilibrating growth in output is adequate.

Indeed, inflation below target suggests output is below potential — aggregate demand and output needs to be allowed to rise towards potential output. Since the latter is uncertain during catch-up — inflation can be used as a factor enabling discovery of potential output.

KEY GROWTH ENABLERS

Domestic diversity and now trade diversity are reducing risks for India despite global uncertainty.

Indian growth enablers are different and more robust than Chinese during its catch-up. In a labour surplus China demand came from exports, capital from FDI. For an India catching-up at a time of polyshocks, both diversity and countercyclical policy support are essential.

There have to be multiple sources of both demand and supply. Openness is one, but not the only source. Rising labour productivity has to be the major source of both of increasing demand and competitiveness.

Social welfare spending that reduces multi-dimensional poverty, improving education and health, is helping such inclusive and sustainable growth. AI, intelligently used, can raise low-level skills and well as high level innovation.

The writer was a member of the previous MPC

03 Dec 2025

Questions arising out of Sandesara ruling

CURIOUS VERDICT. Opaque settlement mechanisms raise concerns about consistency and deterrence

GETTY IMAGES/ISTOCKPHOTO

RAJASEKHAR VK

The Supreme Court's order dated November 19, 2025 in Hemant S. Hathi v. CBI represents an unusual culmination of a long and complex cluster of proceedings arising from the affairs of the Sterling group. Acting on what it repeatedly describes as the "peculiar facts" of the case, the Court directed that all criminal, regulatory and attachment proceedings be quashed on deposit of a consolidated sum of ₹5,100 crore.

This belongs to a small category of cases that lie outside the ordinary grammar of criminal law. Its significance is not in any pronouncement on culpability, statutory thresholds or evidentiary standards, but what it reveals about the Court's approach when confronted with overlapping statutes, multiple agencies and a factual matrix too interwoven to be resolved through conventional adjudication.

What transpired before the Court bore little resemblance to an adversarial adjudication. The proceedings functioned, in effect, as a high-stakes settlement exercise. As the order itself reveals, the petitioners were not asserting legal rights so much as negotiating a financial quantum for a global discharge. The sealed cover proposal placed by the Solicitor General reflected the State's preferred basis for a consolidated resolution, and the Court ultimately based its directions on that figure. The Court's role, in the end, was to give legal effect to that resolution.

THE STATUTORY CANVAS

The relief sought by the petitioners spanned an extraordinary range: CBI charge-sheets, ECIRs under the PMLA, attachment and freezing proceedings, a fugitive-economic-offender application, prosecution under section 447 of the Companies Act, and complaints under the Black Money Act. Few matters present this breadth of statutory engagement simultaneously.

The order records that the amount alleged in the primary FIR was ₹5,383 crore. The consolidated one-time settlement (OTS) figures across entities was ₹6,761 crore, of which ₹3,507.63 crore had already been deposited. After accounting for recoveries of ₹1,192 crore through insolvency processes, the remaining unpaid sum stood at ₹2,061.37 crore.

On November 18, 2025, the Solicitor General submitted, in a sealed cover, a proposal that all proceedings be brought to an end on payment of ₹5,100 crore. The petitioners indicated their willingness to make this deposit. The order records this proposal and its acceptance, but does not disclose how the figure was derived, what components it includes, or whether it corresponds to principal, interest or any additional liability. The calculation therefore remains outside the public record.

In matters involving allegations of diversion, money laundering and fugitive conduct, the quantum that extinguishes criminal liability is not a trivial detail. A sealed cover may facilitate negotiation, but once the Court adopted the figure as the legal basis for quashing proceedings across several statutes, it was better to explain the basis. The absence of any disclosed rationale becomes a point of concern. Transparency is a cornerstone of public justice, and the sealed-cover number now operates as a black box that the legal system itself cannot interrogate.

THE COURT'S RATIONALE

The Court observed that if the petitioners were prepared to deposit the amounts settled in OTS arrangements and thereby return public funds to the lender banks, "the continuation of the criminal proceedings would not serve any useful purpose." The "peculiarity" of the facts, as described in the order, lay in the scale of the financial exposure and the long trajectory of partial repayments and recoveries.

> A sealed cover may facilitate negotiation, but once the Court adopted the figure as the legal basis for quashing proceedings across several statutes, it was better to explain the basis

It is notable that the Court did not enter upon questions of fact or culpability, nor did it interpret the PMLA, the Fugitive Economic Offenders Act, the Black Money Act or the Companies Act. Its directions were confined to the factual conspectus and the restitutionary objective that, in its view, justified closure.

The operative portion directs that all proceedings be quashed upon deposit of ₹5,100 crore. The Registry would hold the amount in short-term fixed deposits and disburse it proportionately to the lender banks after verification. The litigation relating to the original loan would be "put to an end by way of full and final settlement as per consensus." The order concludes with an express caveat that it is not to be treated as precedent.

WHAT THE ORDER DISPLACES

The more serious implications lie not in what the order says, but in what it makes unnecessary. Over the past decade, Parliament has built a dense ecosystem of special statutes designed to address economic crime with heightened rigour: the PMLA, the FEOA, the Black Money Act, and section 447 of the Companies Act. These enactments were intended to override general criminal law and ensure that certain offences could not be compromised through financial settlement.

The present order renders these frameworks otiose. Through a consolidated payment, the entire investigative, attachment and prosecutorial matrix has been brought to an end. The Court's choice not to interpret the statutes is understandable in a fact-specific proceeding, but the effect is that the statutory architecture, painstakingly constructed to deter high-value economic misconduct, is neutralised for the purposes of this case.

The repeated reliance on "peculiar facts" and the disclaimer that the order is not to serve as precedent is intended as a legal safeguard. In practice, however, such caveats rarely prevent replication. A pathway has been demonstrated: negotiate an OTS, make partial repayments, endure multiple parallel proceedings, and ultimately seek a global settlement before the Supreme Court. Even if this was not the Court's intention, the structure of the order will inevitably be read as a viable model for similarly placed individuals.

This raises the unresolved question of deterrence. If allegations involving fraud, diversion of funds, money laundering and flight from jurisdiction can culminate in a financial settlement, the enforcement calculus becomes merely economic, with the consequences of wrongdoing just a negotiable cost rather than a legal prohibition.

For ordinary citizens, criminal liability proceeds along a predictable statutory route. Where proceedings span multiple jurisdictions and agencies, this order highlights a path capable of being reshaped into a single financial end-point by litigants able to marshal substantial resources.

The Sandesara order may represent a pragmatic response to an unusually complex factual situation, but its implications extend far beyond the record. It indicates a shift from adjudication to negotiated closure in cases where statutory routes prove unwieldy. While restoring public funds is unquestionably valuable, the manner of restoration matters equally. If high-value criminal allegations are resolved through opaque settlement mechanisms, confidence in the even-handedness of the legal system will be shaken.

In future, cases involving multiple special statutes and interlocking financial allegations would benefit from a clearer articulation of the considerations that guide the Court's choice of the course. Such clarity does not constrain judicial discretion; it only strengthens institutional confidence by demonstrating that even in exceptional situations, the law's capacity to deter, and not merely recover, remains intact.

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03 Dec 2025

Credit information should remain purpose-bound

Using credit scores for decisions on jobs or matrimony can undermine equity and fairness, and foster financial exclusion

Ganga Narayan Rath
Siddharth Subudhi

Credit information has emerged as a cornerstone of India's lending-led growth economy. Since the early 2000s, with the establishment of credit bureaus, the Indian financial ecosystem has gained a structured mechanism to assess borrower risk.

In India, where lending-led consumption and investment are seen as key growth drivers, credit bureaus can be central to financial deepening as they help lower the risk-premia attached to borrowing without collateral.

Credit scores and reports are designed to assess repayment capacity and willingness in the context of financial contracts. Extending their applicability to unrelated domains, such as, employment decisions, renting a house, selling insurance, matrimonial etc., as we have seen happening recently, raises both ethical and economic concerns.

The recent decision of the Madras High Court to uphold the State Bank of India's withdrawal of a job offer to a candidate based on adverse CIBIL history reflects this tension. While banks may argue that integrity and financial prudence are relevant for employees handling money, such blanket use risks conflating two distinct spheres: the ability to repay debt, and the capacity to perform a job. This reflects a certain "function creep", where the gradual expansion of credit information's purpose leads to discrimination and erosion of trust.

EDUCATION LOANS

The risks of such overreach are particularly stark in the context of education loans. As of FY2025, outstanding education loans in India exceed ₹2 lakh crore, with around 8 per cent classified as non-performing assets (NPAs).

A large share of these defaults arises not from wilful neglect but inability to repay due to mismatch between education and earning opportunities. When these young borrowers, many first-generation graduates, are further blacklisted by employers due to poor credit scores, the system traps them in a cycle of exclusion.

As job markets abroad tighten, banks face the prospect of recognizing more NPAs, while these returnees confront bleak domestic prospects and the stigma of low credit scores. If our system punishes them through automated credit-based blacklisting rather than

CREDIT SCORE. Make judicious use

rehabilitation, can we still claim to uphold systemic justice?

The disparity is further accentuated by how the system treats large corporate defaulters. Through frameworks like the Insolvency and Bankruptcy Code, many big borrowers manage to wash their sins and return to the market with little reputational loss. Meanwhile, small borrowers including students, farmers, and micro-entrepreneurs face life-altering consequences for defaults often beyond their control. This asymmetry challenges not just economic fairness but also the moral architecture of India's financial inclusion agenda.

Comparative evidence from the US and Europe also suggests restraint.

In the Indian context, unrestricted application of credit information beyond lending may have unintended consequences. At systemic level, it risks creating a discriminatory system where past financial distress, sometimes caused by macroeconomic shocks outside individual control, permanently scars employment prospects.

At a behavioural level, borrowers fearing that adverse credit history will curtail not only their financial access but also their job opportunities, may turn away from the formal system altogether. This could drive demand for informal credit markets, where there is a significantly higher risk to the individual due to unscrupulous collection tactics and higher interest rates.

Credit information is indispensable for India's growth trajectory as it underpins risk-based lending and financial inclusion. But its use should remain purpose bound.

As India integrates deeper into global financial and digital ecosystems, regulators may need to revisit the scope of credit data application to balance banks' interests with broader societal objectives. Credit information should be a tool for enabling access, not a gatekeeper that entrenches exclusion.

Rath is a former central banker; Subudhi is a public policy analyst. Views are personal

03 Dec 2025

Data protection by banks

The DPDP Act requires them to strengthen systems

K Srinivasa Rao

With the recent implementation of the Digital Personal Data Protection Rules 2025 (DPR25), the DPDP Act 2023 (DPA23) has now come into force. Despite a 12-18-month transition period, banks acting as data fiduciaries (DFs) will need to align their data management systems to protect their extensive customer data. Otherwise, the significant penalties outlined in the punitive measures could heighten operational risks and potentially breach public trust.

With over 300 crore deposit accounts and 32 crore loan accounts, banks, as DFs, are the repositories of huge digital personal data. They also handle a large volume of highly sensitive customer data — such as KYC details, AML checks, account activity, credit reports, borrower ratings, transaction and credit histories, and more — while managing multiple data storage centres and processing activities.

Though banks are accustomed to protecting data as part of their fiduciary responsibility to maintain confidentiality, the added responsibilities and data sensitivities under DPR25 call for strengthening and revamping data management practices. As a result, internal systemic controls must be strengthened to ensure compliance at every stage.

THE STRATEGIES

Banks should establish a cross-functional internal data protection team to oversee compliance, investigate breaches, and ensure corrective actions are taken. This team should serve as the primary contact for policy-making and developing the resources necessary for data management within the bank to uphold the rights granted under the DPA23 and maintain trust in the system.

Strong data protection guarantees should be included in service-level agreements with vendors, and stricter penalties should be enforced for violations. The privacy of contracts between banks and data processors must be robust to manage the risks of data leakage better.

Banks should therefore develop not only policies and procedures but also establish clear standard operating procedures (SOPs) to create a robust system for protecting personal data in a rapidly growing digital environment.

Banks should should enforce

HEFTY PENALTY. For data leaks

consent and transparency, security safeguards, and accountability. Compliance with DPR25 involves multiple departments, is complex, and depends on a timeline. Therefore, the core implementation team should ensure that the essential infrastructure, trained personnel, systems, and processes are integrated with the data management systems.

The effectiveness of systemic controls should be evaluated through simulated scenarios to identify weaknesses and gaps observed during testing. The monitoring and control systems need to be connected to data hubs to deliver prompt alerts to relevant authorities, enabling them to respond, guide, and resolve issues.

The track record over the past five years reveals several significant data leaks or incidents of data theft or breach, even in major banks with stronger internal controls. RBI imposed penalties and, in some cases, non-monetary restrictions to prevent onboarding new customers. DFs should consider the significant financial penalties for non-compliance. The maximum penalty of up to ₹250 crore applies if a DF fails to implement reasonable security measures. Since banks hold accounts for minors, there is a risk of minors' data being misused.

Any other breach of the Act or Rules by a DF may lead to penalties of up to ₹50 crore. Better coordination with the Data Protection Board will be necessary to seek guidance to address risks. Training and sensitisation of staff across the organisations on DPR25 and its implications should be conducted regularly. Customer education on data protection will be equally important, given the increasing number of digitally driven self-service kiosks and apps in use.

The writer is Adjunct Professor, Institute of Insurance and Risk Management, Hyderabad. Views are personal

03 Dec 2025

STATISTALK.

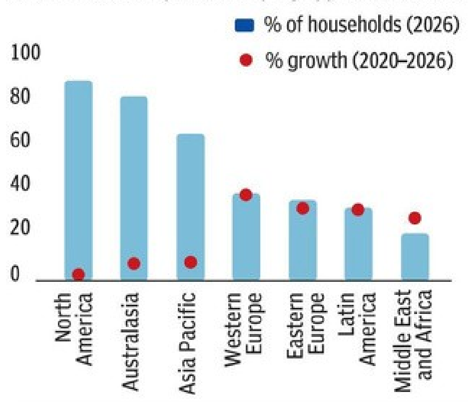
Compiled by **Dhuraivel Gunasekaran** | Graphic **KS Gunasekar**

Consumer spending shifts: Trends shaping the 2026 marketplace

A Euromonitor International report, Top Global Consumer Trends 2026, outlines four major global consumer-behaviour shifts expected in 2026. Through survey data and market research, it identifies the rise of the comfort-zone mindset, identity-based consumption, clinical-grade data-led precision-wellness solutions, and the ascent of the Asian wave. Key trends: High stress levels and limited relief are creating massive addressable markets for anxiety-reducing products and wellness tech solutions. Rising outstanding short-term personal loans reflect live-for-today attitudes, driving emotional purchases and frequent micro-indulgence. Chinese brands are expanding aggressively in appliances, smartphones, and gaming — combining price efficiency with digital retail engines.

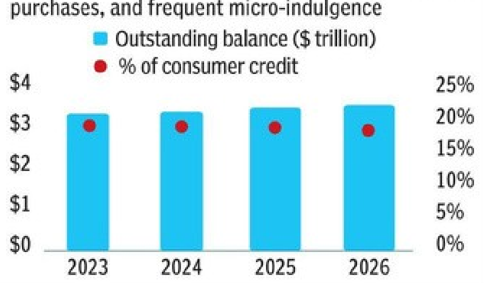
Air-conditioner adoption surges

Consumers prioritize personal comfort over environmental impact, reshaping appliance demand



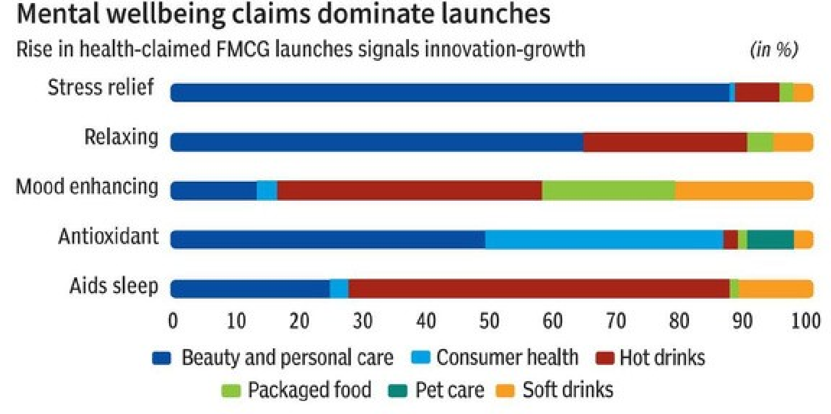
Short term loans continue to rise

Reflecting live-for-today attitudes, driving emotional purchases, and frequent micro-indulgence



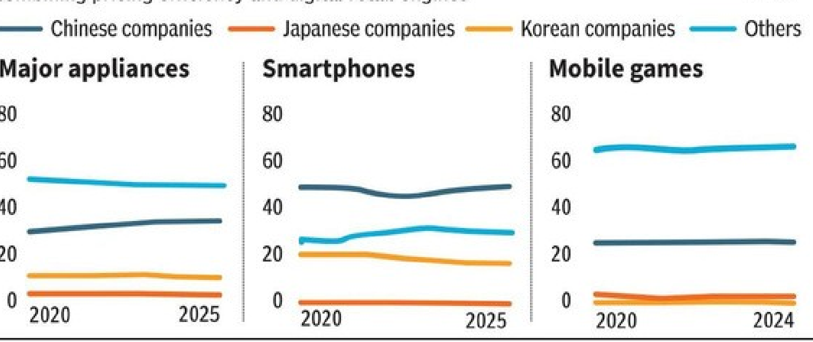
Mental wellbeing claims dominate launches

Rise in health-claimed FMCG launches signals innovation-growth *(in %)*



The rise of Chinese companies

Chinese brands expand in appliances, smartphones, gaming, combining pricing efficiency and digital retail engines *(in %)*



Source: Euromonitor International

04 Dec 2025

Are stock exchanges innovative?

RECAST NEEDED. Indian MIIs certainly enable markets to function, but are discouraged from shaping how markets evolve

RAVI VARANASI

For over two decades, India's exchanges and clearing corporations have been viewed through the lens of market infrastructure institutions (MIIs) — entities designed to serve public purpose functions such as fair access, efficient clearing and systemic stability. That framing made perfect sense in the 2000s, when market confidence was fragile and the regulator's priority was integrity over innovation.

Today, however, India's financial markets are among the most active and sophisticated in the world — equity and derivatives volumes rival global leaders, settlement systems are near-frictionless and retail participation has exploded. Yet, the policy imagination governing these institutions remains anchored in a utility mindset. MIIs are still treated as quasi-statutory entities rather than dynamic platforms competing in a global digital economy.

It is time to move beyond that frame — to see exchanges not as static utilities but as evolving ecosystems that design markets, integrate participants and drive financial innovation.

Stock markets must move from regulation to financial innovation REUTERS

MII MODEL: SUCCESS, LIMITS

When SEBI introduced the MII framework, its aim was clear: ensure neutrality and build institutional legitimacy. Ownership caps, governance checks etc. were crucial to preventing concentration of market power. The model worked — Indian exchanges became global benchmarks in transparency and risk management.

But that same model now constrains their evolution. The governance and ownership structure that once guaranteed neutrality today often discourages agility.

* Exchanges face restrictions on investing in adjacent technologies or overseas ventures.

* Strategic collaborations, joint ventures or product incubation initiatives require layers of approval.

* Compensation and incentive frameworks are treated more like those of public sector utilities than competitive technology firms.

The result: while Indian MIIs are operationally world-class, they risk becoming innovation-poor. Their comparative advantage in transaction integrity is unmatched, but their contribution to product and ecosystem development remains under-leveraged.

Across the world, exchanges have evolved into multi-layered ecosystems.

* Nasdaq now earns nearly 70 per cent of its revenues from data, analytics and software services.

* CME Group integrates futures, options and OTC clearing with global data and AI-based risk analytics.

* HKEX and SGX have become regional hubs linking capital, commodities and carbon markets.

These exchanges see themselves not as neutral facilitators, but as market architects. They design new products, partner with fintechs and expand their ecosystems horizontally.

By contrast, Indian MIIs remain boxed into a minimalist definition of "infrastructure". They enable markets to function, but are discouraged from shaping how markets evolve. This asymmetry is not benign — it risks India's exchanges becoming efficient yet sterile, unable to keep pace with the innovation frontier that defines global finance.

A REGULATORY CROSSROADS

SEBI's recent consultations signal an inflection point. The regulator must now differentiate clearly between core functions and adjacent functions.

* Core functions — ensuring market access, fair trading, clearing integrity and investor protection — must remain tightly regulated.

* Adjacent functions — data analytics, technology innovation, product development and global connectivity — can operate under a light-touch regime with outcome-based supervision.

This does not mean deregulation. It means re-regulation for innovation: establishing boundaries that protect the public interest while freeing MIIs to invest, collaborate and experiment within them.

ECOSYSTEM APPROACH

An ecosystem-oriented exchange performs several interlocking roles:

Market architect — Designing new instruments such as electricity contracts, carbon credits, EGRs, weather derivatives and other emerging products while integrating them into coherent risk-management frameworks.

Technology integrator — Providing APIs and AI/ML-enabled analytics that brokers, AMCs and fintechs can plug into, reducing duplication of infrastructure.

Data & intelligence hub — Curating anonymised trading, risk and sentiment data to serve policymakers, investors and issuers.

Global connector — Building regional linkages — for instance, through GIFT City, to intermediate offshore flows.

This ecosystem logic aligns with India's own policy goals: financial inclusion, market deepening and capital formation. But it requires a regulatory compact built on trust and outcome-orientation rather than micro-control.

RE-IMAGINING OVERSIGHT

A new MII-SEBI compact could rest on three broad pillars:

Outcome-based regulation: Shift from activity pre-approval to post-facto supervision based on measurable outcomes — transparency, risk containment and investor welfare.

> **Indian MIIs' comparative advantage in transaction integrity is unmatched, but their contribution to** product and ecosystem development remains under-leveraged

Tiered governance: Separate "utility" functions (trading, clearing, surveillance) from "innovation" functions (data products, technology partnerships), each with appropriate checks and ring-fences.

Incentive alignment: Permit innovation-linked revenue streams where they demonstrably improve market efficiency or access — for instance, through rural financial inclusion platforms or SME liquidity products.

Such a structure would also allow MIIs to participate meaningfully in the next wave of financial intermediation — mutual-fund transaction platforms, ESG and carbon markets, tokenised asset infrastructure and real-time analytics — while maintaining their public trust mandate.

THE RISK OF INERTIA

If this shift does not occur, India risks a paradox: the world's most technologically advanced markets operating under 20th-century governance logic. Exchanges will remain profitable but constrained; innovation will migrate to the unregulated periphery — fintechs, offshore venues and informal instruments.

Already, many of the most creative experiments in market design — fractional investing, social trading, prediction markets — are emerging outside formal exchange infrastructure. Without recalibrating the framework, India could replicate the old banking dilemma: incumbents bound by compliance, disruptors free to innovate.

BUILDING THE NEW COMPACT

The solution is not deregulation, but differentiated regulation. SEBI's credibility allows it to take this next step — to move from a command-and-control model to a co-regulatory framework where MIIs, brokers and fintechs share responsibility for market evolution.

A few practical steps could support this shift. First, create an MII Innovation Sandbox to allow exchanges and fintechs to jointly pilot new ideas under relaxed commercial-activity norms.

Second, build innovation carve-outs within exchange rulebooks, supervised through enhanced disclosures rather than pre-emptive restrictions. And third, encourage public-private R&D consortia focused on market technology, AI-driven surveillance and retail risk analytics, so that innovation strengthens both integrity and participation.

This approach would not weaken regulatory discipline; it would modernise it, turning SEBI from an approver into an enabler of innovation.

The writer is Founding Partner, SPRV Consultants

04 Dec 2025

Quantum roadmap for India's financial sector

Quantum computing can improve risk modelling and help in better stress detection

P Saravanan
A Paul Williams

The global financial services industry is at a technological inflection point. For decades, classical computing has defined the limits of risk modelling, optimisation, and security. However, as quantum technologies rapidly mature, encompassing computing, security, and sensing, they promise to fundamentally reshape the competitive landscape.

A recent white paper from the World Economic Forum (WEF), titled 'Quantum Technologies: Key Strategies and Opportunities for Financial Services Leaders' provides an essential roadmap for navigating this transition, assessing not only the threats but also the immense value-creation opportunities.

For a rapidly digitising economy like India, with its ambitious Digital India stack and one of the world's largest financial ecosystems, the WEF's analysis is not merely academic, it is a blueprint for national competitiveness and cybersecurity resilience.

Quantum computing is the engine of optimisation, harnessing principles such as superposition and entanglement to solve problems that are currently intractable even for the most powerful classical supercomputers.

FINANCE. Quantum benefits

In finance, this translates into unprecedented capabilities for risk modelling and achieving more accurate stress testing and systemic risk detection. A striking case study is that a pilot that reduced the time needed for financial crash analysis from years to just seven seconds.

Further, it enables superior portfolio optimisation and advanced fraud detection by utilising non-linear pattern analysis. Quantum Security and Communications, addresses the most urgent existential threat: the arrival of a cryptographically relevant quantum computer (CRQC). The strategy here is multi-pronged, focusing on Quantum Key Distribution (QKD), Quantum Random Number Generation (QRNG), and, crucially, Post-Quantum Cryptography (PQC), which is a scalable, near-term solution for achieving crypto agility.

Finally, Quantum Sensing provides ultra-precise, atomic clock-level accuracy for high-frequency trading (HFT) timestamps and regulatory compliance, offering a definitive sequence of market events. Collectively, the these applications could generate up to $622 billion in value by 2035 in financial services alone.

INDIA'S QUANTUM LEAP

Lessons and implementation: India could transform from being a quantum consumer to a quantum leader in finance. India's massive digital infrastructure, including the Unified Payments Interface (UPI) and core banking systems, represents an invaluable national asset. A proactive national-level strategy for migrating to PQC standards is crucial. Indian institutions must urgently conduct a cryptographic inventory and begin phased integration of quantum-resistant algorithms to safeguard sensitive data from harvest-now-decrypt-later attacks, essentially building a firewall against future quantum threats.

The second key lesson is to leverage public-private collaboration and the National Quantum Mission (NQM). India's NQM, with its substantial funding commitment, must actively funnel resources into financial-sector use cases. This necessitates robust partnerships between premier research institutions (such as IITs, IIMs, and IISc) and leading Indian banks, insurance companies, and FinTechs to establish quantum-as-a-service (QaaS) pilot platforms.

Policies and incentives must be designed to support quantum start-ups that develop solutions specifically for local financial challenges, such as optimising micro-lending risk models or enhancing cybersecurity for financial inclusion platforms. Institutions should start with quantum-inspired hybrid solutions, which offer immediate competitive gains in areas such as liquidity management and risk assessment, providing practical, low-risk experience and building the institutional knowledge essential for India to secure its digital economy and unlock billions in new value.

Saravanan is a Professor of Finance and Accounting at IIM Tiruchirappalli; Williams is the Head of India at Sernova Financial

04 Dec 2025

Seeds of change

Draft Seeds Bill pushes transparency, but has some flaws

The Draft Seeds Bill, 2025, which is open for comments and is likely to be placed before the ongoing Parliament session, is aimed at curbing the sale of spurious and poor quality seeds to farmers. The draft Bill says at the outset that it wishes to promote ease of doing business for the seed industry through reduced compliance burden. While its approach of protecting farmers as well as incentivising the seed industry is a sensible one, the draft needs to address certain ambiguities and imbalances.

The EoDB provisions may ease supply constraints. A clause that provides for multi-State permit for entities selling across States will do away with the difficulties of obtaining clearances from each State in this regard. The Bill also makes a distinction between "trivial" and serious offences and invoking criminal provisions selectively, which may curb harassment and rent-seeking. A bold move being contemplated in the Bill is allowing the private sector to participate in the testing of seeds through a system of accredited laboratories. While this may help ease the burden on the ICAR set-up, these testing centres must inspire confidence. The Bill promotes transparency and traceability in the seed industry by mandating that all marketable varieties be registered, and the seeds be sold with a QR code on the pack that tells you where it has come from. All stakeholders in the value chain will have to be registered as well, and this includes producers, seed contractors for many farmers, nurseries and processing units. Seed health, too, has to be certified on the pack by recognised laboratories.

The proposed Bill does incentivise bonafide seed industry players to produce good seeds in larger quantities. In keeping with this thrust, it has turned away from price control, opting to use that lever only as a last resort; product choice, competition and transparency are expected to work instead. However, a major lacuna in the Bill, unlike its earlier avatars, is that it does not provide for any system of compensation apart from the consumer courts for quality and performance lapses. This must be resolved.

An especially disquieting aspect of the draft Bill is its ambiguity over whether farmers will be criminalised for producing their own seeds and distributing them locally — a practice through the ages that has preserved India's unique gene pool of varieties. An unchecked move to brand all produce, with the compliance costs associated with it, could drive out even small seed producers and leave the space for large players. This may also lead to appropriation of GI or IP rights vested in communities. The rights of farmers spelt out under the Prevention of Plant Varieties and Farmers' Rights Act should not be diluted. There is an indication of divergence here between Section 1(2) of the draft Bill and Section 39 (i) iv) of the above-mentioned law. These issues must be addressed to strike the right balance between promoting the interests of farmers and the seed industry.

05 Dec 2025

global biotech leadership

infrastructure make it the ideal scientific

The writer is Chairperson, Biocon Group

The many nuances to currency movement

India may offer a 6.5 per cent yield, but concerns over rupee stability could negate the attractiveness of the return on offer

Saumitra Bhaduri

According to official data, India's gross domestic product grew by about 8.2 per cent year-on-year in the September quarter of 2025. In contrast, the rupee has continued to slip to new lows, and the USD/INR has crossed the oft-quoted psychological barrier of ₹90 to a dollar for the first time.

The well-known Exchange Rate Disconnect Puzzle (Meese & Rogoff, 1983) shows that exchange rates often diverge from fundamentals such as growth, inflation or interest rates, and a recent 2023 study by Fukui, Nakamura and Steinsson finds that in many emerging markets, depreciation can occur alongside strong output and investment— demonstrating that "boom with depreciation" is a well-documented phenomenon rather than a contradiction.

The data underpin a simple but oft-ignored fact — growth and currency strength are determined by disparate forces. Growth amplifies import demand for raw materials, intermediate goods, and energy, increasing the need for foreign currency. The dollar, however, remains the global anchor-stable, widely demanded, and buoyed by the outlook of global investors. The disconnect becomes especially sharp when global capital flows reverse: growth continues, but the currency suffers.

CYCLICAL CONCERNS

However, the current rupee weakness is a cause for concern as it is not a short-term noise but cyclical, driven by structural factors. For most of 2025, foreign investors have pulled money out of Indian markets, particularly equities, on the grounds of global uncertainty, rising US yields, and concerns about tariff wars. A nuanced look at yield and currency dynamics can explain why FPIs are moving out of India. While valuation concerns, sectoral reallocations, and geopolitical uncertainties do play their part, the deeper drivers lie in yield dynamics, currency expectations, and the global risk environment which frames how investors view emerging markets relative to the US.

Compared to the US 10-year Treasury yield, which is near 4 per cent, India's 10-year government bond yield of around 6.5 per cent seems considerably more attractive at first glance. This creates a yield spread of roughly 250 basis points.

Conventionally, this spread should invite yield-seeking global investors into Indian debt and support equity inflows by lowering the cost of capital. However, yield alone does not capture all risk. The higher nominal yield in India reflects a risk premium that compensates investors for multiple exposures: currency volatility, inflation unpredictability, and broader emerging-market macroeconomic vulnerability. But this underestimates the dynamics of the currency.

RUPEE. Precipitous fall

For a dollar-based investor, even modest depreciation of the rupee can wipe out the incremental return earned from India's higher yields. If the rupee weakens by 3-4 per cent over the year, the effective return earned by FPIs diminishes sharply or even turns negative. Thus, it becomes important to appreciate that a static yield spread does not guarantee inflows. India may offer a 6.5 per cent yield, but if global risk sentiment deteriorates and concerns around the rupee's stability override the attractiveness of higher nominal yields, FPIs may still prefer to exit.

Despite sustained capital outflows, the stock market hasn't cracked because a silent structural shift: according to the latest NSE Market Pulse (Nov 2025), FPI ownership in Indian equities has fallen to a 15-month low of 16.9 per cent — while domestic mutual funds continue to hit record highs, powered by unprecedented SIP inflows. Individual investors, through direct holdings and MFs, now own nearly 19 per cent of the market, the highest in over two decades.

As a way forward, therefore, RBI should allow this structural adjustment to take place but continue to prevent sharp, disorderly volatility swings. It should avoid defending any fixed psychological level like ₹90, focusing instead on maintaining liquidity and anchoring expectations through steady, confidence-building communication. Monetary policy must remain guided by inflation and growth and avoid aggressive interventions, while structural reforms should address the root causes of rupee weakness.

The writer is Professor, Madras School of Economics

05 Dec 2025

India needs to recalibrate export strategy, quickly

Jyoti Vij

India's exports had a resilient run through the first half of FY2025-26, but the momentum seems to be softening. Much of this current stress has come from steep tariff hike by the US on exports from India, rendering them uncompetitive against the competing countries. Exports to the US market declined by 8.5 per cent in October, marking the second consecutive contraction since the imposition of the 50 per cent tariff at the end of August 2025.

These trends clearly point towards the urgent need for recalibrating the export strategy. The centrepiece of India's export reset must be market diversification. India needs to expand its foothold in trade corridors across West Asia, Africa, Latin America, Southeast Asia and parts of Europe. The government has been taking steps in this direction.

Trade agreements with the UK and EFTA have been concluded; deals with Oman and New Zealand are close to finalisation; and negotiations with the EU, Chile, Peru and the GCC are progressing. Unlike older FTAs, these partnerships are poised to bring multiple benefits of market access, enhanced investment flows, supply-chain integration and technology collaborations.

Diplomatic engagements will be extremely important in realising the potential gains from market diversification. The case of resurgence of India's marine exports despite the severe impact of high US tariffs shows how diplomacy has been a critical pivot in quick market diversification and resilience. With the imposition of 50 per cent tariffs, the marine exports to the US declined by 33 per cent y-o-y in August and by 27 per cent y-o-y in September. Yet, overall exports of marine products have maintained positive growth, with exports to other key markets like China, Vietnam, Thailand, Japan and Belgium seeing a significant rise.

Other impacted sectors by the US tariffs also indicate some early market diversification trends. Gems and jewellery shipments to the Middle East and Asia are seeing a rise.

MARINE EXPORTS. A success story

While some of the sectors have been able to see quick diversification, the others may take more time.

While embassies do engage in trade promotion activities, it is time that the task is primarily driven by private-sector trade specialists, who can be appointed as Export Promotion Partners with set targets and performance-based contracts. Promotion of India brand and hand-holding of Indian exporters (particularly MSMEs) by these partners can be a game-changer in enhancing exports. Market access must also be supported through simultaneous bilateral engagements on addressing non-tariff barriers, specifically related to product standards and technical regulations.

India must also invest in global logistics corridors, including direct shipping routes to regions like Latin America and West Africa. A recent package for strengthening domestic shipbuilding industry is a welcome step. Also, a significant increase in the present budgetary allocation for the RoDTEP scheme would be helpful for Indian exporters to remain competitive. Indian industry will also have to raise its competitive benchmarks, by investing in technology, sustainability compliance, branding and local presence in key markets. With other competing nations like Vietnam, Indonesia, Turkey, Mexico, etc., pursuing globalisation aggressively, India would need to put in much more efforts to retain its competitiveness.

The writer is Director General, FICCI

businessline.

05 Dec 2025

India can build a $1.2-trillion bioeconomy by 2047

SCALING UP. Promoting innovation through capital-market innovation and regulatory modernisation, a la China, is the way to go

GETTY IMAGES

KIRAN MAZUMDAR-SHAW

India's bioeconomy has expanded 16-fold over the past decade — from $10 billion in 2014 to over $165 billion in 2024. With the right policy architecture, it can exceed $1.2 trillion by 2047, becoming a major pillar of Viksit Bharat. But getting there requires more than scientific excellence. It demands bold capital-market reform and a modern, science-led regulatory system — two enablers that transformed China from an emerging player into a global biotech powerhouse.

India has the science and the talent. What we lack is the systemic scaffolding that allows innovation to scale.

Biotechnology is unlike any other sector. It is capital-intensive, deep-science driven, and characterised by long development cycles. Globally, biotech companies list on public markets while still in the research stage — giving them patient capital to survive the valley of death.

India, however, does not allow pre-revenue or research-stage biotech companies to list. As a result, innovators depend almost entirely on private capital, which is both scarce and risk-averse. This suppresses valuations, stunts pipelines, and pushes high-potential Indian start-ups to relocate abroad.

Over the past decade, China demonstrated how capital innovation fuels scientific innovation:

The STAR Market in Shanghai, launched in 2019, enabled pre-revenue deep-tech firms to list without profitability requirements. It has already mobilised over $130 billion.

Hong Kong's Biotech Chapter (2018) allowed non-revenue biotechs to IPO. More than 70 companies have listed, raising over $25 billion.

China attracted $45 billion in life-sciences venture capital between 2018 and 2022 — nearly 10 times India's inflows.

Its pharma R&D investment has crossed $20 billion, compared to India's $3 billion or so.

This capital boom powered China's rapid emergence as a global innovation hub, spawning more than 200 biotech companies with global pipelines.

INNOVATION & BIOTECH BOARD NEEDED

A dedicated listing board on NSE and BSE — on the lines of NASDAQ, STAR, and Hong Kong — must allow: pre-revenue and research-stage biotech companies to list; IP-led companies to access patient capital; global investors to participate in India's science story; and Indian start-ups to scale domestically instead of migrating abroad.

Such a reform would unlock domestic capital, attract global institutional investors, and become the financial engine of India's bioeconomy.

> Regulatory reform without capital access will not produce scale. But together, they create the flywheel that powers global biotech leadership

REGULATORY REFORM

Even if capital is available, innovation cannot flourish without regulatory speed and scientific clarity. Unfortunately, India's drug-regulation architecture remains slow, fragmented, and heavily bureaucratic.

First-in-Human (FIH) trials often take months to clear. Each phase — I, II, III — requires a fresh review by Subject Expert Committees (SECs), whose ad hoc scheduling often becomes the bottleneck. CDSCO simply does not have the scientific bandwidth to evaluate emerging modalities such as mRNA, circular RNA, CRISPR, CAR-T, or AAV gene therapies.

China confronted the same issues a decade ago — and then reformed decisively: it transformed NMPA into a science-led regulator with stronger scientific capacity; introduced time-bound review pathways, reducing clinical trial approvals by 40-60 per cent; enabled parallel review of trial phases; joined ICH to align with global standards; fast-tracked advanced modalities, approving multiple CAR-T and gene-therapy products ahead of several Western markets.

Regulatory agility created predictability. Predictability created investor confidence. Together, they created a biotech boom.

INDIA'S OPPORTUNITY

India can leapfrog by restructuring the system through a two-pillar model:

Empower ICMR for scientific review of clinical trial protocols: ICMR's deep research capability and ethics infrastructure make it the ideal scientific gatekeeper for evaluating new drugs, vaccines, diagnostics, and advanced biologics — especially early-stage trials.

Position CDSCO as the licensing and oversight authority: CDSCO should focus on final approvals, GMP compliance, site inspections, and pharmacovigilance.

This separation of scientific assessment (ICMR) and administrative licensing (CDSCO) will slash approval timelines, improve scientific rigour, and restore investor confidence.

INDIA'S INNOVATION FLYWHEEL

Capital-market reform without regulatory reform will not produce innovation. Regulatory reform without capital access will not produce scale. But together, they create the flywheel that powers global biotech leadership.

With a dedicated Innovation & Biotech Board, a science-led dual-agency regulatory system, and strong institutional backing, India can: build thousands of deep-tech start-ups; lead globally in mRNA, RNAi, gene therapy, biosimilars, and biologics; become the preferred hub for clinical research and bio-manufacturing; generate millions of high-value jobs under the BioE³ framework; and realise a $1.2 trillion bioeconomy by 2047.

We have the science. We have the talent. We have the market. What we need now is the courage to reform.

Capital-market innovation and regulatory modernisation must be treated as national priorities. With bold action, India can move beyond being the pharmacy of the world and claim its rightful place as the lab of the world.

The writer is Chairperson, Biocon Group

businessline.

08 Dec 2025

bl.portfolio

Anand Radhakrishnan of Franklin Templeton shares his views on a range of topics

HIMADRI BHATTACHARYA

A rate cut was actually needed

MONETARY MOVES. The real rates of interest are too high for economic agents to be efficient

The MPC's decision to cut the policy rate by 25 basis points to 5.25 per cent on Friday was contrary to the 'consensus' opinion of a few senior bankers and also the majority opinion of a panel of economists polled earlier. However, this latest cut in the rate was not wholly unexpected, given the sharp drop in CPI inflation to an all-time low of 0.25 per cent in October.

Expectedly, the equity market welcomed the cut, with the Sensex jumping 300 points in the immediate aftermath of the policy release. The yield on the 10-year G-Sec benchmark eased a little bit, possibly because of the announcement of OMO purchases of G-Secs of ₹1.5 lakh crore to be held in two doses later in this month. Similarly, the US$/Rupee forward premia softened on the announcement of a 3-year buy-sell swap of $5 billion slated for December 16.

The MPC has altered the forecast of growth and inflation in this policy: real GDP growth for 2025-26 is now projected at 7.3 per cent, which is higher than 6.8 per cent that was projected in the last bi-monthly policy.

CPI inflation for 2025-26 is now projected lower at 2.0 per cent vis-à-vis 2.6 per cent projected earlier. Although there is nothing wrong in making alterations in macroeconomic forecasts in the light of new information and data, it is necessary to make sure that the forecasts do not become too adaptive.

Though RBI has a robust forecasting framework, a comprehensive review is nevertheless needed.

In the wake of the release of growth numbers for Q1 and Q2 of this fiscal year, a pertinent debate has ensued as to whether and to what extent the higher-than-expected growth performance, particularly in Q2 at 8.2 per cent, reflects structural changes taking place in the economy, pushing outward its 'production possibility frontier'.

This debate is vital to push reforms by Central and State governments, particularly in the agricultural sector. One hopes that the three farm laws which were repealed in the past will be revived in some form or the other.

In the light of the headline inflation dropping below 2 per cent and the continuance of high real interest rate, a policy rate cut was needed. Buoyant growth numbers cannot hide the fact that both producers and consumers suffer from high real rates, which would still be above 3 per cent after the rate cut.

RATE CUT AMID RE DIP

The rupee has been under significant selling pressure in recent months, linked to FPI outflows and sluggish merchandise exports growth. It slipped to an all-time low of ₹90.28 per US dollar on December 3. With a 5.3 per cent year-to-date (YTD) drop vis-à-vis US dollar, the rupee is headed for its sharpest annual decline since 2022, making it Asia's worst-performing currency so far this year.

What makes this decline particularly noticeable are the facts that the nominal index of the US dollar has declined from the high seen at the beginning of 2025 and that the current real effective rate of the rupee based on both the 40-currency and the 6-currency baskets indicate its significant undervaluation at present — a phenomenon not witnessed for a long time.

> A feeling is gaining ground that a weaker rupee is a tactical response of the authorities to cushion external uncertainties that continue to pose downside risks to growth and exports

On similar occasions in the past, the RBI would be reticent to slash the policy rate and also to induct sizeable durable liquidity as it intends to do now. Hence, a feeling is gaining ground that a weaker rupee is a tactical response of the authorities to cushion external uncertainties that continue to pose downside risks to growth outlook, and to mitigate the impact of headwinds being faced by merchandise exports.

With the flexible inflation target (FIT) framework for monetary policy formulation completing 10 years in March 2016, a review thereof by the RBI was announced in August. Public feedback has been sought on five questions in this regard.

The first one is "Whether headline inflation or core inflation would best guide the conduct of monetary policy, given evolving relative dynamics of food and core inflation and the continuing high weight of food in the CPI basket?"

This issue has gained importance during the last 12 months as the downward trajectory of headline CPI inflation mimicked the sharp fall in food inflation during the same period: Food inflation was 8.4 per cent in December 2024, while CPI inflation was 5.22 per cent. Ten months later, in October, 2025, headline inflation fell to 0.25 per cent, driven by a dramatic fall in food inflation to (-) 5.02 per cent. The core inflation during this period remained relatively sticky at around 3.5 per cent.

So is there sufficient evidence to conclude a causal link between changes in the policy rate and the headline inflation remaining within 4+/-2 per cent band?

A corollary to this question is whether the FIT regime so far has been able to anchor inflationary expectations adequately. These issues need to be pursued further through rich analysis and empirical investigation.

On whether the tolerance band for inflation should be based on headline or core inflation, all the arguments favour the continuance of headline inflation. One hopes that the evaluation currently underway will strengthen the FIT framework.

The writer is a former central banker and a consultant to the IMF. (Through The Billion Press)

08 Dec 2025

Clouds over role of gas as a 'bridge fuel'

With renewable energy and grid modernisation gaining rapid momentum, demand for gas is likely to taper off

Purva Jain

In recent years, rapid technological advancement and structural changes in energy systems have led many to question if gas is really the bridge fuel we need.

The outlook for gas has shifted in energy sector forecasts this year. While a jump in global gas consumption is anticipated with prices expected to ease, many factors must align for that growth to happen.

The World Energy Outlook (WEO) 2025 shows LNG demand growth slowing from 80 billion cubic metres (bcm) a year, as witnessed in the past decade, to 70 bcm a year to 2035 under the Current Policies scenario. Under the Stated Policies scenario ("the prevailing direction of travel for the energy system"), demand growth is even lower, at 50 bcm a year. This indicates the high potential for gas to be replaced by a combination of renewable energy expansion, efficiency increases and electrification. Most importantly, in this scenario, the report says, "renewables lead to absolute decline in natural gas use in electricity generation in Europe and advanced economies in Asia", reaching a plateau in the mid-2030s.

For price-sensitive South and East Asian countries, the WEO 2025's Stated Policies scenario predicts demand growth when relatively lower LNG demand in China and Europe create a downward pressure on LNG price due to oversupply. The outlook also refers to potential additional LNG demand creation from coal-to-gas switching in China and other Asian countries. However, IEEFA analysis has shown LNG is not serving as a bridge fuel from coal for India and China.

DEMAND DRIVERS

The forecast surge in gas demand growth in the WEO 2025 is also expected to be driven by China, the Middle East and emerging Asian economies. However, the WEO 2025 slashes European demand to 2035 compared with its 2020 forecast.

Meanwhile, India's gas demand is forecast to almost double. The WEO 2025 expects demand to jump to 139 bcm by 2035 and to approach 200 bcm by 2050. The WEO 2020 expected India's gas demand to cross 200 bcm much earlier, in 2040, likely due to the increasing presence of gas alternatives in the country. The caution on gas demand growth across all forecasts is widely applicable to India.

As gas faces stiff competition from other fuels across most sectors, these forecasts may need to be revised down further for India. Renewable energy deployment is gathering massive momentum in India, and is already far more competitive than gas for power generation. The country installed 29.5 gigawatts (GW) of renewable energy in fiscal year (FY) 2024-25, and has achieved 30.5 GW installed renewable energy capacity in the first seven months of FY2025-26. India has no plans to build new gas-fired power capacity because of high stranded-asset risks, and has retired 5GW of idle gas-based plant capacity this fiscal year.

RE PUSH. Gas is losing steam

In other sectors, increased renewable energy scalability could crowd out the already limited use of gas in industry and transport, for example. Industrial gas consumption has increased with the availability of more affordable domestic supply.

However, the sector remains price-sensitive with higher consumption of alternatives in times of high gas prices. IEEFA analysis found that focusing on energy efficiency and renewable energy based electric heating would yield better decarbonisation results for the sector.

Similarly, in the transport sector where more affordable domestic gas has fuelled demand, registrations pale in comparison to electric vehicles (EVs). EV registrations grew from insignificant in FY2017-18 to almost 900,000 in FY2024-25 while CNG vehicle registrations were about 500,000 despite being around much longer.

India's achievements in grid modernisation and storage deployment will counter gas demand growth in the country.

In the WEO 2025 net zero scenario — a global pathway to limit temperature rise to 1.5°C above pre-Industrial levels — gas demand takes a massive dip. Under this scenario, the outlook noted that under-construction LNG projects will no longer be needed. Reading between lines of the WEO and other forecasts reveals the challenges to future gas demand.

The energy transition is being driven by renewable energy deployment, grid modernisation and enhanced storage systems. Locking in resources for a fossil fuel build-out, especially for a transitional need, looks increasingly unnecessary.

The writer is Energy Specialist, Gas & International Advocacy, South Asia with Institute for Energy Economics and Financial Analysis (IEEFA)

09 Dec 2025

LINE & LENGTH.

TCA SRINIVASA RAGHAVAN

GETTY IMAGES

Dollar rule: Powered by money or muscle?

The dollar achieving reserve currency status is as much to do with US' military might as it is with the size of its economy

There are only three weeks left in this 25th year of the 21st century. And as this first quarter comes to an end, everyone is talking about the end of the old world order. No one, however, knows what the new one will look like.

The president of Finland recently wrote in *Foreign Affairs* that, in order to see the outline of the new order, we must distinguish between multilateralism and multipolarity. Multilateralism, he said, was a rule-based thing. We have had it till now. Multipolarity is simply a duopoly in which two powers decide and others must follow.

An important element of any world order, multipolar or multilateral, is the currency that all countries accept as a medium of exchange and store of value. Currently it is the dollar. against which the rupee has crossed ₹90.

During a private discussion on this someone asked if things would be different if the dollar wasn't the *capo di tutti capo* (captain of all captains) of all currencies.

Many others have had the same thought, especially after the weaponisation of the dollar by America via financial sanctions. This bullying has forced countries to think about alternative currencies for settling international trade payments and debt, not to mention hiding ill-gotten gains.

The world believes that the dollar is dominant because the American economy is so huge. That is true but there is another aspect that needs discussion: Is it military might or economic size that makes the eventual difference?

Or as economists might ask, what are the necessary and sufficient conditions to make a currency the reserve currency of the world? Will the dollar still be it in 2050?

RESERVE CURRENCY HISTORY

The world didn't have what we now call a 'reserve currency' till about the end of the 19th century. What it had was gold and silver which were the underlying assets of any currency.

That arrangement ended in August 1971 when the US went off the gold standard. That should have ended dollar dominance but, instead, the dollar became even more dominant. Far from telling America we don't trust you, all countries told it the opposite, we trust only you. This is a huge paradox which no one has tried to solve.

Or, those who have, have explained it in terms of the sheer size of the American economy. That was an important reason, of course, but was it the only reason? Would this have happened if, like Japan or Germany, the US had not been so militaristic? In 2001 it had bases in 103 countries. That number is down to 84 or 85 today. In contrast China has none.

The British army and navy inspired much needed trust amongst business people that contracts would be enforced, one way or another. It was a different matter that most such contracts favoured British businesses and the law being followed was British law.

> China thinks it now has both muscle and money. But does it have enough of them separately or in combination? This is where the bad news for it is. It doesn't

It was Pax Brittanica, or as the Chinese might say, multilateralism with multipolar characteristics.

So we should stop fooling ourselves about the strength of a currency being solely the function of its economy's size. The evolution of the sterling as the global currency was backed by England's navy and army.

The Germans started to challenge it at the start of the 20th century but got absolutely nowhere.

But they did plant the seed of dollar dominance. By 1918 the entire gold of Europe had been shipped to the US. That's why Fort Knox was built.

CHINESE DREAMS

China has been doing its best to persuade the world to accept the renminbi as a dollar alternative. It's not working. The technical reasons for this failure can be found in a new book by Urjit Patel, the former governor of Reserve Bank of India and a very formidable economist.

China thinks it now has both muscle and money. But does it have enough of them separately or in combination? This is where the bad news for it is. It doesn't.

So it is making up for it by propaganda aimed at making others believe that it is more powerful than it actually is. But then it has always relied on that, ever since the 1950s in fact when it tried to compete with the USSR in exporting revolution. It failed so miserably that it went capitalist!

Its success depends on scaring the adversaries by small acts of terror, like withholding rare earths. After a while it has to relent because others have found alternative sources of supply and, in any case, what can China do with the stuff if it doesn't sell it?

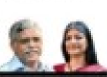
So we don't have to worry very much about China. It was, and remains, *zhilaohu*, a paper tiger.

09 Dec 2025

Fiscal double standards at work

Global markets put up with rich nations' high deficit but punish low income nations despite their lower deficits

MACROSCAN.



CP CHANDRASHEKHAR, JAYATI GHOSH

Policy makers across the developing world are regularly told — and in turn, like to tell their people — that they cannot run fiscal deficits because that will lead to excessive and unsustainable debt burdens. Financial markets are supposed to dislike fiscal deficits, and will punish any governments that run them and thereby add to their public debt. Bond prices will fall and yields will go up, and finance will become much more expensive for any future public spending.

This received wisdom is now so ingrained across the developing world that self-discipline in terms of controlling fiscal deficits (mainly through restricting public spending, rather than, say, raising taxes on the rich) has now become the norm.

As a result, the tendency to "fiscal profligacy" in the form of larger government deficits is now a direct function of per capita income. The rich countries (or advanced economies, AEs, in the figures presented here) are the ones that tend to run larger deficits, while middle income countries are more circumspect and low income countries are the most "disciplined" of all in terms of keeping their government deficits as low as possible.

Figure 1 shows this clearly in terms of what occurred over the past decade. It also shows that even in periods of crisis and downturn that really require countercyclical fiscal policy, such as during the Covid-19 pandemic, middle and low income countries are much less likely to engage in such policies.

In fact, even the increase in deficits of middle and low income countries that has occurred over the past decade has often been because of the burden of interest payments. Figure 2 indicates that the primary deficits (net of interest payments) of these two groups of countries have been significantly lower than for the rich countries, with the gap between them even more marked than for the overall deficit.

COVID SPENDING

Figure 3 suggests that this was achieved by significantly controlling expenditure. Once again, this was especially evident during 2020, the peak year of the Covid-19 pandemic. The advanced economies increased their government spending by an average of nearly 8 percentage points of GDP. Middle income countries showed a much lower increase, of an average of only 2.4 percentage points of GDP. And low incomes countries barely increased their total government spending at all, by less than 1 percentage point (0.8) of GDP.

This obviously had adverse macroeconomic implications for middle and lower income countries: it meant that countercyclical fiscal policies were barely put in place on average, (although there were some clear exceptions) in turn reducing and delaying the economic recovery from the pandemic shock. But it also was bad news for citizens of these countries, since it meant that they were not only affected by low and slow economic recovery, but they were deprived of social protection and necessary public health spending at a time when these were most needed.

As noted earlier, this was largely because the governments of middle and low income countries — almost all of which have now integrated into international capital markets — have been terrorized by the fear of capital flight. The idea that government debt must be kept manageable and low relative to GDP to placate financial markets has taken such a deep hold that most governments no longer require the overt external discipline imposed by the IMF in its adjustment programmes; they simply seek to control their spending no matter what.

The idea that government debt must be kept low to placate financial markets has taken such a deep hold that most governments no longer require the overt external discipline imposed by the IMF; they simply seek to control their spending no matter what

This is why their public debt to GDP ratios have also remained low, and indeed, are so much lower than those of the rich countries that the difference is startling. Figure 4 shows that the over the past decade, public debt in the advanced economies was nearly 110 per cent of GDP on average, and rose to as high as 122 per cent of GDP in 2020. This was nearly double the average public debt to GDP ratio of middle income countries at 61 per cent. And it was nearly two and a half times the average ratio for low income countries, at only 44 per cent.

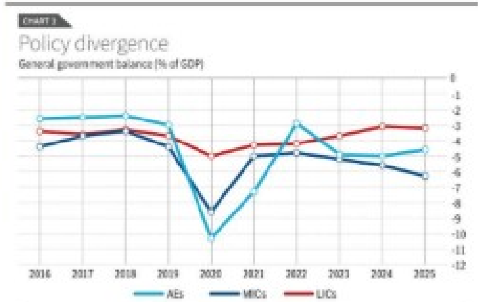
US, JAPAN BENEFIT

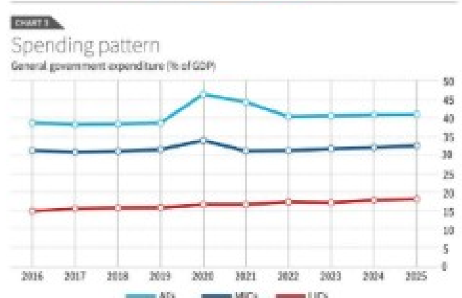
It is true that this is affected by the US, which has run large and growing deficits yet continues to benefit from the exorbitant privilege of holding the world's reserve currency. Yet other countries that hold reserve currencies, such as Japan, have also been granted this favour by financial markets. Japan had extremely high government deficit to GDP ratios over this decade, of 240 per cent of GDP on average, yet it faced ridiculously low effective interest rates, of only 0.3 per cent on average over this decade.

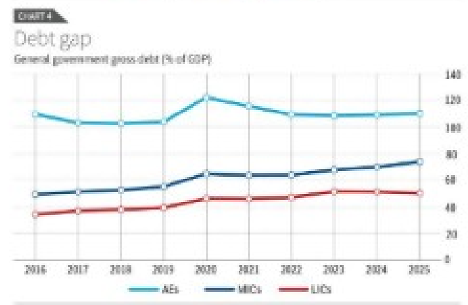
Meanwhile, the greater fiscal restraint shown by middle and lower income countries did not mean that they were rewarded by financial markets. They continued to face higher interest rates and also periodically faced lashings from bond markets because of changes in macroeconomic policies and trade policy shocks emanating from the rich countries. Figure 5 shows that the rich countries had to pay very low effective interest rates in their public debt, while the low income countries had to pay anywhere between two to three times those rates.

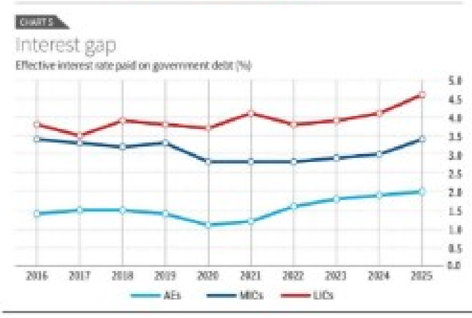
The currency hierarchies that these peculiar patterns reflect are obviously unrelated to any actual risks. It is argued that risk perceptions dominate financial market behaviour, but it is more likely that it is perceptions of relative economic power that drive these differences. And this in turn means that either actual capital flight or the fear of it will act as major constraints on the policy space of middle and lower income countries.

Clearly, for countries lower down or at the bottom of the currency hierarchies, there are few benefits of participating in global financial markets and many quite severe costs. Now that trade deglobalization has been forced on the developing world by the US government, it is time for such countries to reconsider financial globalization.









10 Dec 2025

Disinvestment buffer

Revenues from sale of PSU shares can be handy

Discussions on disinvestment inevitably come up as the Budget draws close. In fact, with signs of stress in tax collections this fiscal — both income tax and GST on account of the reduced levies — disinvestment is being regarded in some quarters as an important balancing factor. A recent report in this newspaper points out that the Centre intends to continue selling small stakes in listed PSUs. The moment is indeed opportune, as public sector enterprise stocks are highly valued now.

The Centre has so far sold stakes in Mazgaon Dock Shipbuilders and Bank of Maharashtra to raise ₹7,348 crore in FY26. This is a wise move since there is a large appetite for PSU stocks among investors. The BSE PSU index has given annualised returns of 35 per cent in the last five years and 15.4 per cent in the last 10 years. With these stocks giving high dividend yield, they are sought after by long-term investors. Around nine stocks in the BSE CPSE index, including Garden Reach Shipbuilding, NALCO, Cochin Shipyard and Bharat Electronics, have doubled their price in the last two years, as investors queued up to buy them, given their niche capabilities to manufacture products critical for the country's infrastructure and defence. The Centre must move quickly, as disinvestment can get difficult if stock markets enter a corrective phase.

Although the government holds 58 per cent of publicly listed companies by market capitalisation (₹22.4 lakh crore out of ₹38.8 lakh crore), this average conceals the fact that there is room to garner resources. The Centre also holds shares worth ₹17.8 lakh crore in public financial institutions; its holding in LIC alone amounts to ₹5.2 lakh crore. Selling small stakes in some PSUs will help in several ways. One, it will help in complying with minimum public shareholding norms. Almost one-fifth of the listed public sector enterprises and half of the public financial institutions, have public holding below the 25 per cent mark. Low floating stock in some of these listed stocks results in driving share prices sharply higher. Two, higher public holding increases accountability and improves governance.

Three, this will lift the Centre's revenue, at a time when US tariffs and major policy changes are likely to squeeze the fiscal balance. The Centre's finances for the April-October period show net tax revenue was ₹12.74 lakh crore, 2.6 per cent lower than the ₹13.05 lakh crore collected in the same period in FY25. Disinvestment must be carried out judiciously in the right sectors at the right time, to meet multiple long-term objectives. To place it solely within the public finance frame is to miss its larger import. The Centre has, in fact, done well to remove disinvestment as a line item in the FY26 Budget. As a Budget entry, it had turned into a target that was barely ever realised. Worse, it began to be seen as an exercise in window-dressing revenue projections.

10 Dec 2025

UDAY BALAKRISHNAN

KUMAR SS

Why this obsession with infrastructure outlays?

HUMAN CAPITAL. India needs to massively ramp up its spending on health and education on a priority basis

What threatens India most is a persistent misdirection of priorities. Vast quantities of money continue to be poured into schemes with significant time and financial overruns. The CAG'S audit of Bharatmala Pariyojana Phase I lays this bare. The project, approved at ₹5.35 lakh crore for 34,800 km of highways, had by 2023 ballooned to ₹8.47 lakh crore with only three-quarters of the roads even awarded.

The Dwarka Expressway alone costs ₹250 crore per km — over 10 times the benchmark for national corridors. This pattern repeats across sectors — from Sagarmala to the Smart Cities Mission — revealing an obsession with the monumental at the expense of the meaningful. Even as India's demographic advantage slips, vast numbers of its people remain under-educated and under-skilled.

The numbers tell the story. Public expenditure on education remains stuck below 5 per cent of GDP and on health at barely 2 per cent. China spends about 4 per cent on health and 6 per cent on education while India spends scarcely 6 per cent combined.

INDIA VS CHINA

The difference in absolute terms is even starker. With a GDP of roughly $18 trillion, China's 6 per cent allocation to education alone amounts to over $1 trillion a year, compared with India's $160 billion. In health, China's annual outlay exceeds $700 billion, while India's remains below $80 billion. This trillion-dollar gap explains how China built a literate, skilled, and healthy workforce within a generation.

The structural imbalance begins early. India enrols over 12 crore children in primary classes but only 6 to 7 crores in classes 9 to 12. Gross Enrolment Ratios drop from 93 per cent in primary to 77 per cent in secondary and just 56 per cent in higher secondary. The legacy is now visible in the workforce.

According to the latest Periodic Labour Force Survey, only about half of India's working-age population) has completed secondary education or higher, and barely 3.8 per cent report formal training; 27.4 per cent have received vo cational or technical training. This means that millions now in their thirties, forties, and fifties entered work with limited schooling and poor formal skills, confining them to low-productivity and manual jobs.

The health situation is equally worrying. India has only about 17.5 skilled health workers per 10,000 people, well below the WHO benchmark of 22.8; in States such as Bihar, the figure is under 2 per 10,000. Public spending on healthcare per citizen barely crosses ₹1,000 annually resulting in illnesses and malnutrition continuing to sap productivity. The World Bank's Human Capital Index estimates that a child born in India today will be only 49 per cent as productive as she could be with full health and education.

> **Money saved from rationalising subsidies and reducing project cost overruns can easily** double public spending on education and health without widening the fiscal deficit

SPENDING SMARTLY

Rebalancing public spending is therefore imperative. India does not need to spend endlessly more; it needs to spend differently. Rationalising food and fuel subsidies to target only the genuinely needy could conservatively free about ₹1 lakh crore a year. Curbing cost overruns in large infrastructure projects which now exceed ₹5 lakh crore could yield another ₹1.5 to ₹2 lakh crore. Together, such reallocations could easily double public spending on education and health without widening the fiscal deficit.

Yet incremental change will not suffice. After two decades of under-investment, India must now devote close to 10 per cent of GDP to education, healthcare, and vocational training if it is to match East Asian standards within a generation. This would still place India at the lower edge of what countries such as China and South Korea already spend but will still constitute a significant improvement.

Study after study show that investments in education, health, and skills yield far higher and more enduring economic returns than capital-intensive projects. A better-trained teacher or nurse adds more to long-term productivity than another kilometre of expressway where a highway would have served just as well. Fiscal prudence and human development must go hand in hand. The present rate of growth, if well prioritised, could transform a generation of young Indians into one of the most productive workforces in the world. India must do all it can not to squander what it has.

If India continues to associate size with success and spending with value, it will waste-away its most precious, time-bound asset — its people. Unless this changes, India risks growing older without becoming prosperous. That would be a shame for it is entirely preventable.

The writer is a columnist exploring the intersections of state, society, and history. He teaches at IISc-Bengaluru

10 Dec 2025

Seeds Bill isn't what the farmer ordered

It reads like a document drafted with an eye towards 'ease of doing business' rather than 'ease of farming'

Ramanjaneyulu GV

India's seed governance is being quietly rewritten. Alongside new standards proposed for Community Seed Banks and ongoing consultations to amend the Protection of Plant Varieties and Farmers' Right (PPV&FR) Act, the draft Seeds Bill, 2025 has been released for public feedback. Together, these developments signal a deep structural shift in how seeds will be produced, traded and governed in the years ahead. But it is the Seeds Bill that sits at the heart of this transformation — and it raises unsettling questions about whose interests the law is designed to serve. For nearly two decades, farmers, State governments, and civil society have waited for a modern seed law that would finally bring accountability, transparency, and real protection to the seed sector. The first draft surfaced in 2004, another in 2019, and both collapsed under the weight of competing demands: farmers asked for protection, industry asked for freedom, and States demanded regulatory powers — no consensus ever held.

At first glance, the Bill appears responsive: it introduces mandatory traceability for registered varieties, strengthens penalties, and acknowledges price regulation — at least in theory. But these additions are overshadowed by deeper structural choices that tilt the law firmly towards centralised control and corporate convenience, rather than farmer empowerment.

ACCREDITATION SYSTEM

The most striking shift comes through Section 17(8), which establishes a Central Accreditation System. Under this mechanism, a company accredited by the Centre is automatically "deemed to be registered" across all States — whether or not the State wants that company operating within its borders. States must immediately record the registration and are explicitly barred from rejecting applications on technical, financial, or infrastructural grounds. This is not cooperative federalism; it is an erasure of State authority. At a time when seed failures have had intensely local consequences — from cotton in Maharashtra to chilli in Telangana — removing the ability of States to regulate who enters their seed markets is both imprudent and undemocratic.

Equally troubling is the Bill's silence on the issue that farmers have pleaded about for decades: compensation. When poor-quality or spurious seed leads to crop failure, penalties may be imposed — but they flow to the state treasury, not to the affected farmers. The draft offers no automatic, time-bound compensation mechanism, no seed liability fund, and no accountability pathway that farmers can realistically

AT A CROSSROADS. The Seeds Bill needs to be reshaped

access. After years of court battles and rare compensation orders — often secured only after public pressure — this silence feels like a profound betrayal. Same is the case with seed producing farmers in contract (unwritten!) with the seed companies.

Even the mention of price regulation rings hollow. The Bill allows the Centre to intervene in seed pricing only during "emergent situations," a phrase left undefined and conveniently narrow. In a market where seed prices have soared and proprietary hybrids increasingly dominate, farmers deserve predictable protections, not occasional rescue.

Then there is the issue of foreign trials and certification. By allowing foreign agencies to conduct VCU trials and certify seed, the Bill undermines India's hard-won system of local agro-climatic testing through ICAR and State Agricultural Universities. Seeds succeed or fail in the field — not on foreign land with different soils, climates, pests and practices. Giving foreign data a statutory gateway into Indian markets is risky at best, reckless at worst. And what of the small seed producers who form the backbone of India's informal seed economy? The Bill's expanded registration, traceability and compliance requirements create barriers that many small players — local seed producers, cooperatives, farmer groups — may struggle to cross. While big companies gain a streamlined national entry pathway, local systems are pushed closer to the margins.

The Seeds Bill, 2025 could have been the law that restored trust in the seed market, protected farmers from predatory practices, and strengthened India's seed sovereignty. Instead, it reads like a document drafted with an eye towards "ease of doing business" rather than "ease of farming."

India's seed future stands at a crossroads. If this legislation is to serve the interests of the millions who sow the nation's fields, it must be reshaped — rooted not in centralised power or corporate entitlement, but in the lived realities of farmers, the wisdom of States, and the ecological diversity of Indian agriculture.

The writer works with Centre for Sustainable Agriculture

Dollar's dominance

This refers to 'Dollar rule: Powered by money or muscle?' (December 9). The US dollar continues to hold its position as the world's dominant reference currency due to a combination of factors like deep financial markets, global trust in US institutions, strong external demand for dollar-denominated assets etc. Despite the US carrying a gross national debt of around $38 trillion, the global system still provides substantial support in ensuring that the dollar dominates as it is widely used for trade invoicing, cross-border lending, and international debt securities. This persistent global demand for US Treasury securities eases America's debt-financing burden and offsets structural pressures such as its long-standing trade deficit. So there is no immediate alternative that matches the dollar's liquidity, depth, and widespread use.

Srinivasan Velamur

Chennai

India-Russia ties

Apropos 'Balancing act: India's multi-alignment to the fore in Putin visit' (December 9), India's decision to deepen trade with Russia while publicly urging respect for territorial integrity is classic realpolitik, not hypocrisy. With energy prices still elevated and Western sanctions creating a buyers' market for discounted Russian oil, Delhi has quietly built a $60 billion-plus annual trade relationship that keeps inflation in check and factories running. Yet the joint statement's careful language in Ukraine shows India has not abandoned its broader commitment to a rules-based order. In a fractured world, refusing to choose one camp over another is not moral evasion; it is survival. The real test will be whether New Delhi can now use its growing leverage in Moscow to push, even gently, for a negotiated end to the war — because strategic autonomy that never risks anything eventually becomes strategic irrelevance.

M Barathi

Bengaluru

Optimise pesticide use

Apropos 'Shivraj warns against over use of pesticides, fertilizers' (December 9).

Albeit this is a clear admission of excess use of pesticides and fertilizers, mere warning may not help. Agri-universities through KVK's must physically visit each village and farmer on a regular basis and make aware the farmers the advantages of calibrated use of pesticides and fertilizers with practical demo, and convince them on its cost-effectiveness. Also, free sale of these derivatives must be monitored and curtailed, without which no effort yields results.

Rajiv Magal

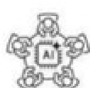
Halekere Village, Karnataka

11 Dec 2025

Intellectual propriety

AI giants must pay for dipping into creative commons

India's draft framework for a statutory licensing regime for AI training marks a crucial intervention in one of the most important economic debates at present: who owns value in the age of generative artificial intelligence? If data is the new oil, the wells belong to millions of writers, journalists, filmmakers, artists, musicians, and independent creators.



Yet today, that resource is extracted at an industrial scale by global AI firms without consent, credit or compensation. India's proposal recognises that creative labour is not a free public utility. Under the recommended architecture, AI companies would be required to obtain a blanket licence to use lawfully accessible copyrighted material for training. In exchange, they must pay a royalty to be set by a newly created entity called the Copyright Royalties Collective for AI Training (CRCAT). A single collection mechanism would distribute payments to rights-holders, including smaller and unregistered creators who are typically excluded from traditional licensing systems. Importantly, payment is triggered only when a model is commercialised. This "one licence, one payment" approach eliminates the impossible burden of negotiating thousands of individual agreements while ensuring that creators share in the economic upside of the AI revolution.

The model stands in sharp contrast to the text-and-data mining (TDM) exemption promoted by the IT industry body Nasscom. TDM was designed for small-scale research use, not billion-dollar commercial products. It is now playing out in courts. In the US, *The New York Times* has filed a landmark lawsuit against OpenAI alleging unauthorised ingestion of its archive to train commercial AI models. In India, news agency ANI has brought a similar action before the Delhi High Court, contesting the use of its copyrighted content for AI training without authorisation. Surely, "publicly available" cannot be taken to mean "free for industrial exploitation." The UK has wrestled with a similar dilemma. A government proposal to expand TDM for AI training triggered a backlash. The US, meanwhile, leans on "fair use" wherein access to content is allowed for research. This doctrine was never designed for the industrial ingestion of millions of works.

India's approach is bold, but questions remain. Implementing royalties retroactively will be complex. Secondly, the licence given to AI firms should not mean blanket approval to access all content. The right to be paid must not erase the right to refuse. Once an entity receives a licence, content owners should retain a meaningful opt-out: some artists, authors or publishers may prefer to keep their work entirely outside the AI domain. To make the system workable in its early years, flat royalty rates appear the most appropriate model. The logical path is to move towards category-based royalty pools — text, music, images, video — so that different forms of creative work are valued fairly.

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11 Dec 2025

RAGHAV PANDEY
MS SAHOO

The flawed creditor divide in the IBC

RESTORE BALANCE. When law departs from commercial reality, it distorts market mechanisms. Therefore, the divide between financial and operational creditors lacks basis

The Insolvency and Bankruptcy Code, 2016 draws a sharp distinction between financial creditors (FCs) and operational creditors (OCs), based on the premise that financial debt embodies the time value of money (TVM). Building on this, the Code presumes that FCs possess commercial wisdom and the willingness and ability to defer repayment. Accordingly, it accords FCs primacy in the insolvency process: they control it, determine its outcome, and enjoy priority in the distribution waterfall. OCs, by contrast, stand at the periphery, procedurally and substantively.

This distinction, however, rests on a misconception. TVM is a basic economic principle: a rupee today is worth more than a rupee tomorrow. Conversely, a rupee receivable in the future is worth less today. If one parts with ₹100 today and receives ₹110 a year later, the additional ₹10 is the compensation for waiting in the face of uncertainty.

Money carries time value because the future is uncertain. A creditor who defers repayment takes on a range of risks: inflation may erode purchasing power; the borrower may default; new investment opportunities may arise and be missed; and the broader economic, policy, technological, or environmental landscape may shift in ways that diminish the worth of the money when it finally returns. For individuals, there is also an existential uncertainty: one may simply not live long enough to enjoy the benefits of delayed repayment.

A rational economic actor prefers to use money today rather than defer its use. Deferral is acceptable only when accompanied by compensation for the uncertainty associated with time. The longer the deferral, the greater the uncertainty, and therefore the higher the compensation required. Interest, in essence, captures the price of waiting and serves as the premium for uncertainty.

Crucially, every deferred payment embeds TVM. This principle does not discriminate between a bank lending to a steel plant and a vendor supplying coal on credit to the same plant. In both cases, someone parts with money today with the expectation of a return tomorrow. The economic substance is identical: transfer of present value in exchange for future payment, carrying a premium for time.

The real economy makes no distinction between operational and financial debt in terms of TVM. Roughly two-thirds of corporate bank lending is in the form of working capital loans, which primarily fund payments to suppliers, inventory procurement, and other operating expenses. Suppliers effectively finance the operating cycle, sometimes directly by giving credit, and sometimes indirectly, by enabling the borrower to use bank finance to pay them. In economic terms, supplier credit and working capital loans perform the same function: they finance the operating cycle of the business.

A familiar commercial practice illustrates the point. The cash price of goods is lower than the credit price. If a buyer pays immediately, it receives a cash discount. If it pays later, it foregoes the discount. This foregone discount is, in substance, interest. The buyer could alternatively borrow at interest from a bank to pay the supplier upfront and avail the discount. Or, the supplier may borrow funds at interest cost to supply on credit to the buyer without a discount. Economically, the two choices are equivalent. A supplier supplying on credit is mathematically no different from a bank offering working capital finance. The Supreme Court in *Pioneer Urban* (2019) held that real estate allottees qualify as FCs as their payments have a commercial effect of borrowing. This reasoning applies equally to OCs. A manufacturer using steel supplied on credit is effectively deploying the supplier's capital to produce cars. The economic substance is identical: a transfer of present value in return for a deferred value that inherently embeds TVM.

A robust insolvency regime rests on economic logic. The time value of money does not distinguish between a banker and a supplier; neither should the law

UNCONVINCING RATIONALE

The rationale for privileging FCs is unconvincing. It is difficult to accept that FCs inherently possess superior commercial wisdom merely because they specialise in lending, while OCs, who run businesses, manage production cycles, and assess counterparty risk daily, do not. The resolution plans approved so far offer little insight into the underlying businesses, with little indication that post-resolution earnings would meaningfully service debt. Moreover, 13 per cent of the companies that proceeded to liquidation were ultimately rescued, through going-concern sales and restructuring, pointing to lapses in commercial judgment. Nor is it accurate to assume that FCs would readily reschedule repayment to avoid liquidation. The high proportion of cases culminating in liquidation, despite FCs steering the process, suggests otherwise. In several approved resolution plans, FCs have opted for immediate exit rather than remaining invested to share in potential future value creation. Rather, secured FCs may have an incentive to pursue liquidation, as the realisation of security in liquidation may equal or exceed what they would receive under a resolution plan.

The assumption that OCs would push for liquidation to secure immediate recovery is equally misplaced. A supplier's economic fate is closely tied to the debtor's survival. Liquidation eliminates a customer; a resolution plan preserves the order book. In many cases, OCs have a strong incentive to keep the enterprise alive.

FCs, typically banks or large lending institutions, are secured creditors, while OCs are almost always unsecured. FCs use sophisticated data-driven risk models, while OCs face significant information asymmetry as they rarely have access to the financial health of the borrower. FCs generally hold a diversified credit portfolio capable of absorbing the failure of a borrower. OCs, by contrast, are specialised vendors whose business survival is tied to the solvency of the debtor. Recognising their inherent vulnerability, several jurisdictions ensure that unsecured creditors, who are predominantly OCs, have a seat at the decision-making table.

A robust insolvency regime rests on economic logic. The TVM does not distinguish between a banker and a supplier; neither should the law. No major insolvency regime uses TVM to classify creditors or exclude an entire class of creditors from decision-making on this basis. All creditors extend capital, all bear uncertainty, and all deserve a meaningful role in resolution. The current framework risks disincentivising supplier credit, distorting credit markets, and raising the cost of doing business. A course correction, anchored in the universality of the TVM and supported by global practice, is essential to restore balance, fairness, and economic coherence to the Code.

The writers are respectively an Assistant Professor and a former Distinguished Professor at National Law University Delhi

11 Dec 2025

Embed worker inputs while deploying AI

Companies creating AI models without worker input are building inferior systems. Unions too, should take an open view

Prabir Kumar Bandyopadhyay

As Indian companies race to implement artificial intelligence across operations, a critical stakeholder remains conspicuously absent from the conversation: trade unions. While commentators proclaim unions' declining relevance, global trends tell a different story. From the US to Europe, union membership is resurging as workers face economic uncertainty and technological disruption. In this context, the silence around AI and labour isn't just problematic — it's a strategic failure by both companies and unions.

When companies deploy AI without engaging union leaders, they create a vacuum that speculation quickly fills. Workers hear about algorithmic management and automation through rumours rather than facts. Union leaders, lacking information, must respond to member anxieties with incomplete knowledge, often defaulting to resistance that slows innovation.

But there's a deeper problem: companies building AI without worker input are building inferior systems.

AI trained on theoretical models alone misses the tacit knowledge, exception handling, and adaptive strategies that make operations actually work. When companies exclude workers and their representatives from AI development, they're not just creating labour relations problems — they're building systems that don't reflect operational reality.

Training union leaders on AI transforms them from opponents into informed partners who can contribute this critical knowledge. German unions have demonstrated this brilliantly.

THE GERMAN BLUEPRINT

Germany's IG Metall union, representing over two million workers in manufacturing and IT, has made AI training central to its strategy. Through programmes like "*Arbeit und Innovation*" (Work and Innovation), the union trains Works Councils to negotiate AI implementation and propose alternative digitalisation strategies. These aren't token gestures but comprehensive programmes giving worker representatives real technical knowledge.

A 2024 survey found 42 per cent of unions across 32 countries actively bargaining on AI, with one-fifth having explicit agreements. Denmark's 3F union negotiated algorithmic transparency requirements. Spain introduced AI clauses in banking and insurance sectors. The European banking sector's May 2024 Joint Declaration committed to social dialogue, transparency, and worker training on AI.

VITAL. Building AI expertise

Indian companies can learn from this model. Germany's success stems from strong co-determination rights, but the principle — training creates partnership — applies universally. Yet here's the uncomfortable truth: while many union leaders speak eloquently about wanting partnership in transformation, their actions often fall short.

If trade unions genuinely want to be part of AI conversations, they must demonstrate commitment through tangible action. Where are the union-led AI literacy programmes for members? Where are the publicly articulated frameworks for evaluating AI implementations? Where are constructive proposals for how AI can improve work rather than simply threaten it? Too often, unions wait for management announcements before mobilising, positioning themselves as defenders against change rather than shapers of it. This reactive stance reinforces perceptions that unions oppose progress rather than guide it responsibly. Unions like IG Metall show the alternative: developing expertise before crises emerge, proposing alternative strategies, negotiating from knowledge rather than fear.

Union accountability matters. Members deserve leadership that equips them with skills and understanding, not just grievance procedures. They need representatives who distinguish between genuine threats requiring resistance and transformations requiring adaptation. This requires serious investment in building AI expertise — training union officials, establishing research capabilities, creating academic partnerships.

For companies, training union leaders builds better labour relations, superior AI systems grounded in operational reality, and competitive advantage through workforce engagement.

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Anand Radhakrishnan of Franklin Templeton shares his views on a range of topics

11 Dec 2025

When 'fiscal discipline' can hurt

GROWTH MATTERS. Instead of a rigid fiscal deficit target, a debt-to-GDP-ratio norm will allow room for public investment

ADIKESAVAN S

In a largely overlooked paragraph of the Statement on the FRBM Framework tabled with the Union Budget 2025-26, the Ministry of Finance made a subtle but significant policy shift: India will increasingly rely on the debt-to-GDP ratio — rather than the annual fiscal deficit target — as the primary anchor for fiscal management.

The statement noted: "The choice of debt to GDP ratio as the fiscal anchor is in line with current global thinking. It encourages a shift from rigid annual fiscal targets towards transparent and operationally flexible fiscal standards. It is also recognised as a more reliable measure of fiscal performance as it captures the essence of past and current fiscal decisions. It is expected that the debt to GDP based fiscal consolidation strategy would help rebuild buffers and provide requisite space for growth-enhancing expenditures."

This shift is not merely semantic. It reflects an emerging recognition that India's rigid fiscal-deficit target —especially the FRBM-mandated 3 per cent limit — has neither been achievable nor particularly meaningful in guiding long-term fiscal strategy.

A RULE WITHOUT RATIONALE

It is well known that since the FRBM Act came into force in 2003, India has not met the 3 per cent fiscal deficit target even once. In fact, in the years following the Covid-19 shock, fiscal deficits were necessarily elevated at 9.5 per cent, 6.8 per cent, 6.4 per cent, 4.8 per cent, and 4.5 per cent (2025-26), respectively in the last five years.

The target has become something of a "holy grail," continuously postponed each year and invoked more as a symbol of discipline than a reflection of economic reality. Economists have long pointed out that the 3 per cent number is arbitrary. Why not 3.5 per cent or 4 per cent? There is no rigorous empirical basis for choosing 3 per cent. There is no logical response to the question why 3 per cent? Why not 3.5 or 4 per cent? The 3 per cent norm is just a rule-of-thumb metric, not validated by evidence or research.

The figure, essentially borrowed from European fiscal conventions, was adopted in India without substantial research to justify its relevance in an emerging economy with a massive development agenda.

Bank deposits and their G-Secs holdings

Item	Oct 2024 (₹ lakh cr)	Oct 2025 (₹ lakh cr)	Share of Govt Securities in Deposits
Total Deposits (ASCB)	222.65	243.88	–
Central & State Govt Securities Held	66.34	70.42	29% in both years

COUNTER-CYCLICAL FAILURE

A growing body of academic work argues that strict annual fiscal-deficit caps can impede counter-cyclical policy. During downturns, governments need flexibility to increase spending; during periods of high growth, they can consolidate. Hard ceilings, however, tend to induce austerity biases, suppressing both public investment and long-term growth prospects.

Thus, the decision to adopt debt/GDP as the anchor reflects a deeper understanding: long-term debt sustainability depends on the path of growth, not on adhering to a fixed annual deficit number. It is conceded that debt/GDP and Deficit/GDP are not unrelated.

If India aims to maintain 7-8 per cent real GDP growth, public investment will have to remain elevated for at least the next decade. A fiscally conservative approach can act as a constraint

THE MYTH OF CROWDING OUT

One of the classic arguments for restricting government borrowing is the fear of "crowding out" — the idea that higher public borrowing will shrink the amount of credit available to the private sector. However, the data paints a different picture.

Banks in India continue to invest far above the mandated Statutory Liquidity Ratio (SLR) of 18 per cent. As of October 2025, they hold over 25 per cent of their deposits in government securities, without evidence of private credit being choked off. The consistently high investment in government securities indicates that the appetite for such instruments remains robust. There is also no evidence that banks' investment in public borrowing has constrained private sector credit growth.

ENGINE OF GROWTH

Rather, what is clear is that the Union government's willingness to adopt a flexible fiscal stance has enabled unprecedented levels of capital expenditure. Between 2022-26, infrastructure allocations rose from ₹5.4 lakh crore to ₹11.11 lakh crore, the highest in independent India and amounting to 3.4 per cent of GDP in the latest Budget.

This scale of investment — roads, highways, railways, ports, airports, metro systems, water systems, energy projects — is foundational. These are public goods without which private investment cannot gain traction.

China's exceptional growth trajectory after the Deng Xiaoping reforms was built on bold, large-scale infrastructure creation: expressways, rail networks, power generation, and industrial zones. That public investment became the backbone of its rise as a global manufacturing centre.

India's Pradhanmantri Gati Shakti — a $1.2-trillion national master plan for multimodal connectivity — aims to replicate this infrastructure-led competitiveness by reducing logistics costs and improving supply-chain efficiency.

If India aims to maintain 7-8 per cent real GDP growth, public investment will have to remain elevated for at least the next decade. This growth path becomes far more challenging if fiscal policy becomes excessively conservative.

The real question, therefore, is not whether the fiscal deficit is 3 or 4 per cent, but whether:

* the debt level is sustainable,
* economic growth exceeds the cost of borrowing,
* and public spending is directed toward growth-enhancing areas.

On these fronts, India remains in a comfortable position.

FOR PRAGMATISM

The shift towards using the debt/GDP ratio as the primary fiscal anchor is a pragmatic and welcome change. It acknowledges two decades of experience: not once has India achieved the 3 per cent deficit target, and yet the economy has grown rapidly, especially during periods when government investment played a leading role.

As the Budget papers said: "It is expected that the debt to GDP based fiscal consolidation strategy would help rebuild buffers and provide requisite space for growth-enhancing expenditures".

The writer is a commentator on banking and finance

11 Dec 2025

IMF wades into debate over Yuan, warns on risk of trade tensions

Bloomberg News

The International Monetary Fund linked China's booming exports and growing trade imbalances in part to a real depreciation of the yuan, lending its voice to a debate over distortions caused by a weaker exchange rate.

Following the conclusion of the IMF's annual review of China's economy, fund officials said the country's low inflation relative to price levels among its trading partners has led to a weaker yuan in real terms. They urged Chinese policymakers to adopt bolder stimulus to boost consumption, which would lift consumer prices, while allowing more exchange rate flexibility.

"As the second-largest economy in the world, China is simply too big to generate much growth from exports," IMF Managing Director Kristalina Georgieva said at a press briefing in Beijing on Wednesday. "Continuing to depend on export-led growth risks furthering global trade tensions."

Kristalina Georgieva, IMF Managing Director REUTERS

The IMF didn't explicitly recommend that China should push for the yuan's appreciation, she said.

China has moved fast in recent years to gain manufacturing dominance, drawing accusations from the likes of Donald Trump over maintaining an undervalued exchange rate that helped it amass trade surpluses.

The IMF appeared to be siding with critics in echoing growing calls abroad and within China for a stronger yuan. The currency's inflation-adjusted exchange rate fell to the lowest in more than a decade due to persistent falling prices in China, which made its exports more competitively globally.

The debate is playing out against the backdrop of China's goods trade surplus surging to a record of above $1 trillion in the first 11 months of this year. Countries fearful for the future of their industries are increasingly pushing back against the flood of Chinese exports. China maintains a "managed float" of the yuan and has a number of tools to influence the exchange rate. Officials have repeatedly said they aim to keep the currency "basically stable," allowing the yuan to appreciate slightly this year and at times using its daily fixing to discourage rapid moves.

The IMF has in recent years been advising China to increase the flexibility of its exchange rate. A decade ago, the IMF dropped a long-held view that the yuan was undervalued, ahead of the currency's inclusion in the fund's Special Drawing Rights basket of reserve currencies.

"What we want to see is a market-based exchange rate that reflects fundamentals," Georgieva said.

External imbalances are becoming more pronounced for China, according to the IMF, with its current account surplus projected to reach 3.3 per cent of gross domestic product in 2025.

12 Dec 2025

DHARMA RAJU BATHINI

GETTY IMAGES

New Data Protection rules leave workers behind

THE LACUNAE. Unspecified reasons for collecting data, workers' lack of access to their data and feeble collective redress systems are pain points

On November 13, the government notified the Digital Personal Data Protection Rules, 2025 through G.S.R. 846(E). Together with the Digital Personal Data Protection Act, 2023, these Rules operationalise India's long-awaited data governance regime: setting out standards for consent notices, duties of data fiduciaries, security practices, grievance timelines, and the designation of Significant Data Fiduciaries (SDFs).

For India's digital economy, this marks substantial progress. For India's workers, however, the Rules represent a profound missed opportunity. Despite years of consultations and the rapid expansion of workplace technologies, the final Rules provide virtually no worker-specific protections — even as algorithmic management, biometric attendance systems, and data-driven performance tracking have become ubiquitous.

The Expanding Landscape of Workplace Surveillance:

Across white-collar, blue-collar, and platform sectors, employers in India increasingly rely on:

* Biometric attendance systems (fingerprint, iris, facial recognition);

* GPS-based location and route tracking;

* Keystroke, screen-time and productivity loggers;

* Automated résumé filters and hiring algorithms;

* Algorithmic shift allocation, rating systems and incentive optimisation.

These systems shape workers' hours, earnings, evaluations and livelihood security every day. Global vendors also advertise even more intrusive workplace surveillance technologies including emotion-recognition or gait-analysis tools.

WHAT THEY DO AND DON'T DO

(i) "Employment purposes" remain dangerously broad: Section 7(i) of the DPDP Act permits employers to process worker data without consent for "the purposes of employment" or "safeguarding the employer from loss or liability." The DPDP Rules 2025 do not define or narrow this phrase. There is no proportionality test, necessity standard, or objective limit on downstream uses. This leaves vast room for "function-creep", where data collected for routine operations is repurposed for monitoring or disciplinary control. The well documented use of EPFO/UAN data for dual-employment checks is a vivid example of data repurposing (function-creep) in India's labour market.

(ii) Workers have no practical access rights for most workplace data: Under Sections 11-12, a worker can access or correct their data only if they previously gave consent.

But almost all workplace data processing occurs under Section 7(i) (non-consent).

The result: Workers can be denied access to productivity metrics; they cannot inspect or correct algorithmic profiles; they cannot review logs used to discipline them. Rule 14 requires employers to publish the manner of exercising rights and meet response deadlines. But it does not extend those rights to non-consent situations, so the core problem remains intact.

(iii) No safeguards for automated decision-making at work: Neither the Act nor the Rules grants: a right to explanation; meaningful information about the logic of automated decisions; human review, or; an appeal against algorithmic outcomes.

The only algorithmic provision appears in Rule 13(3) — and applies only to Significant Data Fiduciaries. Most employers are not SDFs. Thus, algorithmic decisions in hiring, pay, scheduling and performance management remain effectively unregulated.

(iv) No sensitive-data tier — even for biometrics: The DPDP framework contains no "sensitive personal data" category. Biometric identifiers, despite their intimate nature and widespread workplace use, receive no heightened protection.

(v) No collective redress mechanisms: All rights and grievance procedures are individualised. Rule 14 outlines timelines for acknowledgment and resolution but:

* Provides no collective complaint mechanism,

* Grants no standing to unions or worker associations,

* And does not require employers to consult workers before deploying monitoring technologies.

This is a critical omission in an era where systems typically affect entire workforces.

Under Sections 11-12, a worker can access or correct their data only if they previously gave consent. But almost all workplace data processing occurs under Section 7(i) (non-consent)

WHERE INDIA NOW LAGS

* GDPR treats biometrics as "special category data," (Article 9 (i)), protects individuals from solely automated decisions with legal or significant effects (Article 22), allows non-profit organisations to represent data subjects (Article 80).

* The EU AI Act designates employment-related AI systems as high-risk, requiring transparency, documentation and human oversight.

* The California CPRA establishes a distinct "sensitive personal information" category with purpose-limitation requirements.

India's DPDP framework is strikingly silent on these workplace-specific risks.

CONSTITUTIONAL STAKES

India's constitutional privacy jurisprudence emphasises dignity, autonomy, and proportionality.

The DPDP regime, as applied to workers, falls short on all three — particularly where opaque automated systems determine earnings, shifts, or continued employment.

A PATH FORWARD

The following interventions do not require amending the Act; they can be implemented through Rules, codes of practice or DPB guidance.

(i) Define and narrow "employment purposes" through delegated legislation.

(ii) Extend access and correction rights to all worker data.

(iii) Mandate safeguards for significant automated decisions — logic transparency, notice, and human review.

(iv) Create a sensitive-data tier for biometrics and other high-risk worker data.

(v) Enable collective complaints by unions or worker bodies.

The DPDP Act and the 2025 Rules are important milestones, but they leave India's workers exposed to unregulated digital and algorithmic harms.

The law can still evolve — through delegated legislation and regulatory guidance — to ensure India's workplaces meet the Constitutional promise of dignity, fairness and meaningful oversight in the data age.

The writer is a Professor at IIM Calcutta

12 Dec 2025

Learnings from IndiGo crisis

Top management should prevent operational risks

K Srinivasa Rao

Managing operational risks involving people, technology, processes, systemic controls, and internal or external factors is critical. If not addressed early, they can be devastating and threaten organisations' survival. The IndiGo crisis serves as a lesson for many entities across sectors. It exposes gaps in monitoring, controls, and corrective actions.

It appears from the sequence of massive disruptions that the giant IndiGo airline has grown too large without a commensurate expansion of its operational risk management framework, exposing it to enormous backlash from stakeholders. Moody's has already stated that the IndiGo crisis is 'credit negative', highlighting serious planning failures and a material financial hit for the airline.

REGULATORY CHALLENGES

The root cause of the crisis is IndiGo's failure to prepare for compliance with the revised Flight Duty Time Limit (FDTL) standards for pilots' flight duty periods, officially announced in January 2024. Initially, compliance was due by June 1, 2024, but a phased transition was later allowed, extending the deadline to November 1, 2025.

In practice, this meant airlines had about 16-22 months from the issuance date (January 2024) and at least four months from July to November 2025 to adjust rosters to meet the most restrictive requirements, such as 48-hour weekly rest and the extended night-duty window.

Any high-impact regulatory change, such as FDTL, is initiated and prescribed through a consultative process, with a well-defined transition period to ensure seamless compliance with the norms. Any upgraded regulatory norms, particularly in the sensitive aviation sector, are intended to improve safety standards, which remain non-negotiable.

Every enterprise, including airlines, should develop a strategic plan to transition its entire ecosystem to new systems and comply with the improved regulations designed to protect the interests of all stakeholders.

Enterprises should view the

INDIGO. Luggage pile-up PTI

implementation of such long-term regulations as a risk-mitigation project. PERT charts should be created to guarantee timely execution, accounting for lead times and potential disruptions. Monitoring and control tools, outcome management, and progress tracking need regular updates to ensure a smooth transition to new standards.

The governance, risk, and compliance framework should be well established within organisations, with the board and its risk management subcommittee overseeing progress in preparedness. Best corporate governance practices recommend that any strategic shift driven by significant regulatory changes be monitored at the board level, with ongoing oversight and guidance on progress.

Any delay in complying with critical regulations could create an operational risk, leading not only to regulatory penalties but also to disruptions on a scale that could damage the reputation carefully built over decades of hard work.

The crisis at IndiGo indicates that the board's has insufficient oversight of critical compliance systems, putting the airline at operational risk. IndiGo should ensure that the financial impacts of the crisis do not convert operational risk into liquidity risk, which will be more challenging to manage. This could serve as a learning for businesses across various sectors, demonstrating that continuous management of operational risks and awareness of them should be deeply embedded in the risk governance framework for sustainable growth.

The writer is Adjunct Professor, Institute of Insurance and Risk Management, Hyderabad. Views are personal

12 Dec 2025

Shot in the dark

Fed rate actions seem out of sync with macro data

With President Donald Trump exerting not-so-subtle pressure on the US Federal Reserve to ease rates and financial markets pricing in a high probability of it, it is not surprising that the Federal Open Markets Committee (FOMC) has obliged by trimming the policy rate by 25 basis points in its latest review. FOMC has made the usual noises about the need "to achieve maximum employment with an inflation rate of 2 per cent over the long run". However, the truth is that it has taken its latest policy decisions in a data vacuum.

With an extended federal government shutdown lasting 43 days over October and November, critical data releases in the US essential to rate actions, have been unavailable. The Q3 GDP release has been put off and the latest available data for Q2 2025 (April-June) showed the US economy racing along at 3.8 per cent (a sharp rebound from a 0.6 per cent contraction in Q1). This offers little justification for a rate cut. Inflation releases have also been delayed, but the latest one for September 2025 showed sticky PCE (Personal Consumption Expenditure) inflation at 2.8 per cent. This is well above the Fed's 2 per cent target. For much of the past year, the FOMC has been attributing its rate cut decisions to a weak jobs market. However, the closely watched non-farm payrolls report from the US Bureau of Labour Studies was 'cancelled' for October and 'delayed' for November. The September report showed the economy adding a healthy 1.19 lakh jobs though unemployment was at 4.4 per cent. A more recent private jobs report however suggested that layoffs are now spiking in the private sector.

With FOMC actions clearly out of sync with available data, its guidance that rate actions from here on will depend on incoming data, is not very helpful. Economic projections (the dot plot) from the Federal Reserve members stir the pot further. In the December review, Fed members have revised their GDP growth forecast for 2026 upward from 1.8 per cent to 2.3 per cent and pegged down inflation projections from 2.6 per cent to 2.4 per cent. This is suggestive of a soft landing, but they still project rate cuts of 25 basis points in 2026 and 2027.

Financial markets are likely to be thrilled with the Fed's decision to restart its market purchases of short-term US treasuries, starting at $40 billion this month. While the ostensible purpose is market liquidity, this would also have the happy effect of helping out the US government's borrowing programme and wrestling down bond yields. Liquidity infusion by the US Fed has historically stoked risk-taking and accelerated portfolio flows into emerging markets. Indian stock markets, which have been facing a barrage of foreign investor selling, could do with such flows. Lower US market yields could also prompt inflows into Indian bonds, easing pressure on the rupee. However, it needs to be seen if this script plays out, given the suspense over India's trade deal.

12 Dec 2025

RAJIV KUMAR
ABHISHEK JHA

MOORTHY RV

Transforming districts into export hubs

BASIC REFORMS. Sharing DGFT data with States, formalising micro units, and strengthening logistics, testing labs and packaging centres will help build the required ecosystem

Recently, the Reserve Bank of India reduced its benchmark policy rate, with the RBI Governor highlighting declining exports as a key area of concern. Over the past decade (FY15 to FY25), India's merchandise exports have grown at a CAGR of just 3.4 per cent. Labour-intensive sectors such as textiles and apparel, gems and jewellery, leather products, and agricultural goods have expanded at an even slower pace of 2-2.5 per cent, while high-value electronics and automobiles have largely buoyed the overall export basket.

For mass employment, accelerating growth in these traditional sectors is crucial. India's District as Export Hub (DEH) policy is a strategic vision to boost labour-intensive exports and job creation by leveraging each district's unique skills and products. It aligns with India's aspiration to expand the country's share in global manufactured trade flows, by adopting a hyper local focus. With targeted infrastructure, institutional support, and global market access, it can transform local strengths into export competitiveness. While in principle, DEH initiative is one of the most promising pathways for generating jobs where populations reside, ground realities reveal a starkly different picture.

The first bottleneck is the absence of reliable and comprehensive exporter databases at the district level. Export Promotion Bureaus (EPBs) at the State level maintain lists only of those exporters who are registered with them. But this represents only a fraction of the actual exporter universe. For Uttar Pradesh this figure is 25-30 per cent. The Directorate General of Foreign Trade (DGFT), which maintains the most accurate and exhaustive list of import-export certificate (IEC) holders, does not share district-wise exporter data with EPBs, and consequently, districts remain effectively blind. This systemic data gap makes evidence-based hyper-local and focused policy-making virtually impossible. How can a district be groomed into an export hub when the State government and EPBs do not know who its exporters are, what they produce, or what challenges they face?

THE INVISIBLE MAJORITY

A defining feature of UP's manufacturing exports landscape is that about 95 per cent of enterprises are micro and nano units (up to ₹1 crore of turnover), often operating out of homes or tiny informal workshops. Lacking basic knowledge of export documentation, which surely needs to be simplified, and of importers compliance requirements, these small exporters rely on intermediaries like trading houses or merchant exporters for actually undertaking exports.

While these intermediaries play an important role by connecting small producers to export value chains and helping them navigate compliance, they also capture a substantial share of the value, exploiting the structural vulnerabilities of micro exporters. This challenge must be addressed if UP and other States wish to scale labour-intensive exports. At present the DEH hub in found wanting in these crucial respects. Effective market-based mechanisms need to be put in place to address this constraint that affects the great majority of exporters in UP.

AN EXAMPLE FROM AMROHA

The indigenous musical instruments cluster in Amroha offers a telling real life case study. The district's dholak and other traditional instruments have received a Geographical Indication (GI) tag, acknowledging their craftsmanship and heritage value. Amroha houses nearly 300-350 small units, most of them family-run and operating from informal home-based setups. Yet only one or two of these units export directly. The rest rely on intermediaries in bigger cities and lose huge share in the value chain. For example, the average cost of producing a basic dholak ranges from ₹900-1,100, while a high-quality dholak having ornamental detailing and with craftsmanship costs around ₹2,000.

A significant barrier for exporters is the lack of knowledge of importers' requirements and very poor access to major global markets

Manufacturers typically sell these to buying houses or merchants with a margin of 15-20 per cent. However, these buying houses export the same dholaks for approximately $200 (around ₹17,000), which is nearly six times the price received by the manufacturers. This loss of value to the actual manufacturers can be prevented if a measure of structured hand-holding is put in place.

These micro exporters face several structural weaknesses in the export ecosystem including frequent electricity fluctuations, production units located in hard-to-reach areas, severe space constraints that limit capacity expansion, and a complete absence of quality assessment and materials testing facilities. These challenges affect not only the wooden musical instruments of Amroha but also sectors such as readymade garments, carpets, and handicrafts across many districts in India.

Without formalised production spaces and modern cluster development, export growth will remain constrained. While the government's ODOP initiative has successfully identified key products, identification alone is not enough; it must be supported by infrastructure development, cluster formalisation, and improved access to technology to drive real export momentum.

THE MISSING MIDDLE

A significant barrier for exporters is the lack of knowledge of importers' requirements and very poor access to major global markets. The government must create a structure in each district to facilitate such exposure through curated buyer-seller meetings, exporter development workshops, and access to export mentors in India and different markets globally. Attracting some anchor investors from major export markets, for example the *sogo soshas* (large Japanese trading houses) to selected districts could unleash a massive export jump from these districts by linking the small exporters to the regional and global value chains.

EXPORT CONCENTRATION

In districts like Amroha, out of ₹2,880 crores of exports, top 15 covers close to ₹2,300-2,400 crore, or 85-90 per cent of total exports. This concentration is typical across many districts. Micro and nano units collectively contribute only a small percentage of exports despite forming the overwhelming majority of units. This asymmetry means that policies cannot treat all units equally. A district's export strategy must be differentiated, supporting strong exporters to grow and helping small units integrate into supply chains through structured hand-holding or attracting anchor investors.

For the District as Export Hub initiative to succeed, foundational reforms are essential such as creating a unified exporter database by sharing DGFT data with States, and formalising micro and nano enterprises through incentives and cluster-based infrastructure. Strengthening district-level logistics, testing labs, packaging centres, and shared machinery will help build the ecosystem required for exports. A uniform pan-India template will not work; India needs a district-specific, data-driven, cluster-oriented export strategy.

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12 Dec 2025

Is Atmanirbhar Bharat on the right track?

Whether it is the Railways or the semi-conductor push, creation of core intellectual property and design remains a weak spot

Sudhanshu Mani

A push to make India a manufacturing hub is welcome both for economic growth and employment, but manufacturing that is divorced from design and development, as is largely the case today, cannot make India a global powerhouse. Our pharmaceutical sector is a telling example. India produces more than 20 per cent of the world's generic drugs, yet remains heavily dependent on imported ingredients and contributes little by way of original R&D. Its role in the global value chain remains modest; manufacturing without design may create capacity, but it rarely creates influence.

Celebration of mediocrity is our weakness. Consider the Vande Bharat Express, proclaimed as a symbol of India's design prowess. Perhaps only I, having led the project, can say frankly that it was indeed a proud first step towards trainset design, but never the world-class breakthrough it is made out to be. Instead of sustained upgrades in technology, speed and reliability, it has proliferated with nearly 160 services, but without any significant technological upgrade. Even a sleeper variant that should have matured years ago is still struggling.

A rare silver lining is the effort to develop an indigenous 250 kmph high-speed train, although even this emerged less from a planned progression and more from an inability to clinch a deal with Japan. Another example is the Metro sector; nearly ₹2 lakh crore has been spent on rolling stock and signalling in the last 25 years but India does not have a product of its own, with misplaced pride in exports of trains merely assembled in India.

This sense was reinforced during a recent interaction with executives of a major multinational that supplies equipment, services and software for semiconductor manufacturing. Much of their IT and a significant portion of their design work is carried out in India, yet they have no market here. With India's new push for semiconductor manufacturing, they are upbeat, sensing opportunity, but they emphasise the need to invest in R&D, indigenous capabilities, innovation for product development, and ecosystem collaborations at a local level.

CHIPS UNDERPIN EVERY TECH

Semiconductor chips now underpin virtually every technology shaping modern life. From Industry 4.0 to AI, from electric mobility to telecommunications, chips have become central to economic competitiveness. Demand for advanced chips is rising due to India's large population, expanding digital services, a growing electronics market, a shift to EVs and the 5G rollout. The transport and mobility sectors alone are emerging as major consumers of specialised chip solutions, creating room for innovation India must seize. The government has created a policy framework to encourage this shift. The India Semiconductor Mission, with a budget of ₹76,000 crore, provides up to 50 per cent financial support for capex in semiconductor manufacturing. The Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors offers a 25 per cent incentive for producing photovoltaic polysilicon, wafers, solar cells, electronic components and sub-assemblies and e-waste recycling. The Production Linked Incentive scheme for large-scale electronics seeks to boost domestic manufacturing of mobile phones, electronic components and semiconductor packaging. India's semiconductor market, valued at about $25 billion today, is projected to grow at nearly 17 per cent. Entrepreneurs and investors sense an opportunity to build a more self-reliant supply chain.

SHORTCOMING. India owns no chip design IP GETTY IMAGES

Yet the uncomfortable truth is that growth in demand and manufacturing will not translate into global leadership like that of China, Taiwan or even Singapore. India has semiconductor design talent, with more than one-fifth of the world's chip design engineers based here, and many global companies running design centres in the country. But this is design work for others. India owns no chip design IP and has a nascent fabless ecosystem. Manufacturing and design must evolve together for a nation to become a genuine semiconductor power.

The dominant countries succeeded because design, IP creation, R&D and fabrication progressed in an integrated, mutually-reinforcing manner. India's challenge, therefore, is to ensure that its current manufacturing push is complemented by a strong ecosystem for chip design and deep-tech innovation. Only then will India move from being a workshop for global needs to a workshop of global innovation. The next leap lies not just in making chips, but in imagining and owning chips the world will need.

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15 Dec 2025

Fraught with risk

Expanding the investment basket for NPS is a bad idea

With its assets scaling up from ₹1 lakh crore to over ₹15 lakh crore in the last ten years, the National Pension System (NPS) needs to change with the times and tap into a wider canvas of investing opportunities. This is probably why the Pension Fund Regulatory and Development Authority (PFRDA) has announced significant changes to the investment guidelines for NPS managers.

Through a circular effective last week, PFRDA has allowed NPS fund managers to invest in a range of new vehicles ranging from Real Estate Infrastructure Trusts (REITs) and Infrastructure Investment Trusts (InvITs) to gold and silver funds and Alternative Investment Funds (AIFs) under its mainstream categories. Some of these can add to subscriber returns or provide diversification; however some add complexity and risk. Under the corporate bond allocations (asset choice C for subscribers), NPS fund managers will now be allowed to invest in bonds of REITs, InvITs, asset-backed securities, municipal bonds, AT-1 bonds and category 1 and 2 debt-oriented AIFs. While some of these vehicles, such as bonds from REITs and InvITs can deliver higher returns without excessive risk, asset-backed securities and municipal bonds come with a sizeable dose of risk. Debt-oriented AIFs typically invest in unlisted bonds from private entities, which carry both default and liquidity risks. The circular does impose sub-limits to contain risks.

However, whether such instruments ought to figure at all in retirement portfolios requires thought. It is with good reason that the Securities and Exchange Board of India keeps retail investors out of AIFs and AT1 bonds, by setting a ₹1 crore ticket size. Under the equity portion of the NPS (asset choice E), fund managers can now explore the top 250 stocks by market capitalisation instead of the top 200, REITs, category 1 and 2 AIFs and gold and silver exchange traded funds, apart from Initial Public Offers and Offers for Sale. While broadening the investment universe to top 250 stocks or REITs is in order, it is difficult to fathom why gold and silver ETFs should be squeezed into the equity allocations of subscribers. Allowing NPS managers to dabble in IPOs and OFS at a time when the primary market is super-heated, seems unnecessary. Earlier, such risky products were parked in a separate 'Alternatives' option of the NPS. Subscribers could opt out of them in toto. Now, by sweeping them under the mainstream equity and corporate bond categories, the choice seems to lie with fund managers.

Overall, these changes add complexity to the simple architecture of the NPS which has worked well for subscribers so far. While opening up NPS to new market opportunities, PFRDA must guard against replicating the mutual fund industry's complex template. NPS caters to a less affluent population than mutual funds and is meant for retirement security. There is also a need to invest in awareness campaigns about the NPS structure, so that subscribers make the right asset and manager choices in their retirement journey.

Wealth tax: Is it the solution or the problem?

Debt-ridden France is mulling wealth tax on the ultra rich. That the rich may shift to tax havens shouldn't stall the move

Rohini Rangachari Karnik

President Macron has been pushing for much needed pension reforms in France but this has led to continued political unrest. The push to raise the retirement age from 62 to 64 by constitutional means, bypassing parliamentary debate, sparked accusations of authoritarianism and triggered strikes across sectors and mass demonstrations, particularly in 2019, 2020 and 2023. More recently, the *bloquons tout* (block everything) movement organised shutdowns of highways, transport and city centres. Anger over social inequality, cost of living and perceived government distance from day-to-day realities, has ignited unrest, especially among youth and minority communities.

Why is France trying to enact pension reforms? Very simply, fiscal prudence. France's budget deficit last year was 5.8 per cent of GDP, the largest level since World War II and well above the 3 per cent limit required from members of the Eurozone. Second, France's ageing population is living longer. This is putting added pressure on fiscal finances on top of an already slow-growing economy with its pension payouts. According to Eurostat data, France spends the third most on pensions as a proportion of its economic output (nearly 14 per cent of its GDP) compared to the other 27 European Union countries.

Apart from pension reforms to generate revenue, France is discussing the imposition of a wealth tax, which is already being implemented in Spain, Norway and Switzerland. In Spain, the wealth tax, introduced in 1978, is levied on Spanish tax residents' worldwide net assets and on Spanish non-resident goods and rights that are located in Spain. There was considerable political opposition to the imposition of Spain's wealth tax. Predictably, responses to the imposition of this tax have been tax avoidance, evasion and the creation of holding companies in low tax jurisdictions such as Luxembourg.

HUGE REVENUE MOBILISER

Yet, the wealth tax enjoys popular support due to its ability to raise large amounts of revenue, discourage hoarding and boost economic growth by redistributing wealth. There is, however, the risk that the wealthy will relocate their assets, i.e., vote with their feet, to tax havens or they will simply evade tax.

It is in this context that France has been debating the Zucman tax in the Assemblé Nationale since October 24 this year in the French 2026 budget. Named after Gabriel Zucman, a French economist known for his expertise on tax havens and economic inequality, the Zucman draft tax law proposes a minimal annual tax of 2 per cent on individual wealth exceeding $1 billion. It targets approximately 3,000 billionaires globally.

Commissioned by Brazil's Presidency

POPULAR SUPPORT. For wealth tax

of the G20 in June 2024, Zucman details a blueprint for a minimum tax on ultra-high-net-worth individuals. The report states that, ultra-high-net-worth individuals tend to pay less tax relative to their income than other social groups. This regressivity stems from the failure of income taxes — which in principle constitute the main instrument of tax progressivity — to effectively tax ultra-high-net-worth individuals. This failure deprives governments of substantial amounts of tax revenues.

Supporters of the draft law adopted by the Assemblé Nationale in February 2025 view it as a measure of tax equity and advocate it as France's solution to the debt crisis. Its opponents argue that Zucman's wealth tax cannot save France from itself. The bill's critics argue that the tax on households with a net worth of more than $1 billion will contribute to tax flight and curb investment and risk-taking for businesses. Predictably, the draft bill was rejected by the Senate in June.

Though the French Prime Minister could have invoked Article 49.3 of the French Constitution, which allows the Assemblé Nationale to pass a bill without a vote, he chose not to. If a bill is passed without a vote but is unpopular enough, Members of Parliament can table a no-confidence motion within 24 hours. If a majority vote is obtained, the bill is rejected and the government is overthrown. The non-invocation of Article 49.3 is symptomatic of the French Governments reactive policy shift that aims to find a middle-path to its bold reform proposals. Public forms and consultations have been allowed. This policy shift is, however, seen as temporary and limited in scope.

Maybe it is time that we move beyond the pretence that taxing the capital of the wealthy is unfeasible merely because they will relocate to offshore havens such as the Cayman Islands. The political economy of income transfers differs markedly from that of taxation: voters don't mind supporting proposals for higher transfers, yet demonstrate considerable hesitation when it comes to paying taxes. Understanding this aspect will be crucial to passing the wealth tax.

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16 Dec 2025

Mexican challenge

India must convey displeasure, pursue tariff solution

Late last week, Mexico took Asian countries by surprise, by declaring higher tariffs (between 5 per cent and 50 per cent) on non-FTA countries. This includes China, India, Indonesia, Thailand and South Korea. The move is intriguing because its economic merits are hard to fathom. However, there is no question that India's exports of $5.7 billion to Mexico in FY25, led by auto components, textiles, electronics, chemicals and plastics stand to take a hit.

India's merchandise trade with Mexico, at barely $9 billion, is insignificant for both countries, whose export levels are similar —India's total merchandise exports is in the region of $440 billion, while Mexico's is about $600 billion. Yet, these broad figures do not convey the seriousness of Mexico's move to ramp up tariffs on 1,455 product lines. A hit of $2 billion to India's exports seems to be the official estimate. Export of passenger vehicles, auto components and motorcycles account for $1.8 billion. In this segment, duties could rise to 35 per cent, from 20 per cent in the case of passenger vehicles and bikes, and 10-15 per cent in the case of components. According to analysts, smartphones, whose export to Mexico is in the region of $280 million (FY25) would be up against a tariff of 35 per cent, against nil at present. Aluminium exports, at nearly $400 million, too have not been spared. India has adopted a firm but conciliatory approach, suggesting that a limited preferential trade deal can be explored, besides "appropriate measures". India's Commerce Secretary has perhaps rightly recognised that India is not Mexico's primary target.

Indeed, Mexico seems to be taking aim at China, its second largest trading partner after the US, with whom it runs a trade deficit of nearly $100 billion in total goods trade of $110 billion or so. By roping in India, it seems that Mexico wants to score some brownie points with the Trump administration ahead of the review of the USMCA (United States-Mexico-Canada Agreement) next year. Coming as it does in the midst of India's trade talks with a truculent US, the riposte seems calculated to increase pressure on India.

Mexico, after the US, has chosen to violate the MFN principle of applying the same tariff for all countries for a particular product. If others follow suit, it could be a descent into chaos. India should take up the blatant repudiation of MFN at the WTO. Mexico is trying to address the US' long-held concerns over China's products being routed through it, besides plugging individual trade deficits. However, it is worth wondering whether tariffs have worked in this case. Mexico's large trade deficit with China has persisted, despite its having imposed tariffs over the last two years. Meanwhile, US's trade deficit with Mexico this year (till September) has climbed, compared to 2024. India must stay the course in times of global realignments and trade policy chaos.

16 Dec 2025

Roll back of Quality Control Orders calls for guardrails

EASING PROTECTION. India must pair deregulation with checks on dumped imports

GETTY IMAGES/ISTOCKPHOTO

AJAY SRIVASTAVA

India has begun rolling back one of its most ambitious — but also most distortionary — regulatory regimes. In November, the government withdrew over 20 Quality Control Orders (QCOs) covering key inputs in textiles, plastics and mining, marking the first major reversal of a system that grew from just 14 orders a decade ago to nearly 800, with more rollbacks expected.

What started as a push to raise standards became, after 2017, a framework that disrupted supply chains, raised costs for MSMEs and favoured a few large producers. The task now is to remove poorly designed QCOs without inviting dumped imports — especially from China — by pairing deregulation with real-time import monitoring, quick anti-dumping action and checks on domestic monopolies.

India's QCO regime has swung from one extreme to another. Until 2017, India relied on familiar border instruments— tariffs, anti-dumping duties, safeguard actions and licensing rules — to manage imports. QCOs were a minor, safety-focused tool, with just 14 orders covering 106 products such as cement, pressure cookers, packaged water, tyres and a few basic steel grades.

Crucially, this pre-2017 framework almost never touched raw materials or intermediates. Petrochemical feedstocks, polymers, fibres, specialty chemicals, electronic components and minerals lay outside the system. QCOs were designed to protect consumers from unsafe goods, not to regulate industrial supply chains.

This changed decisively when the Bureau of Indian Standards Act of 2016 came into force in 2017. The law replaced the narrow 1986 framework with sweeping authority to impose compulsory standards and QCOs on any "goods, article, process or system," including imports and manufacturing processes. Its "essential requirements" clause enabled the state to extend regulation deep into upstream materials.

From 14 QCOs in 2017, India raced to nearly 790 now, covering thousands of items across petrochemicals (PTA, MEG), bulk polymers (PP, PE, PVC), engineering plastics (ABS, PC), synthetic fibres (PSF, PFY, IDY), metals (aluminium, zinc, tin, lead), special steel grades, electronic components, fertilizer inputs and critical minerals.

Many of these inputs are not produced at scale domestically, meaning QCOs functioned as a second tariff wall —raising import compliance costs, slowing shipments, and reshaping supply chains. It is this expansive, input-level QCO architecture — enabled by the BIS 2016 Act — that India is now hurriedly dismantling.

WHERE THE SYSTEM FAILED

India's QCOs expanded after 2017 far faster than its institutional capacity could keep up. India lacked the essential scaffolding — adequate number of accredited labs, robust testing and certification networks, transparent auditing, regulatory impact assessments and structured industry consultations.

Instead, ministries often issued abrupt notifications, sometimes with only a day's notice, while the Bureau of Indian Standards (BIS) struggled with limited staff, opaque procedures and wide discretion. The consequence was predictable: a system meant to improve quality instead created uncertainty, delays and rising compliance costs across multiple sectors.

The biggest mistake was pushing QCOs into raw materials and intermediates. Steel Ministry orders created a double-certification burden. A Japanese steel mill with valid BIS approval to export stainless steel to India was suddenly blocked because a June 2025 rule required all its own upstream suppliers — who never exported to India— to also be BIS-certified. Imports stalled, ports clogged, factories slowed, orders were cancelled, and a few Indian producers whose foreign partners already had BIS licences gained an unintended windfall.

> The surge in QCOs after 2017 made imported raw materials slower, costlier and harder to source, shielding big companies. Smaller firms paid the price

The Steel Ministry "No Objection Certificate" (NOC) system also became a disruptive feature. Although only 1,376 steel grades are actually covered by QCOs, the NOC rule applies to all over 10,000 steel grades traded globally — forcing importers of non-regulated products to obtain NOCs which never came on time. NOC system became a discretionary gatekeeping mechanism that raised costs, eroded the reliability of India's steel supply chains, helped few large firms and hurt small firms the most.

Textiles and plastics suffered similar distortions. QCOs on polyester and viscose fibres and yarns made it harder for India's apparel exporters to source the precise blends demanded by global brands, as many foreign suppliers refused to go through India's costly certification process. Fibre prices rose 15-25 per cent above world levels, reducing competitiveness in a market where synthetics constitute 70 per cent of global trade.

WHO GAINED — AND WHO LOST

Large firms gained the most from the post-2017 QCO regime. For decades, they had been protected by high tariffs and later by anti-dumping and safeguard duties. When FTAs and tariff cuts reduced these barriers, many secured carve-outs that kept duties high on the inputs they produced, squeezing smaller manufacturers. The surge in QCOs after 2017 restored this protection in a new form: by making imported raw materials slower, costlier and harder to source, the system shielded big steel, chemical, polymer and fibre makers from competition.

Smaller firms paid the price. Mandatory BIS certification delayed shipments, raised compliance costs and restricted access to the specialised inputs MSMEs and exporters depend on. With imports constrained, domestic giants could raise prices while facing little pressure to innovate.

As criticism grew, the government appointed the Gauba Committee to examine the regime. Its October 2025 report was direct: India had overregulated raw materials, forced unnecessary double certification, created shortages, pushed up prices and allowed a new licence raj through the steel NOC and import monitoring systems.

It recommended action on 208 QCOs, including revoking 27, suspending 112 and deferring 69. Ministries and BIS are quick to comply. However, this throws another challenge.

Removing poorly designed QCOs is necessary, but doing so without safeguards risks unleashing a wave of dumped imports — particularly from China. QCO reform cannot repeat those mistakes or hollow out India's upstream industries.

India's industrial input prices are 15-20 per cent higher than global rates, yet domestic firms still dominated the market because tariffs and QCOs kept imports in check. With QCOs now withdrawn, and India lowering tariffs for FTA partners, will imports surge suddenly? The trade-offs should have been openly debated before making such a big policy shift.

The Gauba Committee's recommendations were essentially necessary, but they should have been weighed against the real risk of import surges as protections are rolled back. The report was not even released to the public.

The real task now is to protect MSMEs from arbitrary regulation without exposing core industries to predatory imports. That means building guardrails: monitoring imports in real time, tracking sudden drops in landed prices, reacting quickly to evidence of dumping, and ensuring large domestic producers cannot use QCOs or raw-material monopolies to shut out smaller firms.

Done well, India can build a modern quality system that supports competitiveness. Done poorly, the country risks sliding back into a licensing regime under a different name.

The writer is the founder, Global Trade Research Initiative

16 Dec 2025

Manufacturing growth hinges on ending NOCs

The medical devices industry is hampered by multiple NOC requirements. These need to be streamlined at the earliest

Rajiv Nath

Redundant NOCs (No Objection Certificate) undermine Prime Minister's Make in India Atmanirbharta vision and risk derailing the medical device sector's global ambitions defined under National Medical Device Policy 2023.

India's steady climb in the global Ease of Doing Business rankings reflects a maturing ecosystem where digital approvals and streamlined processes are becoming the norm. Yet, beneath this progress lies a persistent obstacle: the culture of arbitrary No-Objection Certificates (NOCs). These requirements, often not anchored in law, stem from a bureaucratic mindset that equates control with compliance. The result is suppressed entrepreneurial energy, delayed operations, and weakened competitiveness—particularly in sunrise sectors such as medical devices.

Medical devices are poised to play a pivotal role in India's vision of Viksit Bharat 2047. However, the "NOC culture" undermines the spirit of Make in India and the National Medical Devices Policy 2023. If India is to emerge as a global manufacturing hub, dismantling this regulatory overreach is of imperative urgency.

Manufacturers face a maze of clearances that vary by jurisdiction and officer, dragging them into inter-departmental tangles. Power and pollution approvals are demanded even after compliance under the Air and Water Acts. When a request is made to obtain explosive department permission to install a diesel tank, District Collectors request NOCs from other departments within the district.

Fire safety NOCs are sought despite adherence to the National Building Code and municipal approvals. Industrial estates, already notified for manufacturing, still require NOCs from town planning or revenue departments. These duplications add no value but consume time and money.

Exporters, especially in sensitive sectors like medical devices, often see consignments stranded at ports for days due to unnecessary NOC demands from customs authorities. This is despite the Customs Act clearly stating that no such requirement exists. The delays disrupt order deliveries, inflate inventories, and erode India's credibility as a reliable supplier.

Manufacturers routinely knock on the doors of Port Offices and State Drug Controllers for permissions already covered under the Medical Device Rules, 2017 who in turn seek NoCs from CDSCO HQ or other departments. This overlap contradicts the very intent of creating a distinct regulatory pathway for medical devices.

MEDICAL DEVICES. NOC hurdle

The cascading impact of non-statutory NOCs is severe. Manufacturers spend heavily on consultants and informal facilitation, while SMEs — the backbone of India's manufacturing economy — are forced to divert resources away from innovation, process quality, and exports.

A CALL FOR REFORM

India's commitment to Minimum Government, Maximum Governance demands that every license, clearance, or certificate be backed by statute or rule. Arbitrary NOCs must be eliminated.

A robust online approval system — with transparent checklists, defined timelines, and grievance redressal mechanisms — can ensure accountability. At the policy level, ministries must revisit NOC requirements, scrapping those that are redundant or duplicative. The medical device sector, already recognised by Parliament's Standing Committee as deserving a separate regulatory framework, is well-positioned to lead this change. A dedicated regulator comprising domain experts would streamline approvals and prevent arbitrary overlaps.

Economic growth in the medical device sector depends on reforms in regulation, quality, environment and procurement. Doing away with arbitrary NOCs is not just an administrative reform — it is a strategic imperative. By removing these hurdles, India can unlock innovation, attract investment, and cement its position as a global leader in manufacturing medical devices and beyond.

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16 Dec 2025

Squeeze on Venezuela

Economic crisis looms as oil sanctions tighten

Sridhar Krishnaswami

At least in the Americas, there is the nagging feeling that the days of the Venezuelan strongman, Nicolas Maduro, could be numbered. On the one hand is the economic pressure unleashed by the Trump administration starting with the seizure of the oil supertanker ferrying close to two millions barrels of heavy crude with Washington indicating that the cargo is for keeps.

On the other are sure signals from the US that more tankers are likely to be seized in the near future, sending a clear message to ship owners and insurers underwriting a shadowy fleet that transports sanctioned oil not just from Venezuela but also from Russia and Iran.

EXTRACTION HIT

Maduro, the argument goes, has to see the writing on the wall. Incompetence and corruption may have dented extraction of Venezuelan oil over the years, but the little that was being sold — especially to countries like China that were heavy lifters of that crude — is now in jeopardy. It is not a matter of losing valuable foreign exchange but the ripple effect of this on domestic way of life by way of rising inflation or hyper inflation.

Words of comfort seem to be coming from Russia and Iran along with murmurs of support in President Maduro's neighbourhood. But there has been nothing more substantive than words, leading to speculation that President Maduro's top allies are perhaps discussing a safe haven.

Venezuela stands to lose much more than the current loss of $50-100 million from the raid on the Skipper in the Caribbean. Following up on the raid, the US Treasury Department announced sanctions on six companies involved in exporting Venezuelan oil besides identifying six vessels as "blocked property".

According to oil analysts, the shadow fleet would be apprehensive of plying the traditional routes, therefore making the customary discounts not very attractive. "... There could be an economic crisis. Not just a recession, but also shortages of food and medicine, because we wouldn't be able to import," Elias Ferre of Orinoco Research has been quoted in a media report.

Published data reveals that production which was some three

IN THE FIRING LINE. President Nicolas Maduro of Venezuela

million barrels per day (bpd) in the 2000s had plunged to about 350,000 bpd; and the biting sanctions of the US that kicked in by 2019 were further tightened by the current Trump administration in 2025 which threatened any country buying Venezuelan oil with sanctions of 25 per cent. All this meant that the discounted oil took a further hit on the black market, placing additional pressure on the ghost fleet which was already using false flags and switching off transponders while plying the seas. Nigeria and Guyana have already distanced themselves from the goings on in the Caribbean saying the seized tanker was falsely flying their flags.

INVASION ON THE CARDS

President Donald Trump has been saying for some time now that a full-fledged invasion of Venezuela is on the cards and has shown his intent by having a massive build-up in the Caribbean, with the occasional buzzing over the coastline of American jets. And some critics of the US have argued that the clarion call for regime change has to do with the largest known deposits of oil in the world.

But President Trump knows that if history is anything to go by, getting rid of a regime is the easier part of the task; putting in place a stable government is the more difficult exercise.

China which is said to purchase 80 per cent of Venezuelan oil has been relatively quiet; Vladimir Putin who is busy supervising a war in the Ukraine nearing its fourth year is perhaps the only powerful foreign leader receptive to what President Maduro has to say; and Iran currently seems more interested in a domestic water crisis than the flow of heavy crude some thousands of miles away.

The writer is a senior journalist who has reported from Washington DC on North America and United Nations

Selling season

Deft management of rupee can spur FPI flows

The year 2025 has been marked by relentless selling by foreign portfolio investors. They have net sold ₹1.61 lakh crore of Indian equity this year. The selling began in the last quarter of 2024, as pricey valuation of Indian equity made foreign funds gravitate towards other emerging markets such as China, Taiwan and South Korea. While there was a hiatus in the second quarter of 2025, the selling resumed in July as the US slapped heavy tariffs on Indian exports. FPIs have been net sellers in 141 out of 234 trading sessions in 2025; the second highest in two decades.

That said, there are several reasons why the FPI selling is unlikely to impact Indian equity markets too much. One, domestic institutional flows have been at a record ₹7.2 lakh crore so far in 2025. Consistent SIP inflows into mutual funds and money from insurance and pension funds continued into the equity market. Domestic individual investors remain active, helping prevent a sharp slide in prices. These domestic flows have helped take the Nifty50 9 per cent higher since the beginning of this year. Two, the out-performance of stocks in other emerging markets such as South Korea, Brazil, Mexico, China and Taiwan in 2025 has helped reduce the gap in valuation between India and these markets. As a result, Indian stocks appear more competitive now. Three, the FPI sell-off appears largely led by a perception regarding the negative impact of US tariffs on earnings of Indian companies. With companies reporting strong growth in earnings in the third quarter of FY25 and the exports numbers for November displaying buoyancy, the sentiment towards India could undergo a change.

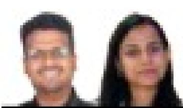
While the equity market is well placed to weather this fund outflow (largely on account of sentiment), the impact is seen on the currency. The rupee is already down 6 per cent against the dollar this year, and down by a far higher 20 per cent against the Euro and 14 per cent against the pound, largely due to FPI fund outflows. A vicious cycle may well be at work, where the currency weakness triggers FPI outflows, leading to more of the same. Of concern is the fact that foreign portfolio investors have begun pulling money out of debt markets too. While ₹70,686 crore had come into Indian debt market through the global bond indices, these flows turned adverse in December. Net outflows of ₹8,587 crore were recorded through the fully accessible route in December. The stress on Centre's finances due to lower tax revenue as well as currency depreciation could be weighing on these flows.

Subtle management of the rupee could stem some of this outflow. The Reserve Bank of India (RBI) has been intervening judiciously in the foreign exchange market so far, and should continue in the same vein. However, RBI should not actively defend the currency, or be seen to be doing so.

17 Dec 2025

How tax havens really help in raising debt

TAX MOVES. Large companies in capital intensive sectors such as telecom and renewables benefit from tax arbitrage and access to a pool of global liquidity at lower rates



A PAUL WILLIAMS
NUPUR TEMANI K

GETTY IMAGES

In the complex world of global finance, the line between strategic financial planning and aggressive tax avoidance is often drawn in the sand of a distant shore. A significant body of research has illuminated a pervasive trend — the strategic use of tax havens not just to hide profits, but to issue debt.

While the public imagination often pictures tax havens as repositories for illicit cash, for modern multinational corporations, they function more like high-efficiency conduits for capital.

This phenomenon is particularly visible in emerging markets like India, where major conglomerates in sectors such as telecommunications and renewable energy (to name a few) have historically utilised subsidiaries in tax haven jurisdictions (like Singapore and the Netherlands) to optimise their tax liabilities and access global capital markets.

OFFSHORE DEBT ISSUANCE

The primary motivation for issuing debt through a tax haven is often a potent mix of tax arbitrage and capital accessibility. When a company borrows money, the interest it pays is typically tax-deductible, reducing its overall taxable income. This tax shield is a standard feature of corporate finance.

However, multinational firms can supercharge this benefit by routing the debt through a low-tax jurisdiction. In this model, a subsidiary is established in a tax haven to act as the primary borrower. This subsidiary issues bonds to international investors or takes loans from global banks. It then on-lends this capital to the parent company in the high-tax home country. The parent company pays interest to the subsidiary, claiming a tax deduction in its high-tax home jurisdiction, while the subsidiary receives that interest income in a jurisdiction where it is taxed lightly or not at all.

This structure creates a distinct financial advantage that goes beyond simple interest rate differentials. If the parent company were to borrow directly from foreign investors, it might face significant withholding taxes on the interest payments sent abroad. However, by inserting a subsidiary in a jurisdiction that has a favourable tax treaty with the home country, the company can significantly reduce or eliminate these withholding taxes.

This creates a smoother, less costly flow of capital. For companies in capital-intensive industries, like building telecom towers or wind farms, saving even a fraction of a percentage point on debt costs can translate to millions of dollars in savings over the lifespan of a loan.

MECHANICS OF 'DEBT SHIFT'

The operational mechanics of these transactions are sophisticated. A typical structure might involve, for example, an Indian parent company creating a subsidiary in Singapore. This Singaporean entity issues dollar-denominated bonds to international investors. Because the subsidiary is located in a high-rating financial hub, it might secure capital at competitive rates. The proceeds from this bond issue are then lent to the Indian parent company. The Indian parent pays interest on this intra-company loan. In India, this interest payment is treated as an expense, lowering the company's taxable profit.

Meanwhile, the interest income received by the Singapore subsidiary is taxed at a low rate (or effectively shielded through various exemptions and incentives available to global trading companies).

> **Companies' subsidiaries in tax havens raise debt at low interest rates and lend to parent companies, which pay interest to their subsidiaries and save substantially by claiming tax deduction in their home country**

This mechanism allows the corporate group to effectively shift profits out of the high-tax jurisdiction (India) and into the low-tax jurisdiction (For instance, Singapore or Netherlands). The academic literature highlights this as a form of base erosion, where the tax base of the developing country is eroded by deductible payments sent offshore.

For the companies involved, however, this is presented as a legitimate tool for balance sheet efficiency. It allows them to hedge against currency risks and tap into a pool of global liquidity that might not be available domestically. In sectors like infrastructure or telecommunications, where upfront capital expenditure is massive and revenue generation is spread over decades, this access to efficient global debt is often cited as a critical survival mechanism.

THE INDIAN LANDSCAPE

Regulators have not been blind to these practices. Over the last decade, the Indian government and global bodies like the OECD have tightened the screws on such structures. The introduction of the General Anti-Avoidance Rule (GAAR) in India and the global Base Erosion and Profit Shifting (BEPS) framework aims to curb treaty shopping i.e., the practice of routing funds solely to take advantage of tax treaties.

Under new norms, companies must demonstrate "substance" in the subsidiary wherein it cannot just be a mailbox in Amsterdam or a file folder in Singapore. It must have actual employees, office space, and genuine economic activity. This has forced many Indian companies to restructure their offshore operations, moving away from purely tax-driven vehicles to more substantive international holding structures.

The use of tax havens for debt issuance is a testament to the fluidity of global capital. It highlights a fundamental tension in the global economy i.e., the friction between national tax laws and the borderless nature of modern finance. For the companies involved, routing debt through tax havens to some extent remains a rational economic decision driven by the imperative to minimise costs and maximise shareholder value.

However, as scrutiny intensifies and regulatory nets tighten, the free pass of the offshore conduit is disappearing. The future of corporate finance will likely demand more transparency, forcing companies to justify their offshore presence not just with tax returns, but with genuine economic purpose.

Williams is the Head of India at Semeca Financial; Nupur is a PhD scholar at Kiel Institute for the World Economy

17 Dec 2025

Why not tap into 'demographic dividend' of elders?

The elderly looking to rewire their lives should be able to get jobs. This effort will not cut into jobs for the young

Subodh Mathur

The focus on the young has obscured another demographic dividend: the emergence of a subset of experienced, fit, and capable retirees who want to remain productive, often in something different than their careers. Call this subset as "rewirees" — people who are looking to "rewire" their lives by doing something different and meaningful.

Unlike the young, rewirees have valuable experience and maturity. Even start-ups may benefit from links with rewirees. Some of them may accept below-market wages or work for free. Their major downside is that they are unlikely to accept rigid, punishing work schedules.

It's time for motivated Indian groups to create a system for making rewirees accessible to and used by private firms and non-profit groups. The rewirees will not reduce jobs for the young because the skills and aptitudes of the two groups are quite different.

RETIRED ARMYMEN

There is one significant group of rewirees who are more ready than others to be used quickly: retired Defense senior and junior staff. Several retired Lt-Generals, Maj-Generals, Brigadiers, and a Rear-Admiral have told me they are ready, even eager, to work on civilian-originated social impact schemes, and they are open to working with civilians to develop new schemes.

And they are confident that they can bring in retired JCOs and NCOs with them. The retirement ages of these lower-rank personnel have not increased proportionally with increases in life expectancy. Today, the junior-most NCOs retire at around 45 years of age, while the senior-most JCOs retire at around 54 years of age.

That's too young to give up working. They are distributed across India, including small towns and villages. In short, the rewiree JCOs and NCOs are a resource that can contribute significantly to India's progress.

India's Defence forces do provide some pre-retirement training. And there are job fairs where thousands of Defence retirees meet with private firms. For example, the Army organised job fairs in Pune and Patna in March. Over 2,000 ex-Servicemen participated in each fair. It was expected that many of them would find jobs as supervisors, managers, planners, and project directors.

RETIREES. Valuable human resource

These efforts do not reach the retired JCOs and NCOs in small towns and villages, where corporate jobs are hard to come by. An alternative approach is needed to utilise them productively.

One such approach is for social impact groups to make these the rewirees as agents of social, economic, and technical change in the area where they live. This effort would include their family members, particularly the families' women — wives, daughters, and daughters-in-law.

These people would need hands-on training for the work they would do. The nature of their work would depend upon the social impact groups' aims for the local area and the aptitudes of the local rewirees.

Such an effort would benefit from an explicit approval and involvement of senior Defence rewirees. This arrangement would assure local rewirees that the civilian work is legitimate and worth doing. Further, it would be helpful to have a senior officer, such as a Brigadier, rewiree to guide the local people.

These days, it is easy to provide such guidance and approval remotely from a large city, such as the State capital. However, it would be good for the senior people to visit the relevant small towns and villages occasionally.

It will not be straightforward for a social impact group to absorb these rewirees. The scheme would have to start small, which is not difficult, as this is not a costly effort. It would then expand, with adjustments as needed.

In the end, with Defence personnel, India would have found a way to take advantage of a part of the rewiree dividend and make better economic and social progress. The next step would be to find approaches to take advantage of the civilian rewiree dividend.

The writer is an economist with extensive practical public policy experience

18 Dec 2025

Are too many IPOs a signal of maturing market?

SCALING UP. Exits via IPOs free up venture/PE capital, while the secondary market absorbs stakes at prices discovered across wide demand

ANI

ABHIJEET CHANDRA
ARYANSH SINGH

India's Chief Economic Advisor (CEA) recently called out a visible shift: many IPOs are being used as exit routes for early investors rather than as pure engines of long-term capital formation. At first glance, that sounds like mission drift. Look closer, and it reads like a market growing up.

In deep markets, IPOs are both price-discovery events and orderly transfer points. The classic textbook argument is that IPOs serve as a price-discovery mechanism and signals a liquid market.

At the same time, it also posits exchange of ownership through transfer of securitised instruments, usually from venture/private equity to diversified public holders. Indian capital market is increasingly there.

SCALE, CREDENCE AND VIBES

Start with the scale and credence. By mid-November 2025, India has already seen about 91 IPOs raising about ₹1.52 trillion, nearly matching the ₹1.59 trillion raised in all of 2024. Going further, a pipeline of IPOs suggests 2025 could set a new record. That's not a sign of fragility; it is a sign of an ecosystem confident enough to recycle capital quickly.

A second marker of maturity is cooling listing-day euphoria. Average listing gains slipped to around 9 per cent in 2025 (till October), a sharp comedown from the prior year. That sounds, at the loss of a better word, disappointing, to some segment of investors, until you recall what mature markets look like. The pop narrows as pricing improves and book-runners anchor deals with better institutional participation. Lower pops mean fewer mis-pricings and less value left on the table, that is good for issuers and long-term allocators.

Third, exits via IPOs are normal in developed ecosystems. They free up venture/PE capital to fund the next cohort, while the secondary market absorbs stakes at prices discovered across wide demand. India's secondary market has become deep enough to shoulder that role.

Even on quiet months, cash market turnover at NSE and BSE put together routinely runs in lakh-crore territory; ₹1.02 lakh crore average daily cash turnover in July 2025, despite a cyclical soft patch, signals robust ongoing liquidity for post-listing churn. Liquidity is the oxygen that makes exits via the market possible.

LETTING BIG AND SMALL SAIL

It is evidence of functioning secondary discipline. A 2024 SEBI study found that 54 per cent of IPO shares allowed to non-anchor investors are sold within a week. You can read this as froth, or as the market efficiently testing and reallocating shares to stronger hands. Over time, such churn is how ownership migrates towards investors who truly want to hold through the business cycle.

> Two scenarios could derail the narrative: excessive short-termism among investors and poor post-listing performance of major IPOs

The primary pipeline is also getting broader, not just bigger. In the first half of calendar 2024 alone, 153 IPOs (38 mainboard and 115 SMEs) raised about ₹34,923 crore, more than 3.5x the comparable period a year earlier.

SME listings are crucial. They diversify the opportunity set and widen the investor base beyond mega caps. A maturing market isn't just one where unicorns list; it is one where the middle of the distribution can tap public capital without much drama, and fuss.

To be sure, the CEA's caution matters. India still needs IPOs that fund capacity creation, not just shareholder transfer. But the evidence doesn't show a crowding-out of new capital.

Fund raises have been large in rupee terms, pipelines are heavy, and the investor mix is broadening.

Reuters' year-to-year tallies point to $20.5 billion from 91 IPOs in 2024, which banks expecting 2025 to surpass those levels. That is compatible with exits and growth capital, given that the pricing is rational and disclosures are strong.

We believe that there are just more than one reason to accept this exit-via-IPO trend as healthy.

First, when early investors sell into the float, their selling discipline (staggered offers and lock-ups, for example) and the market's willingness to absorb those shares become live test of quality.

The recent moderation in pops implies bankers and issuers are reading books more carefully; cheap money era habits, such as over-tight pricing, momentum allocation, among others, are fading. These are, in a way, better price discovery and governance signals.

Secondly, India's trading infrastructure and participation have over the years scaled dramatically. Even with periodic dips, exchange data show high, persistent turnover and robust derivative hedging tools. That depth allows founders and/or PE exits to be staged without destabilising the float. This, again, is a hallmark of a market that has the capacity to recycle risk efficiently.

DERAILMENT OR SCALE UP?

There are two scenarios that could possibly derail the maturing narrative: excessive short-termism among investors and poor post-listing performance of major IPOs.

If too many IPOs trade below offer price for long stretches, it's natural for public confidence to erode. Some of that pain is already visible.

Recent numbers show that less than half of 2025's IPOs delivered listing-day gains, and many cooled subsequently. The remedy isn't to throttle exits.

It is to tighten disclosure, emphasise profitability paths, and calibrate offer sizes. All these measures should upgrade the depth of markets.

Policy, too, can help the transition. The CEA's nudge is timely. Nudging issuers to articulate use-of-proceeds more clearly, promoting anchor-to-retail transparency, and pressing for post-listing governance will keep public markets from morphing into pure flipping venues.

In particular, ironing out the issues such as, earning guidance discipline, related-party transactions, among others will enhance this evolution. Needless to say that flows and volumes suggest a robust market is already in place. That's what mature markets look like, and it is where India is headed.

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19 Dec 2025

Data centres need more than megawatts

RIGHT APPROACH. A single, coherent policy framework must streamline processes, reduce uncertainty, and give investors room to plan. Some States have done the groundwork

GETTY IMAGES

SANCHIT VIR GOGIA

India's data centre market is having a moment. Between rising enterprise demand, global cloud expansion, and a growing focus on digital sovereignty, infrastructure is scaling at an unprecedented pace. But as the headlines pile up and billions are committed, we need to ask a more sobering question: are we building fast, or are we building right?

At Greyhound Research, we recently predicted a wave of consolidation in India's data centre market in FY27. That view is grounded in the growing pressure on smaller operators, the high capital demands of AI infrastructure, and a wider shift towards integrated, scaled platforms.

We've seen this movie before. In China and the US, once hyperscalers hit critical mass, regional players either consolidated or got pushed out. Both markets learned that scale isn't just a competitive advantage, it is a survival strategy. But what they also had was structure, though in very different forms.

In China, state-backed entities helped coordinate infrastructure with tight oversight. In the US, state and local authorities led with tax incentives and zoning flexibility, while federal policy stayed hands-off. This left the US with world-class scale but uneven consistency.

Herein lies India's opportunity. If we can combine scale with centralised policy alignment, backed by national standards on compliance, power planning, and cybersecurity, we can do more than catch up. We can lead.

But consolidation is only part of the story. What India really needs is a coordinated roadmap that looks beyond scale and asks: what does it take to lead globally?

Let's start with the legal plumbing. India has taken important steps on this front, especially as it chases sovereign cloud ambitions and navigates rising cross-border data obligations. The DPDP Act is a milestone, and many States have introduced policies that reflect serious intent. Still, for data centre operators, the experience on the ground is uneven. Depending on where they're building, the approval process can vary widely, creating delays, confusion, and a layer of unpredictability that holds back investment.

India now needs more than national alignment. A single, coherent policy framework must streamline processes, reduce uncertainty, and give investors room to plan. States like Tamil Nadu, Uttar Pradesh, Telangana, and Maharashtra have already laid important groundwork.

At the centre, TRAI and MeitY have put forward ideas like Data Centre Economic Zones and green energy mandates. The intent is clear. What's missing is alignment. We need more than scattered policy moves. A central authority to tie it all together. A National Data Centre Council could be the bridge, coordinating efforts, setting the pace, and cutting through the clutter.

GEOGRAPHICAL SPREAD

India must also ensure its data centre growth is not confined to NCR, Mumbai, and Chennai. Although both Reliance and Adani have taken the first steps to announce investments in Visakhapatnam and Jamnagar, more needs to be done to expand to similar cities. With the right support, reliable power, faster permissions, and local skills, places like Nagpur, Indore, and Bhubaneswar could serve as edge hubs. Taking the build beyond the big three will not only improve latency and resilience but also reduce costs. It will also bring investment, jobs, and long-term digital capacity to parts of the country that have waited too long for both.

Next comes power. India's grid is not yet built for the scale we are aiming for. Hyperscale AI workloads can draw hundreds of megawatts at a single site, yet we still contend with outages, load-balancing gaps, and price swings. Renewable energy helps, but it does not solve everything. What we need is base-load reliability. This is where nuclear begins to matter. India's expanding nuclear roadmap, including small modular reactors, could shift the equation. What we need is clear planning to channel that stability into strategic data centre zones.

Cybersecurity deserves far more attention than it's getting. As India becomes the custodian of hyperscale workloads and sensitive national data, the risks multiply fast

Another overlooked dimension is real-time visibility. As workloads grow in complexity, so must our ability to monitor them, not just at the software layer, but across power, cooling, and physical resilience. We need mandates around telemetry, uptime reporting, and disaster readiness that go beyond voluntary declarations. If we want global customers to trust Indian data centres with mission-critical loads, we need to show them not just where the power comes from, but how reliably it flows, even in a crisis.

Then there's talent. Running modern data centres requires skilled technicians, cooling specialists, AI workload architects, and cybersecurity analysts. But India's current pipeline is geared more towards IT services than infrastructure operations. Universities and skill missions must work with private players to build a workforce that's data centre-ready. Without serious investment in reskilling, growth will hit a ceiling.

FOCUS ON CYBERSECURITY

Cybersecurity deserves far more attention than it's getting. As India becomes the custodian of hyperscale workloads and sensitive national data, the risks multiply fast. And yet, security compliance at the infrastructure level is fragmented and inconsistently enforced. Who audits these facilities? How often? What teeth do those audits have?

Right now, there are no clear answers. One serious breach at a flagship site could shake confidence in the entire Indian data centre ecosystem. We need tighter regulation, clearer accountability, and a pool of skilled professionals who understand the unique demands of physical and digital infrastructure.

If India wants to move faster and smarter, it is time to bring everything under one roof. A National Data Centre Council could do just that. There is no single authority today shaping standards or long-term plans, but that gap is also an opening. Get this right, and we do not just fix coordination; we set the pace for the world to follow.

The good news? We're not starting from scratch. India has laid some important bricks. But if we want to evolve from an attractive market into a global hub, we need to go from scattered progress to structural readiness.

TRACKING ESSENTIAL

And one final thing. As we build, we must track. The National Data Centre Council we at Greyhound Research propose must also serve as a centralised national registry of data centres, with a dashboard that maps each facility's location, ownership, power consumption, and number of employees. Without that, we're flying blind.

India doesn't need to copy what others did. But it must act fast and act together. If we get this right, we won't just host data, we'll shape the global conversation around how the digital world is built, secured, and sustained.

In a world where infrastructure is sovereignty, India has a fleeting window to get this right. The groundwork is there. Now comes the hard part: turning potential into permanence.

The writer is Chief Analyst, Founder & CEO, Greyhound Research

19 Dec 2025

Rural renewal

MNREGA reform needed but G Ram G Bill not perfect

It is not a bad idea to reassess the working of a government scheme when almost two decades have lapsed since its introduction. In that respect, there can be no quarrels with the need for the Viksit Bharat - Guarantee for Rozgar and Ajeevika Mission (Gramin) 2025 or 'VB G Ram G' Bill to replace MNREGA (Mahatma Gandhi National Rural Employment Guarantee Act). The economic context inevitably changes over such a long period of time necessitating a relook.

MNREGA has certainly served as a social safety net in times of crisis or agrarian distress, be it Covid or drought. But it has also distorted the labour market by making farm labour scarce and unaffordable for small and medium farmers, who are struggling to be viable. The G Ram G Bill's clause to freeze implementation of the scheme during the agriculture season is probably born out of this experience. It is debatable whether MNREGA has created worthy social assets, barring localised exceptions. The scheme was more driven by the demand for work than the need to create rural infrastructure. Demand for work has largely been in the region of 50 days in a year, against the entitlement of 100 days. This statistic can be interpreted in more than one way, to either argue that rural distress is not a serious matter, or that it has refused to go away. Be that as it may, the new law increases the entitlement level to 125 days, with more envisaged works hopefully creating demand for work. A core aspect of the MNREGA law has been left untouched — the entitlement to unemployment allowance if work is not given on demand.

The provision that States have to bear 40 per cent of the expenditure has drawn protests from the Opposition. Yet, going by experience of the scheme's operation, it is only fair that the States share the burden if only to ensure that the money is targeted and well spent. However, the Centre may have erred in casting a sudden, steep burden on already strained State finances. A transition phase beginning with, say, 20 per cent and gradually going up to a 40 per cent share over five years would have been more palatable to the States. An analysis by this newspaper shows that States would be faced with an additional outgo of ₹29,000 crore even at existing levels of outlay of ₹95,500 crore (Centre and States) for FY26. At higher levels, the States' burden will rise steeply, and the Centre's could actually fall from the current level of ₹86,000 crore. The fiscal transition issue must be addressed for the scheme to remain robust. Despite its shortcomings, the scheme can work well as a safety net, and for infrastructure creation.

There are a few troubling aspects to the Bill, including the manner of its introduction. First, States could have been consulted earlier to make the change less fractious. Second, dropping the Mahatma's name from the scheme was unnecessary. Third, the Bill fails to take into account the trauma faced by workers who don't get their due because their biometrics do not match.

19 Dec 2025

MNREGS needs a course correction

FARM FIRST. The most important proposal of the GRAMG Bill is pausing the scheme during peak farm operations

A NARAYANAMOORTHY

The introduction of the Viksit Bharat-Guarantee for Rozgar and Ajeevika Mission (Gramin) Bill, 2025 (VB-GRAMG Bill) — a modified version of the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) — has triggered sharp political reactions in Parliament since its tabling on December 17.

While Opposition parties have alleged a dilution of a landmark welfare programme, a closer reading suggests that the proposed changes attempt to address long-standing structural distortions that the original scheme inadvertently created in rural labour and agricultural markets.

The Bill proposes five major changes: enhancement of guaranteed employment from 100 to 125 days; an agricultural pause during peak farming seasons; a revised 60:40 cost-sharing formula between the Centre and States; a shift from a purely demand-driven framework to normative, budget-capped allocations (calibrated to the poverty profile of States) and Viksit Gram Panchayat Plans.

These provisions mark a clear departure from the one-size-fits-all design of MGNREGS and reopen a crucial debate on how rural employment schemes should coexist with agriculture.

When MGNREGS was launched, its intent was unambiguous. It aimed to provide wage employment to unskilled rural workers during the lean agricultural season, stabilising incomes without disrupting farm operations. As then Prime Minister Manmohan Singh famously noted at the MGNREGS Divas in 2013, the scheme had benefitted nearly eight crore rural households and, for the first time, ensured wage parity for women. These achievements are undeniable. Yet, over time, the scheme's interaction with agriculture, particularly in agriculturally advanced States has revealed serious unintended consequences.

RISING LABOUR COSTS

Farmers across Punjab, Haryana, Tamil Nadu, Andhra Pradesh and other States have consistently argued that MGNREGS tightened rural labour markets far beyond what was anticipated. While labour scarcity existed even before the scheme came into play owing to urban related factors, MGNREGS accentuated this trend by offering assured wages close to villages, often coinciding with peak farming seasons.

The result was a sharp escalation in agricultural wage rates. Ashok Gulati, former Chairman of the Commission of Agricultural Costs and Prices (CACP), has written about how between 2008 and 2011 the labour cost increased by about 74 per cent at the all India level, 88 per cent in Andhra Pradesh and 94 per cent in Tamil Nadu due to this scheme.

Similarly, the cost of cultivation data on different crops published by CACP shows that the wage cost paid for casual labour has increased at a faster rate after the introduction of rural jobs scheme as compared to the earlier period. Subsequent cost of cultivation estimates indicate that wage costs have continued to rise faster than output prices, squeezing farm profitability. In extreme cases, farmers in Andhra Pradesh declared a "paddy holiday" during the 2011 kharif season, citing unaffordable labour costs due to MGNREGS.

While rising wages can improve labour welfare, the problem arises when farm incomes fail to keep pace. Indian agriculture, already burdened by volatile prices, rising input costs and climate risks, is poorly positioned to absorb sharp increases in wage bills without corresponding productivity gains.

JOB SCHEME. MNREGA has altered the labour dynamics in rural India

ARTIFICIAL SCARCITY

Farmer organisations such as the Consortium of Indian Farmers' Association and others have long argued that MGNREGS, instead of supplementing rural livelihoods, inadvertently diverted labour away from productive farm work. In irrigated regions, MGNREGS works often overlapped with crop operations, distorting local labour availability.

> **The 'agriculture pause' provision can be a win-win outcome: farmers regain access to labour when** they need it most, while workers continue to receive employment support during genuine lean periods

Another concern relates to work incentives. With assured wages for relatively less demanding tasks, a reluctance among workers to engage in physically intensive farm activities has been observed. The predominance of women workers in MGNREGS — while socially empowering — also meant that male labour scarcity became more acute, particularly for tasks requiring continuous field presence. This combination created what farmers describe as artificial labour scarcity, pushing wages up without necessarily improving productivity.

Although official evaluations have been cautious in attributing causality, agricultural departments at the State level have repeatedly flagged the scheme's impact on farm labour markets. The cumulative effect has been a gradual shift by farmers toward less labour-intensive crops, horticulture, tree crops or even leaving land fallow.

AGRICULTURAL PAUSE MATTERS

It is in this context that the agricultural pause proposed under the VB-GRAMG Bill assumes significance. For years, farmers have demanded that the employment scheme either be linked to farm activities or temporarily suspended during peak agricultural seasons. Maharashtra's earlier employment guarantee programme (on which MGNREGS itself was modelled), which aligned public works with agricultural needs, is often cited as a workable model.

By formally recognising the need for an agricultural pause, the new Bill addresses a long-standing design flaw. This provision has the potential to create a win-win outcome: farmers regain access to labour when they need it most, while workers continue to receive employment support during genuine lean periods. Importantly, it also signals a shift away from treating agriculture and rural employment as competing domains.

The move toward a 60:40 cost-sharing formula and normative allocations has drawn criticism for allegedly undermining the demand-driven nature of MGNREGS. However, the fiscal realities facing States cannot be ignored. Rural poverty levels vary widely, as do labour market conditions. A uniform demand-driven framework often resulted in disproportionate allocations to better-off States with stronger administrative capacity, while poorer States struggled with delayed payments and implementation gaps.

Normative, poverty-linked allocations — if transparently designed — could improve equity and fiscal discipline. Similarly, enhanced employment guarantees of 125 days acknowledge that rural distress today is shaped not only by seasonal unemployment but also by climate shocks and declining farm viability.

FROM IDEOLOGY TO PRAGMATISM

The uproar surrounding the VB-GRAMG Bill reflects a deeper ideological divide over welfare design. But framing the debate as a binary choice between labour welfare and farmer interests is misleading. Rural India's sustainability depends on both viable agriculture and dignified non-farm employment.

After nearly two decades and spending about ₹10 lakh crore, it is time to revisit MGNREGS. The proposed changes recognise that rural economies have evolved and policy instruments must evolve with them. Linking employment support more closely to agricultural cycles, rationalising fiscal responsibilities and acknowledging regional diversity are steps toward a more balanced rural development strategy.

The real test of the VB-GRAMG Bill will lie in its implementation. If executed with sensitivity and flexibility, it could correct long-standing distortions without dismantling the social protection framework that MGNREGS represents. For a country where over 40 per cent of farmers express a desire to quit agriculture due to low profitability, such course correction is not only timely — it is essential.

The writer is an economist and former full-time Member (Official), Commission for Agricultural Costs and Prices, New Delhi. Views are personal

19 Dec 2025

A cess for two disparate ends is unconvincing

The Health Security se National Security Bill leaves room for the Centre to adjust revenue sharing with States

Ashrita Prasad Kotha

The Central government is introducing an important tax measure called the Health Security se National Security (HSNS) cess on the paan masala sector. It is to be imposed through the Health Security se National Security Cess Bill, 2025 (Bill). The Bill, passed by both Houses of Parliament and pending President's approval, is proposed to be collected after the GST Compensation Cess is phased out next year.

A cess is an earmarked measure. Meaning, the collected revenue is earmarked for a "specific purpose" as referred to in Article 270 of the Constitution. A cess may be a tax, raising funds for public purposes at large, or a fee, funding a particular service.

According to Section 7 of the Bill, the HSNS cess is earmarked to fund the "expenditure on the national security of India and for public health". The taxable person is the owner, possessor, operator of paan masala machines or persons undertaking any process that (directly or indirectly) produces paan masala.

At first blush, the HSNS cess is peculiar as two very distinct purposes are funded by one measure. Typically, cesses have been imposed for a single purpose such as for primary education. A single purpose signals that the entire proceeds (minus administrative expenses) would be spent for such goal.

With the HSNS cess, the Bill not only picks two unrelated purposes but also does not allocate revenue between the two purposes. None of the finer details is worked out. Hence, for example, the *inter se* allocation between health security and national security may be 50:50 but also 20:80. The Bill leaves enough room for any proportion to be adopted and, for it to vary from one year to the next.

ENCROACHING STATE TERRAIN

More fundamentally, the HSNS cess continues the trend of earmarking for purposes that otherwise belong to the exclusive purview of State governments. For example, the erstwhile Krishi Kalyan and Swachh Bharat cesses were earmarked for farmer welfare and sanitation, respectively, and both fall within the exclusive competence and mandate of State governments. HSNS cess is partially earmarked for public health which is an exclusive State subject.

Once the Central government chooses the cess route, the proceeds are not required to be shared with State governments based on the recommendations of the Finance Commission (FC). By constitutional design cesses are kept outside the divisible pool (as per Article 270).

CESS. Vexatious issue

However, when the Central government earmarks for purposes that are exclusively conferred on State governments, we are faced with a quandary. The Centre should not execute schemes on matters entrusted to States. Hence, the only way to spend the revenues is to share it with the State governments.

During the Lok Sabha debates, the Finance Minister explained that health is a State subject and that HSNS cess proceeds would be shared with the State governments.

Also, only the proceeds pertaining to health will be shared, so the proportion referred to earlier is rather crucial for State governments. Considering the distribution was inevitable, would it not have been better to have introduced the HSNS cess as a regular tax?

Yes, but then the proceeds would have been part of the divisible pool. Devolution would have been based on FC's recommendations which are tabled in Parliament and are publicly available. State governments could have applied the proceeds to any purposes it deemed fit as there would have been no *ex-ante* earmarking.

However, with the cess route, the Central government has the flexibility to not follow FC's recommendations. The Bill mentions that the HSNS cess will be used to fund "activities, schemes and programmes" notified by the Central government at a later point. Hence, devolution may be contingent on implementation of centrally determined schemes and fulfilment of any other conditions specified.

For the State governments, there is bound to be opacity, fear of inequitable treatment, lack of predictability and little freedom to spend based on needs of local constituents.

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24 Dec 2025

Market monitor

Unification of securities laws into single code is good

There is no disputing that a consolidation and overhaul of the laws governing the securities market was long overdue. Over the last three decades or more, there have been huge changes in securities market products, participants and processes. Accordingly, archaic provisions in the Securities and Exchange Board of India Act 1992, Depositories Act 1996 and Securities Contracts Act 1956 have been modified several times through gazette notifications.

Now, the Securities Markets Code, 2025 consolidates these three statutes into a single code which is concise, addresses inconsistencies and overlaps, and is up to date. A major feature of the Code is that it lays down time-bound resolutions of investigations. This addresses a major shortcoming in the functioning of SEBI. Inordinate delays in investigation of prominent cases such as, for example, the NSE colocation case and the Adani-Hindenburg allegations, could have been avoided. The Code lays down that investigations should be completed within 180 days of the date of the contravention; interim orders too will be valid for 180 days. It also lays down a limitation period of eight years for initiation of any investigation, so that old cases are not kept alive indefinitely. The introduction of an ombudsperson in the securities market is another important change. This was earlier considered by SEBI in 2003 on the recommendation of the joint parliamentary committee on the stock market scam, but was not implemented.

An ombudsperson appointed by SEBI, who will hear investor complaints relating to services provided by stock market intermediaries or companies issuing securities, will help build investor trust. While investors must first approach the existing grievance redressal mechanisms such as the SCORES portal, they can knock at the doors of the ombudsperson if the complaint remains unresolved for 180 days. This provides an additional layer of protection. The Code has also dealt with stock market offences in a rational way, which will enhance ease of doing business. The Code has divided offences into minor technical and serious which are classified under 'market abuse.' Minor offences are to be dealt with lightly, treating them as civil penalties. But for serious offences, a person can be imprisoned for a term which can extend to 10 years and the fine could go up to ₹25 crore, thereby acting as an effective deterrent.

In a baffling move, the Code moots transfer of 75 per cent of the annual surplus of SEBI to the Consolidated Fund of India. The outstanding balance in the SEBI general fund towards the end of FY24 was just ₹5,572 crore, including ₹1,064 crore of surplus income for FY24. The investor protection and education fund has a much smaller balance of ₹533.17 crore. These are but a drop in the ocean of the Consolidated Fund of India. And the regulator does need the resources to govern the markets. The objective behind this proposal is, therefore, not clear.

24 Dec 2025

Drivers of emerging economies

LIMITED ANALYSIS. The IMF suggests Asia's economic growth is likely to increase despite adverse external circumstances

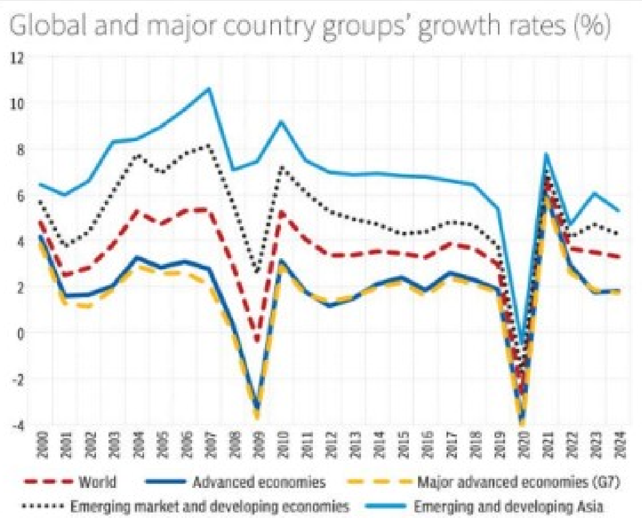
PARTHA RAY
PARTHAPRATIM PAL

Over 30 years ago, a seminal paper by Easterly, Kremer, Pritchett, and Summers questioned whether economic "miracles" were the result of "Good Policy or Good Luck?" This question is revisited in the context of the October 2025 IMF World Economic Outlook, which contains a chapter titled 'Emerging Market Resilience during a time of Uncertainty: Good Luck or Good Policies?'. This article analyses the strong performance of emerging market and developing economies (EMDEs) in a world marked by geopolitical uncertainty and trade conflicts.

What does the data say? The Chart reports the annual real GDP growth rates of the following five country groups:world; advanced countries; major advanced economies (G7 countries); emerging market and developing economies (EMDEs); and emerging and developing Asia. A few comments about these country groups are in order here.

The IMF currently has 191 member countries. Based on complex economic criteria, 41 members are classified as "advanced economies", including six Asian nations (Japan, Korea, Hong Kong, Macao, Taiwan, and Singapore). The remaining 150 countries fall under "emerging market and developing economies," which encompass the 'emerging and developing Asia' subgroup.

The Chart highlights two critical features of twenty-first-century economic growth. First, global growth has become increasingly coupled, showing greater synchronicity across different country groups, although the recent pandemic revealed nuances in this interconnectedness. Second, EMDEs — particularly those in developing Asia — consistently outperform both advanced economies and the G7 in growth rates. This dynamic is structurally significant: because the EMDE share of global GDP has steadily risen to approximately 60 per cent, these economies have arithmetically driven global expansion throughout the first quarter of the century. Effectively, the growth momentum of the developing world has become the primary engine pulling the global economy forward, overshadowing the slower trajectory of traditional industrial powers. The IMF projections also suggest that for the next year, Asia's economic growth is likely to increase "despite weaker external demand, elevated tariffs, and persistent policy uncertainty".



Source: World Economic Outlook, IMF, October 2025

STATISTICAL ARTIFACTS?

While the average growth of emerging economies is higher than that of advanced economies, is it more stable? Are these merely statistical artifacts? Or, are there any explanations? The IMF report notes, "The resilience to risk-off shocks observed in recent years not only reflects benign external conditions, but it is also rooted in improved policy frameworks," and flags some interesting hypotheses.

If the world and its economic centres of gravity are shifting, perhaps we need to look at the experience of EMDEs in a more in-depth and focused way.

First, EMDE central banks have improved the implementation and credibility of monetary policies with strong policy frameworks (like the adoption of inflation targeting), relying less on foreign exchange interventions.

Second, central banks have become less sensitive to fiscal pressures. Specifically, the IMF says, "Before the global financial crisis, higher government spending often led to looser monetary policy and rising inflation expectations, but post-crisis spending shocks have been met with rate hikes, and long-term inflation expectations have remained anchored, as central banks have become more independent."

Third, EMDEs have made significant improvements in implementing more effective fiscal policies.

These, however, are the usual defences of IMF orthodoxy. Curiously, the report debunks conscious usage of macro-prudential policies or usage of forex reserves, and notes, "Resilience to risk-off episodes, the diminished need for foreign exchange interventions in the presence of strong policy frameworks, and evidence of autonomy of domestic monetary policy are suggestive of a progressive transition towards a world that, while unequal across countries, appears to be characterised by the trilemma of the classic Mundell-Fleming framework and less by the dilemma ... in which monetary policy independence is limited unless capital controls are used." Put crudely, these EMDEs seemed to have performed well due to the usual good policies of the advanced countries.

The report, however, leaves many questions unanswered. What has been the role of many of these EMDEs' emergence as centres of global value chains? What has been the role of international trade in all these? What has been the role of the labour market? Have the advanced countries abandoned these principles of good policy?

If the world and its economic centres of gravity are shifting, perhaps we need to look at the experience of EMDEs in a more in-depth and focused way. Seeing their success only through the lens of market fundamentalism may be an incomplete view.

Ray is with NIBM Pune, and Pal is with IIM Calcutta. Views are personal

29 Dec 2025

Visa woes

H-1B squeeze will hurt students, professionals hard

The US government is reshaping the H-1B visa programme by replacing its long-standing lottery system with a wage-based allocation model to attract highly specialised, high-paying talent while reducing dependence on mass recruitment. The change is likely to make it harder for entry-level professionals and volume-driven employers to secure visas.

The Department of Homeland Security has announced amendments to the regulations governing the H-1B selection process so that visas are prioritised for higher-skilled and higher-paid "aliens", ostensibly to protect the wages, working conditions and job opportunities of American workers. In practice, this shifts power decisively towards large employers and senior-level professionals. This regulatory overhaul arrives on the heels of another disruptive change: the expansion of social-media vetting to all H-1B visa applicants. Adding to the squeeze is a steep one-time fee of $100,000 for first-time H-1B applications. Together, these measures signal, if there were any doubts, that the US is no longer rolling out the red carpet for immigrant professionals, particularly engineers and technology workers. The most immediate shock will be felt by Indian students enrolled in American universities. Every year, thousands take on heavy education loans in the expectation of securing a job at a US technology firm after graduation. That journey, via Optional Practical Training and ultimately an H-1B role, has long provided the economic logic for studying in America. Now the pathway is narrower, more expensive and less predictable.

Even for students graduating from Indian engineering colleges, the US stood unrivalled as the dream destination, not merely for higher salaries and a better quality of life, but for access to deep pools of venture capital, world-class research ecosystems and a culture of risk-taking. Working in India, by contrast, has never seemed an equal alternative. Weak infrastructure, a shallow pipeline of frontier-technology roles and relatively modest research ambitions limit opportunities. Even in the R&D centres of MNCs, the work assigned in India is often incremental rather than path-breaking. Yet this new reality must be faced. India's gross expenditure on R&D remains stuck at about 0.64 per cent of GDP, far below most global peers. India's top IT services firms spend only 0.4–1.3 per cent of revenue on research, a ratio that has barely shifted in years. This is unsustainable for a nation that aspires to technological leadership.

However, Indian IT firms will be partly insulated from these policy shifts, having already moved towards greater local hiring in the US. At the same time, big technology firms such as Microsoft, Amazon, Apple and Google, which have relied heavily on Indian talent through the H-1B route over the past decade and a half, are now committing multi-billion-dollar investments to India. This will undoubtedly open more doors for Indian professionals, but the domestic ecosystem must strengthen rapidly to keep pace.

29 Dec 2025

From populist socialism to populist capitalism

There's been a small flood of reforms in the last nine months. But the bureaucracy may again be the stumbling block

LINE& LENGTH.

TCA SRINIVASA RAGHAVAN

When it comes to economic policy, Indian governments have firmly favoured labour against capital. But 2025 is likely to go down as a sort of 1991 equivalent, the year when for the first time since 1947 a government veered towards capital, away from labour.

In 1991 that was done under extreme duress because India had nearly run out of foreign exchange and needed a massive loan from the IMF to pay for its imports. Thus, the sudden lurch toward capital was not at all voluntary as the Congress would like the country to believe.

This year also we have seen some very big pro-capital or pro-well off reforms in income tax, GST, the new labour codes, the stock market code, the reform of MGNREGA, and reform of nuclear energy policy to name just a few. Some years ago corporate tax rates were cut to an average of about 20 per cent.

It's an impressive list for a government that had gone to sleep, waking up only for intense political activity. It's legitimate, therefore, to ask what's changed, why this new demonstration of love for capital.

After all, the BJP will still need the votes of the poor to win in the next general election. So why favour the well off? The problem is that this time it can't do it with government money alone. It needs the rich, too, to help it out in the matter of jobs and work. It needs much higher levels of private sector fund deployment — investment — to generate employment.

IT'S THE BUREAUCRACY, STUPID

This explicit acknowledgment, of the need for the private sector, is a sea change. The dominant political party, instead of populist socialism, is now opting for populist capitalism. It is recognising the truth of Margaret Thatcher's famous 1976 statement, "the problem with socialism is that eventually you run out of other people's money".

> **Unless Modi reforms the bureaucracy, we will not be Viksit Bharat by 2047. The simple point is that way too much** power is vested in *babudom*. This power is used to obstruct and to extract

But here I must reiterate, for the umpteenth time, an old complaint of mine: the bureaucracy. Unless Modi reforms it, we will not be Viksit Bharat by 2047.

The simple point is that way too much power is vested in *babudom*. This power is used to obstruct and to extract. The well-meaning *babus* obstruct. The knaves extract. A few do both. There are also those who do neither. All of these are randomly distributed in the government which increases both uncertainty and risk for businesses.

I once asked a very well-known, very influential (and now very dead) civil servant what was meant by 'government'. He said us, meaning his tribe. What about the cabinet, I asked. He dismissed them in the most disparaging way.

Dealing with this mindset must become Modi's priority. It is the old colonial one, the core of Macaulayism. The origins of this mindset lie in the influx of Victorian priests after the British government took over the governance of India from the East India Company. These priests found Indians sinful and venal.

Their influence on lawmaking was to require Indians to take permission from the district magistrate for everything. This was the reverse of the traditional British approach that you can do anything as long as "there is no law against it". In India you could do nothing without permission.

That nonsense persists. It's the source of corruption and obstruction. The government states the intention by declaring a policy, Parliament makes that intention possible by making a law, and the bureaucracy sabotages it all by making the rules to implement the two.

THE REAL POWER

So Modi should not be surprised if all his reforms have less than dramatic effect. It's having the driver of your car regarding himself as the owner — and the owner as a nuisance.

As for the owner, it's like trying to reach the airport in quick time with a driver who refuses to drive appropriately. And guess who has the upper hand?

This is because while ministers have a hundred things to worry about, a bureaucrat has a very narrow field to control. He or she has the power to make rules and that's how they obstruct and extract.

I have been saying for a very long time now that the power to make unnecessary, redundant and self-contradictory rules must be abridged. At present these powers are not subject to any supervision.

Every department head can make pretty much whatever rules he or she wants. This is real and raw power, derived directly from requiring permission for everything. Nor do all business people have names to which those rules don't apply.

29 Dec 2025

MF industry: Expense ratios aren't the problem

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Short-term outlook of MF investors is the problem. There must be an effort to promote long-term investment behaviour

Subir Jha
Sanjay Fuloria

The comparison between expense ratios of mutual funds in the US (around 0.4 per cent) and India (1.8-2 per cent for equity and hybrid schemes), despite its rhetorical appeal, is fundamentally flawed. It disregards deep structural differences between the two markets and ignores the way total expense ratio (TER) is constructed in India. This comparison also misleads investors and diverts attention from genuine reforms.

The single most important distinction is that India's TER includes distributor commissions, while US expense ratios largely exclude equivalent distribution costs. In India, especially in regular plans — which continue to dominate retail participation — commissions for intermediaries form a significant part of the disclosed TER.

These commissions compensate individuals who facilitate investor onboarding, promote financial literacy, and enhance mutual fund penetration.

In contrast, the US ecosystem relies heavily on direct online channels, employer-sponsored retirement accounts, and institutional platforms where distribution is inexpensive and often automated. The cost structures between the two markets are therefore incomparable.

Moreover, 60-70 per cent of the AUM in US is managed under Advisors, wherein fees can range from 0.25-1.5 per cent. When this fees is taken into account, the intermediaries cost in both markets become far closer than perceived. Beyond distribution, market characteristics diverge sharply. The US mutual fund industry serves more than half of its households and manages asset pools worth tens of trillions of dollars, pushing expense ratios down due to scale.

India, on the other hand, though growing impressively, is still a young market with modest assets under management (AUM) relative to population size.

Additionally, SEBI's compliance requirements, physical KYC processes, and extensive investor servicing obligations — push up the cost of doing business. For these reasons, expecting Indian funds to replicate American pricing is analytically unsound and operationally unrealistic. Moreover, Indian investors do get the benefit of economies of scale, with the TER reducing with increase in AUM of a particular fund.

BEHAVIOURAL ISSUE

Indian investors' short holding periods represent a deeper behavioural issue. Equity mutual funds are meant for long-term, multi-year compounding, yet many investors exit within 18-24 months. Such premature redemptions make annual expense ratios appear excessive, not because TERs are unfair, but because compounding benefits are never realised. Over longer horizons, even higher TERs become far less onerous than low costs on prematurely exited investments.

MUTUAL FUNDS. Vexatious expenses

Longer holding periods fundamentally change the economics of investing. When investors remain invested, the compounding of returns dwarfs the annual cost component. Volatility smoothens out, portfolio outcomes stabilise, and AMCs themselves can achieve operating efficiencies that eventually justify lowering costs over time.

A more constructive policy debate should move away from fixation on absolute TER levels and instead focus on promoting disciplined, long-term investment behaviour. Encouraging longer holding periods for equity and hybrid funds — similar to the lock-in structures common in pension, retirement, and insurance-linked products globally — would benefit investors far more than aggressively capping AMC expenses. Lower churn reduces distribution stress, aligns investor behaviour with market fundamentals, and strengthens the overall ecosystem, while fostering genuine wealth creation rather than short-term speculation.

This does not suggest that TERs should escape oversight. Transparency, fair pricing, and investor protection remain essential. However, repeatedly benchmarking India against Western markets obscures structural differences. India faces unique cost drivers, behavioural challenges, and a continued need for advisory and distribution support. Blindly imitating US ratios risks harming both investor outcomes and industry sustainability.

Meaningful reform must be context-specific. Encouraging longer holding periods, guiding investors to suitable products, responsibly promoting direct plans, and improving advisory standards will enhance investor welfare far more than narrow numerical comparisons. Ultimately, impatience — not expense ratios— is the greater drag on returns.

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30 Dec 2025

Wrong track

Railway fare hike is too inconsequential

After a gap of many years, the Railways has hiked passenger fares twice this fiscal year. Both these hikes (in July and December) are inconsequential, almost apologetic, prompting the question of what they will achieve — save reduce at the margin the revenue-expenditure gap of the Railways and keep the operating ratio at below 100. In fact, the latest hike, which came into effect on December 26, seems an afterthought, and quite out of trend for an organisation that raises fares at best in years.

Indeed, if the intent was to repair finances in a more enduring way, the Railways could have raised fares more rationally and purposefully. It has conformed to a populist notion that the commuter cannot take the burden. This is a misplaced view that disregards the *raison d' etre* of the Railways in many respects. The current hike spares suburban travel, where the fares are archaic and absurd not allowing for any upkeep whatsoever. To argue that the commuter cannot pay is a stretch, as bus fares in a metro city are many multiples of the suburban fare. A hike of 2 paise per km for all mail and express trains across classes seems irrational. Premium trains, such as Vande Bharat, Shatabdi and Rajdhani can be priced higher, as passengers can pay more for the comfort and convenience of short and medium distance travel. These trains are priced far lower than air fares and even luxury buses. The fare revision seems calculated to neither please or displease any section of commuters; but in the process the Railways cannot benefit, and nor can the quality of services improve. The Railways informs every traveller that it subsidises the ticket by 40 per cent or more, whereas that is neither necessary nor desirable. The bottom of the pyramid commuter as well as the creamy layer can pay more. Above all, by tinkering at the margins with passenger fares, the Railways is perpetuating the subsidisation of passenger travel by freight travel.

The revision of passenger fares should be entrusted to an independent authority (a 'railways tariff commission' was proposed years ago) that does so periodically, and by employing a transparent methodology. The fare hikes should be rational, differentiated and linked to costs. Except for AC three tier and AC chair car, all classes are loss-making.

The central problem today with Railway finances is that freight revenues (₹1.88 lakh crore projected for FY26), which accounts for two thirds of total revenues, are not rising quickly enough for its profits to cover the losses from passenger services (revenues of about ₹92,000 crore). Any slippage in freight revenues (projected to rise 4.4 per cent this fiscal) or passenger revenues (16 per cent growth projection) could pose a strain. As the gap rises, the Railways dips into the general budget to fund its capital expenditure. This is unsustainable. A whopping subsidy to passengers imposes an economic cost. Meanwhile, freight movement reforms are still a work in progress, and require periodic review.

30 Dec 2025

Capital markets: Agency clearing, the next leap

STRENGTHENING MARKETS. The Securities Market Code Bill paves the way for a resilient infrastructure for market settlement

REUTERS

CKG NAIR
V SHUNMUGAM

The Bill on Securities Markets Code, recently introduced in the Lok Sabha by the Finance Minister, ushers in a host of big-ticket changes, including strengthening the legal backbone of finality and irrevocability of settlement, which are solely the responsibility of the clearing corporation; not intermediaries. This clear distinction ensures legal certainty at the central clearing level while subjecting intermediaries to supervision as well as insolvency procedures. The separation, which frees settlement finality from intermediation risk, enables the market to consider an agency-based clearing system, which would plug some major limitations in the current clearing framework.

The Karvy scandal revealed a major flaw in India's brokerage framework. Investors who thought their demat holdings were protected discovered that brokers had illegally pledged client securities to support their own trades. Smaller incidents soon emerged, demonstrating how easily brokers could misuse client assets. The bigger concern was unsettling: how were intermediaries allowed to pledge assets they didn't own?

Regulators responded quickly, but recovery was slow. Many investors waited months to get back what was rightfully theirs, and some never did. Banks challenged regulatory directives requiring the freezing or return of securities pledged by borrowers, triggering litigation that reached the Supreme Court in early 2024 — after the Securities Appellate Tribunal had ruled in favour of the banks. The episode raised a fundamental issue about the sanctity of the clearing system — the silent, unseen nerve centre of market integrity.

SCARS THAT PROMPTED REFORM

In the aftermath of the Karvy crisis, SEBI and market institutions implemented reforms that enhanced oversight and transparency. The pledge-re-pledge (PRP) framework now requires client consent before collateral can be used, recorded directly in depositories. Client funds are kept separate; brokers submit daily balance reports; and exchanges oversee every collateral link to ensure securities remain visible and auditable.

Confidence has returned since then. However, inefficiencies still exist. Each trade still involves multiple cost layers— brokerage, taxes, exchange, and clearing fees — and significant margins. Derivative contracts can require 10-20 per cent of the notional value upfront, creating a barrier for retail and smaller institutional investors. The result: India's markets remain dynamic but capital-intensive, with high impact costs.

By late 2025, India's equity landscape had significantly evolved. More than 210 million demat accounts were active—a tenfold increase since 2016. Mutual fund assets reached record levels, and institutional trading volumes grew as domestic funds and insurers expanded participation. But this success also exposed the limitations of the current clearing model.

Each client trade still generates two contracts — one between the client and the broker, and another between the broker and the clearinghouse. This "principal" structure results in double margining, requiring capital to be locked twice for the same exposure. It also means client positions are intertwined if a broker defaults; transferring open trades to another intermediary remains complicated, as past defaults have shown.

AGENCY-BASED MODEL

In advanced markets like the US, brokers act as Futures Commission Merchants (FCMs) — agents who clear client positions directly with the clearinghouse. Clients deposit a single margin, with their funds legally kept separate. If a broker fails, positions can be transferred or settled immediately. This agency-clearing system enhances safety and capital efficiency. It enables cross-margining, portfolio netting, and liquidity optimisation — tools that free up capital and reduce trading costs.

> **Instead of just developing a smartphone app, India's next financial leap could involve resilient infra for market settlement**

By separating client ownership from intermediary risk, US markets handle large volumes with resilience and transparency. Europe is adopting similar strategies through agent-trustee frameworks to protect client assets while reducing redundant exposures for intermediaries.

India's market structure is prepared for this change. Increasing institutional participation, renewed foreign interest, and fintech intermediaries have all added pressure on legacy systems. For banks, principal clearing increases balance-sheet risks; for brokers, it ties up capital that could otherwise be used more effectively.

An agency-clearing framework would allow brokers to serve more clients with less tied-up capital. Investors would gain direct legal ownership of their positions at the clearinghouse, while regulators would have a transparent, auditable view of risk.

The depository system for dematerialised securities already demonstrates that such segregation is effective: investors' holdings remain secure even if a broker fails. Expanding this model to cover cash and collateral — by establishing legally protected client trust accounts — would complete the circle, creating symmetry between the safety of demat accounts and margin funds.

WHO GAINS

Brokers and clearing members: Capital freed from double-margining can be redeployed into technology, product design, and client servicing.

Investors and traders: Lower margin requirements and transferable positions would enhance access and competition.

Exchanges and CCPs: Larger cleared volumes enhance liquidity and price discovery.

Foreign investors: Familiarity with agency-clearing structures facilitates market entry, aligning India with global norms.

Regulators and the economy: Clearer ownership lines improve supervision and reduce systemic risk, thereby directing savings toward productive uses.

NEED A GRADUAL ROADMAP

The reform need not be abrupt since clearing is the nerve centre of the market ecosystem. A phased pilot, starting with the institutional phase, could assess operational readiness. Exchanges may categorise members as "sponsor" or "agent" clearing members, allowing optional migration. Capital rules could be adjusted to prevent brokers' client guarantees from inflating exposures.

Safety nets — default funds, guarantees, and stress tests — would remain unchanged. The only change would be in the allocation of collateral and claims, shifting from a pooled, opaque paradigm to a direct, transparent structure.

India's transformative UPI system exemplifies how direct, real-time settlement reduces costs and intermediaries, streamlining financial transactions across the country.

Similarly, agency clearing — backed by the Securities Markets Code (once enacted), which ensures legal finality at the CC level — aims to create a unified, interoperable architecture that significantly improves market access, reduces operational costs, and enhances safety and financial inclusion for all participants.

Instead of just developing a smartphone app, India's next financial leap could involve rebuilding a resilient infrastructure for market settlement — ready to replace outdated models and offer all participants the same efficiency and confidence UPI has brought to digital payments. This evolution is not just technological but a practical shift towards a more robust, inclusive financial ecosystem that directly impacts the daily lives of millions.

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30 Dec 2025

Politics and policies are driving copper prices up

Trump tariffs have infused chaos into copper markets. Inventories are reshuffled and prices distorted by policy asymmetry

Krishnan Ranganathan

Electricity, when it arrived, transformed daily life — lighting homes, preserving food, and extending the usable day. The metal behind that miracle? Copper. William Nordhaus quantified the change: a 19th century worker needed nearly 1,000 hours of labour to buy enough candles to match a few hours of light from a 100-watt bulb. Today, running that bulb costs 10 minutes of work. Few productivity gains rival this. Without copper, we are quite literally left in the dark.

Copper now hums inside smartphones, snakes through power grids and sits silently inside EVs. Electrical systems, solar panels, wind turbines, EVs and data centres all drink the red metal by the tonne.

This should make copper a sober, long-term story. Right? Wrong. It has become a barometer of market unease rather than industrial demand.

Markets are euphoric for now. Prices soar, spreads widen and metal is shipped across oceans for a few basis points. BHP is dusting off mothballed mines. Even Saudi Aramco is hiring copper traders. And yet something feels wrong.

Copper typically rises when factories hum and slumps when they fall silent. By that logic, today's exuberance is puzzling. The global economy is holding up but hardly roaring. If copper is red hot now, what exactly is it diagnosing?

The bulls' favourite sermon is demand. The energy transition is copper-intensive by design. EVs use up to four times more copper than petrol cars. Wind turbines, solar farms and AI data centres are metallic gluttons. But demand stories disappoint in practice, particularly when prices anticipate adoption curves rather than current build rates. As technologies mature, they become thriftier. An EV built in 2025 uses 10 per cent less copper than one made in 2020. China's property market, once a voracious consumer of copper, is in a prolonged slump.

Perhaps, then, supply is the culprit? In 2025, floods, tunnel collapses and mudslides hit major mines from Congo to Chile to Indonesia. These incidents rattled markets, but not enough to explain the surge. The industry budgets for accidents, and Chile's Escondida — the world's largest mine — has been producing more than expected.

STRUCTURAL ISSUES

The deeper challenge is structural.

COPPER. Red hot price run

Copper is getting harder and costlier to find. Discovery rates are collapsing: of 239 major deposits found since 1990, just 14 date from the past decade. Bringing a new mine now takes more than 15 years. Despite popular claims, the world is unlikely to run out of copper. The US Geological Survey estimates total copper resources at about 5.6 billion tonnes— roughly 226 years of current consumption, or 115 years even if demand accelerates sharply. Copper is not scarce. Economically viable copper increasingly is.

What, then, explains the price action? Politics.

Trump's tariffs have turned copper markets into a hall of mirrors. Refined copper remains exempt while semi-finished products are not, encouraging traders to pull demand forward rather than create new end-use consumption. Inventories are reshuffled, flows rerouted and prices distorted not by shortage, but by policy asymmetry.

History offers a corrective. At the height of the Roman Empire, a tonne of copper cost the equivalent of 40 years of the average wage. By 1800, this had fallen to six. Over the next two centuries, it dropped to just 0.06 years per tonne. Each reversal reflected not scarcity solved, but technology, scale and capital catching up — often after prices had overshot. Copper's history is of recurring price spikes followed by adaptation.

Copper has now crossed $12,250 a tonne, its biggest annual gain since 2009. Electricity is no longer the second greatest thing after God; it is our best hope for decarbonisation. But today's prices reflect not just geology or green ambition, but the familiar alchemy of politics, positioning and compressed time horizons.

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China's digital yuan to become interest-bearing next year

Reuters
Beijing / Shanghai

Holdings of China's digital yuan, or e-CNY, will start generating interest income next year under a new framework, state broadcaster CCTV said on Monday, as China steps up efforts to promote the use of its central bank digital currency.

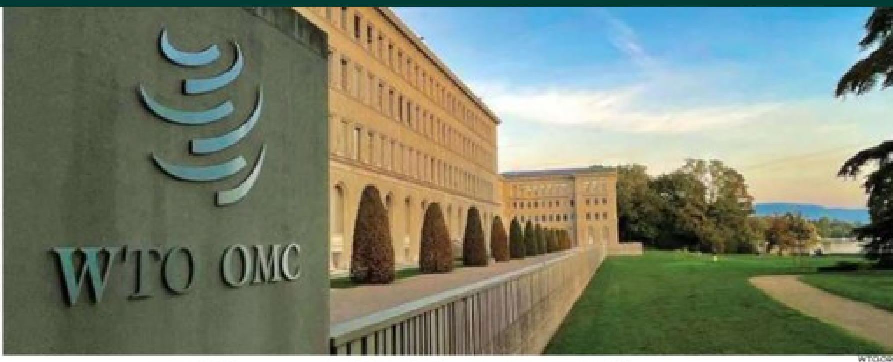
Starting January 1, e-CNY stored in wallets will earn interest based on demand deposit rates, becoming the world's first interest-bearing central bank digital currency, according to CCTV. It means e-CNY is advancing into an era of "digital deposits", from "digital cash", CCTV said.

"This will help increase users' willingness to adopt the digital yuan, expand its usage scenarios, and further solidify China's leading position in the global exploration of central bank digital currencies," the state broadcaster said.

The use of China's digital yuan is currently limited to some government agencies and state companies. Most transactions via China's ubiquitous digital payment platforms Alipay and WeChatPay do not involve e-CNY. The People's Bank of China (PBOC) last month reaffirmed its tough stance on cryptocurrencies and vowed to crack down on illegal activities involving stablecoins. Meanwhile, the PBOC is stepping up efforts to promote the use of its own digital currency.

The central bank has set up a global operation centre in Shanghai to promote international use of the digital yuan, and has said it would support more commercial banks to operate e-CNY businesses.

30 Dec 2025



WTO.ORG

The US push to redefine the WTO

TRADE TANGLE. The US' diagnosis of some of WTO's problems is valid. But it does not lay out a constructive agenda for reform

V.S. SESHADRI

The US recently articulated its vision for reforming the World Trade Organization (WTO). Set out in a communication to the WTO General Council in December 2025, the paper complements the Trump administration's unilateral tariff actions and its growing preference for bilateral or selective trade arrangements.

Taken together, these moves reveal not just Washington's preferences for WTO reform, but also a deeper scepticism about the organisation's relevance in addressing today's trade challenges.

The US submission responds to three issues identified by the WTO reform facilitator — decision-making, special and differential treatment (S&DT), and the level playing field — but goes well beyond them. It also questions the centrality of the most-favoured-nation (MFN) principle, criticises the evolving role of the WTO Secretariat, rejects scrutiny of national security measures, and argues that certain major trade problems are simply not solvable within the WTO framework.

THREE AREAS OF REFORM

On decision-making, the US places singular emphasis on plurilateral agreements — negotiations among a subset of willing members — as the only viable future for WTO rule-making. It argues that achieving consensus among 166 members on newer disciplines is unrealistic, given divergent economic systems and ambitions. Plurilateral agreements, limited in benefits and obligations to consenting parties, are presented as key to keeping the WTO relevant as a negotiating forum.

However, the US paper does not explain why WTO institutional resources should be used for agreements in which not all members participate, nor how the rights and interests of non-participants would be protected. Countries like India have consistently raised the systemic and legal concerns about possible proliferation of plurilaterals in a carefully structured multilateral body.

On S&DT, the US adopts a hard line. It argues flexibilities should be limited largely to least developed countries, and all other members should be governed by the same rules, regardless of economic differences. Any deviation, it says, requires adequate justification.

On level playing field, the US rightly points to how non-market policies and practices have distorted global trade and eroded trust in the WTO. Yet its reform proposals for WTO focusses almost entirely on greater transparency and stricter compliance with notification obligations.

WHAT WTO SHOULD AVOID

More striking than what the US wants the WTO to do is what it wants the organisation to avoid.

First, it questions the continued centrality of the MFN principle, arguing that it was designed for an era of economic convergence that no longer exists. With deepening divergence in economic policies, US contends, countries must be able to treat trading partners differently to optimise trade relationships. MFN, it argues, impedes welfare-enhancing liberalisation by forcing one-size-fits-all outcomes. While the paper does not explicitly call for abandoning MFN, it makes a strong case for widening departures from it.

Second, the US strongly criticises the role of the WTO Secretariat, which it views as fundamentally administrative rather than substantive. It accuses the Secretariat of overstepping its mandate by expanding its monitoring and commentary on members' trade measures, and undertaking research projects not authorised by members. According to Washington, these trends erode trust in the Secretariat's neutrality and must be reversed.

Third, the US rejects any questioning of a member's invocation of essential security interests. It insists that such determinations are self-judging and should not be second-guessed by WTO panels. This position follows adverse rulings in disputes challenging US tariffs on steel and aluminium imposed on national security grounds. Under the current Trump administration, the list of products covered by such justifications has expanded to include copper, timber, automobiles and auto parts, with more under consideration.

ISSUES WTO CANNOT ADDRESS

The US goes further to argue WTO is simply not a viable forum for tackling several systemic trade problems.

These include persistent trade imbalances, overcapacity, and over-concentration of production, all attributed to non-market policies and distortionary practices in certain economies. Although China is not named, the references are unmistakable.

> **The US argues that WTO is not a viable forum for tackling several systemic trade problems.** These include persistent trade imbalances, overcapacity, and over-concentration of production

The US asserts countries benefiting from such practices are unlikely to agree to rules that would deprive them of these advantages, rendering WTO ineffective.

Similarly, the US dismisses the WTO as a forum for addressing economic security and supply-chain resilience. It argues that such discussions require trust, confidentiality and shared strategic interests. The WTO, it says, is biased toward trade liberalisation and economic efficiency, often downplaying vulnerabilities created by excessive dependence on concentrated sources of supply.

WHAT DO US PROPOSALS SIGNIFY?

There is considerable validity in the US diagnosis of some of WTO's problems. Yet the remedies proposed devote far more attention to what the WTO should avoid or not get into than to constructive reforms. This signals a retreat from trade multilateralism than a serious attempt at rejuvenation. US may have the economic and political clout to pursue unilateral or minilateral solutions on its own,. Most other countries don't.

The proposals also appear designed to legitimise recent US actions — selective bilateral trade arrangements that fall short of free trade agreements, extensive use of tariffs as leverage, and expansive invocation of national security exceptions. If other major trading nations adopt similar approaches, the result would be systemic instability.

The only area where the US shows a somewhat positive approach is in accommodating plurilateral agreements within the WTO architecture. Even here, however, critical details are missing, including participation thresholds, safeguards for non-participants and systemic integrity.

Early assessments in Geneva suggest that, given the wide divergence of views reflected in the reform submissions, a consensus outcome at the WTO Ministerial Conference in Cameroon in March 2026 is unlikely.

At best, members may agree on a framework for taking the reform process forward.

INDIA'S APPROACH

This article is not an attempt to define India's overall approach to WTO reform. However, following could comprise a broad response to US proposals.

India should strongly defend the MFN principle. Diluting it would entrench power-based bargaining and disproportionately harm developing countries.

Despite US paper's scepticism, stability and predictability in trade rules remain essential for investment and growth.

While trade imbalances deserve attention, they cannot become the sole or dominant driver of trade policy.

Economic security concerns should sought to be addressed multilaterally. One option is to expand the WTO Safeguards Agreement beyond allowing temporary measures in cases of serious injury to also address strategic vulnerabilities.

WTO rules could further permit members to limit excessive import dependence on a single country for what are deemed critical products by that country without requiring proof of dumping or subsidies. Agreeing on threshold levels would be difficult, but such disciplines could discourage deliberate overcapacity and market flooding.

On S&DT, limiting flexibilities exclusively to least developed countries is too extreme. A more nuanced approach — such as eligibility based on World Bank income classifications, with reasonable transition periods — would better reflect economic realities.

Finally, plurilateral agreements require caution, as they can alter the balance of rights and obligations even for non-participants. The Marrakesh Agreement rightly requires explicit consensus for their incorporation into the WTO. That said, shutting this route completely may not be appropriate particularly when a certain agreement finds very substantial level of support such as the plurilateral agreement on Investment Facilitation. A solution finding approach is needed here.

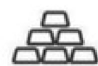
The writer is former Ambassador and Senior Fellow, Delhi Policy Group

31 Dec 2025

Deceptive sheen

Bullion rally alongside financial assets, a warning sign

Rarely do precious metals rally to new highs at a time when economic growth is strong and there's a bull run in stocks. But 2025 proved an exception. The world economy is expected to close the year with a healthy 2.7 per cent growth despite US tariff uncertainty. Q3 GDP growth from the US (4.3 per cent growth), China (4.8 per cent), Eurozone (0.4 per cent) and India (8.2 per cent), all exceeded forecasts.



The global stock market rally acquired new legs with the US S&P 500 gaining nearly 18 per cent, Nikkei 225 26 per cent, Hang Seng 28 per cent, FTSE100 20 per cent and the Nifty50 over 9 per cent in 2025. Still, gold and silver handily outperformed stocks with dollar returns of 66 per cent and 158 per cent respectively, till date. Precious metals attracted safe haven buying despite healthy growth and upbeat markets for four reasons. One, with Trump's volatile trade and diplomatic policies, the usually resilient US dollar depreciated this year, with the Dollar Index slumping 9.6 per cent. Worries mounted about unsustainable sovereign debt levels at the US and other advanced economies, prompting central banks to diversify away from US treasuries into gold. Two, policy rate cuts trimmed returns on treasury bills and bonds making gold more attractive. Three, by end of 2025, extreme concentration of stock market gains in AI-themed stocks fanned fears of a bubble burst, prompting investors to seek refuge in precious metals. Four, advanced economies oblivious to the loss of confidence in gilts, were preparing for another bout of Quantitative Easing in 2026. Currency debasement fears are propelling gains in hard assets such as gold, silver and industrial metals.

The rally in precious metals may very well continue into 2026. This can have a mixed impact on the domestic economy. On the positive side, gains in precious metals translate into a significant wealth effect for Indian households because of their large hoard of bullion. While they do not sell bullion except when in distress, households are increasingly pledging it for loans, enabling monetisation of idle bullion holdings. This is evident from the gold loan books of Indian banks expanding 128 per cent the past year. Other official attempts at monetising household gold have either failed or backfired on the government, with Sovereign Gold Bonds proving a costly form of borrowings. Therefore, monetisation through loans needs to be encouraged — with prudential lending norms in place.

On the flip side, policymakers need to worry about the rising flows into gold and silver ETFs (Exchange Traded Funds). Traditionally, Indian jewellery buyers cut back on their purchases when prices soar, but the emerging class of ETF investors chase returns. This calls for vigilance over a surge in imports as gold and silver prices soar. The rally in precious metals is also a warning to retail investors that they need to lower their return expectations and derisk portfolios in 2026.

31 Dec 2025

IMEC's relevance to India and its chokepoints

This corridor will connect Indian manufacturing and services with European markets via West Asian logistics

Nilanjan Ghosh

The announcement of the India-Middle East-Europe Economic Corridor (IMEC) in 2023 was interpreted as a counterweight to China's Belt and Road Initiative (BRI). However, for India, it is less about rivalry and more about connectivity and economic security, as diversifying trade routes connecting India and the EU can help mitigate the traditional Red Sea-Suez Canal route's susceptibility to geopolitical and logistical problems.

Despite the EU being among India's top three trading partners, accounting for over 12 per cent of merchandise trade, the trade movement relies overwhelmingly on the Red Sea-Suez Canal route.

In March 2021, a massive container ship blocked the narrow Suez stretch, keeping hundreds of vessels stranded, disrupting around 12 per cent of global trade. More recently, Houthi attacks on commercial shipping led to the Red Sea crisis of 2023-24, forcing major carriers to reroute vessels around the Cape of Good Hope. This led to an additional distance of 3,500 nautical miles, extending transit times by a week, increasing fuel costs and insurance premiums, creating uncertainty in delivery schedules, and forcing Indian exporters to hold back a significant share of shipments.

Given this, IMEC, for India, can emerge as a risk-management strategy through maritime artery diversification.

The IMEC

Fundamentally, IMEC's value lies not in replacing the Suez or the North-South corridor (through Russia), but in bringing about diversification in the portfolio of India-EU trade route connectivity by combining maritime transport, high-speed rail, and integrated port networks linking India to the Gulf and onward to Europe.

TRANSIT TIMES REDUCED

An associated estimated reduction in transit times by up to 40 per cent and of logistics costs by around 30 per cent implies faster turnaround and lower working capital cycles for Indian exporters. For India's west coast ports, this promises higher throughput, deeper integration with Gulf and Mediterranean logistics ecosystems, and alignment with the government's policies with Gati Shakti, Sagarmala, and bringing down logistics costs to global benchmarks.

Thus, the Indian ambition to move up the global value chain from low-margin assembly to higher-value manufacturing and services is supported through a triangular economic structure: India as a manufacturing and services base, the Gulf as a logistics and capital hub, and Europe as a source of technology, standards, and demand. The IMEC, thus, envisages an interlinked value chain, where the factor market in India gets connected to the product market in the EU through logistic intermediation in the Middle East.

Yet, the chokepoints emerge from geopolitical tensions, logistical constraints and financing gaps. The conflict in the Gaza Strip created impediments for quite some time, despite the present ceasefire.

Logistical chokepoints emerge from infrastructure deficits and port capacity mismatches. While IMEC envisages cargo movement from Indian ports such as Mumbai or Mundra to Jebel Ali in the UAE, and onward by rail through the UAE and Saudi Arabia to Israel's Haifa port, key railway links along this route are still incomplete.

Again, while Jebel Ali can handle around 90 million tonnes annually, Haifa's capacity is limited to about 30 million tonnes, creating a significant bottleneck. Unless Haifa's port capacity is substantially expanded, IMEC cannot realistically serve as a large-scale alternative to the Red Sea-Suez Canal corridor, where Egyptian ports together handle nearly 180 million tonnes of cargo annually.

The real test of IMEC lies in its financing. Large cross-border corridors often falter when financing structures fail to account for political risk, regulatory diversity, and long gestation periods. IMEC spans regions with uneven fiscal capacities and credit profiles, making traditional public funding or stand-alone public-private partnerships insufficient. IMEC requires a portfolio approach to financing — combining public investment, multilateral guarantees, sovereign wealth capital, and private investment — that can lower the capital cost and attract long-term institutional investments.

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01 Dec 2025

Labour Codes: Policy vs execution

IRRATIONAL CHOICE
DEBASHIS BASU

India's new labour Codes — four sweeping laws meant to replace 29 fusty statutes — promise to simplify compliance, broaden social security, and grant firms the flexibility to hire, fire, and grow. But then, India has a habit of announcing reforms that look splendid but get bungled on execution. Will the new Codes join this tradition? The country's recent economic reforms have followed this predictable arc: Ambitious legislation drafted in New Delhi, halting implementation in the states, and an eventual outcome far removed from the intent. The Insolvency and Bankruptcy Code (IBC), for instance, was intended to be a swift and fearsome mechanism for disciplining errant borrowers. It soon became bogged down in court delays, procedural squabbles, and corruption. Delays and gaming the system look common. The Real Estate (Regulation and Development) Act (Rera), designed to protect homebuyers, dissolved into a patchwork of diluted state-level regulations. Even goods and services tax (GST), the most dramatic fiscal reform in decades, continues to be a work in progress with complex rules and uneven enforcement.

The first obstacle is India's federalism. Though the Codes are central legislation, labour sits on the Concurrent List of the Constitution, meaning the states must craft their own rules and do the actual enforcing. In similar other cases, some have been diligent; many have not. Most of them are interested in political theatre rather than regulatory housekeeping. A worker in one state might enjoy benefits unavailable in another; a factory might be regulated differently across state lines. The new Codes promise to smooth these wrinkles. But if states drag their feet or carve out bespoke interpretations, the Codes will fall short of their intent.

The second problem is capacity and quality of governance. The Codes assume the existence of digital systems for worker registration, algorithms for risk-based inspection, and administrators capable of handling millions of online compliance filing. The reality is less flattering. India's government machinery, usually poorly trained, badly supervised, and undermined by corruption, cannot enforce even modest regulations, let alone a generational overhaul. Digitisation is uneven; portals often crash under pressure. The Employees Provident Fund Organisation is causing untold harassment to millions. The IBC's collapse under the weight of overwhelmed tribunals should have served as a warning. Instead, the Codes seem to have borrowed its ambition without its lessons.

Their architects place much faith in digital compliance: Electronic filing, online grievance systems, and Aadhaar-linked social-security accounts. But India's digital landscape is uneven. GST filing remains a headache for many small businesses. Millions of workers lack reliable connectivity. Those in the informal sector — construction workers, drivers, and domestic staff — possess scarcely any reliable documentation.

India has already produced several digital-welfare schemes, which function more as databases rather than delivery systems. The e-Shram portal — for informal workers — remains incomplete, riddled with duplicates and missing beneficiaries. Construction workers' welfare funds sit unspent in many states for want of clean data, as a government audit found. Expecting the new Codes to succeed where these programmes have stumbled looks optimistic, if not fantastical.

Then there is populist politics, which is ready to undermine any reform. Any economic downturn, significant layoffs, or industrial accident could prompt politicians to dilute or delay implementation. Reform in India often depends less on economic logic than on political risk-aversion. Rera became weaker through state-level amendments; GST rates proliferated thanks to political compromises. Labour reform could easily face similar political recalibration.

The Codes earn credit for recognising gig and platform workers, but here India's regulatory ambition outruns its practical capabilities. Definitions are broad, contribution mechanisms vague, and enforcement pathways are unclear. Gig workers operate across multiple platforms, with shifting identities and little documentation. Tracking contributions or verifying employment histories would challenge even well-staffed regulators. Also, will gig-worker protections turn into the labour equivalent of India's various cess funds: Money collected, rarely disbursed, and largely inaccessible to those it was meant to help?

Of course, the Codes are not doomed. India's reforms rarely fail outright. Rather, they succeed in bits, stumble in others, and settle into an untidy, middling equilibrium. GST merely became overcomplicated. The IBC became slow and uneven. Rera did not disappear; it became toothless in parts. The Codes may follow a similar trajectory: Partially effective in a handful of states, effectively ignored in others, inconsistently enforced everywhere. They may help formal manufacturing more than services, large firms more than micro, small, and medium enterprises, and the already documented workforce more than the informal majority.

A successful modern labour regulation requires vast quantities of reliable data — on employment, earnings, safety, benefits, and compliance. Countries like Japan and South Korea operate such systems with clinical efficiency. In India statistics are patchy; administrative records inconsistent; and surveys infrequent. The Codes assume a data regime that India has not built. The IBC's tribunals struggled partly because the government lacked a sharp focus on outcomes and failed to make timely and determined intervention when they vastly deviated from expectations. The problem started with wrong appointments. Rera's enforcement remains patchy across states. Labour reform, which depends on tracking millions of workers and firms, demands an even higher standard of enforcement. The Codes hold the promise of a more productive, formalised economy. But a law is only as good as the state that enforces it, and India is not known for rigorous, outcome-driven administrative discipline.

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01 Dec 2025

NEW DELHI | MONDAY, 1 DECEMBER 2025

GDP beats expectations

Nominal growth numbers may pose challenges

The Indian economy grew at a much faster pace than expected in the first half this financial year. The data released last week showed that gross domestic product (GDP) expanded by 8.2 per cent at constant prices in the second quarter, taking first-half growth to 8 per cent, up from 6.1 per cent last year. The Reserve Bank of India (RBI) had projected a growth rate of 7 per cent for the second quarter. Growth was supported by increased activity in segments such as manufacturing, which grew 9.1 per cent, and construction, which went up 7.2 per cent. The tertiary sector also recorded a growth rate of over 9 per cent. On the expenditure side, private consumption strengthened and grew 7.9 per cent, while growth in investment slowed a bit to 7.3 per cent compared to 7.8 per cent in the first quarter.

The Indian economy's performance, based on the available numbers, has been exceptional in the first half of 2025-26. It is worth emphasising that the external environment was not supportive. The United States' (US') trade policy has significantly increased uncertainty in the global economy. The US has also imposed a 50 per cent tariff on India, the impact of which is now beginning to show. Most economists, therefore, expect growth to soften a bit in the second half. However, on the positive side, the government is hopeful of arriving at a trade deal with the US soon. A bilateral investment treaty is also being negotiated, which should help improve investment over the medium term. On the domestic front, the impact of rationalisation and the reduction in goods and services tax rates, which became effective in late September, should be visible in the December-quarter numbers. Considering all factors, economists expect full-year growth could well exceed 7 per cent, which would be very encouraging, given the current global economic backdrop. Measures such as the notification of the four labour Codes by the government and the consolidation of over 9,000 circulars and directions by the RBI last week will also help improve ease of doing business.

Although the growth numbers are impressive in real terms, the level of nominal growth has raised some concern. In nominal terms, the economy expanded 8.8 per cent in the first half. In the second quarter, for example, the difference between the nominal and real growth rates was just 50 basis points, which can be explained by low inflation. However, corporate earnings and tax revenue depend on nominal expansion, which can have varied implications for the economy. Tax collection, for example, in April-October grew only 4 per cent, though there was a sharp uptick in October. To meet the full-year gross tax-revenue target, collection will need to clock a growth rate of over 20 per cent in November-March, which could be difficult to achieve.

From a medium-term perspective, since the government is moving to target the debt-to-GDP ratio, sustained low nominal growth could make things difficult. Notably, a lot will also depend on the much-awaited GDP base revision next year. However, the most immediate policy question is what the latest GDP numbers mean for the Monetary Policy Committee, which is scheduled to meet this week. As noted in this space recently, the MPC's decision will depend on how the recent inflation outcomes have shaped its projections for the coming quarters. At the current pace of growth, a 25-basis-point rate cut is unlikely to make a significant difference.

02 Dec 2025

When development goals clash

Over the past few weeks, soaring air pollution in Delhi and other metros has forced Indian policymakers to confront an issue they often prefer to ignore: The need to focus on total emissions, not just the emission intensity of the economy, even as India seeks to accelerate gross domestic product (GDP) growth and march towards becoming a developed country by 2047.

The distinction between total emissions and the emission intensity of the economy is crucial. India has focused on reducing emission intensity — that is, its goal has been to lower emissions per unit of economic output. The target for 2030 is to cut GDP emission intensity by 45 per cent from 2005 levels. This seems eminently doable — as it has already reduced emission intensity by around 36 per cent since 2005.

PROSAIC VIEW

PROSENJIT DATTA

The problem is that it does not actually lead to cleaner air or stop global warming. The absolute emissions are still going up — and will continue to go up until policymakers figure out a way of reducing, or at least capping, emissions, while devising policies to accelerate growth. Current studies suggest that India's total emissions could well continue going up all the way till 2040, or even longer at current rates of GDP growth.

Balancing rapid GDP growth with the inevitable rise in emissions that high economic growth brings is an issue that all developing nations face. Rapid growth inevitably requires higher energy consumption, higher construction activity, and higher industrial production, among others.

India's development targets for 2047 will require the economy to grow at 8 per cent per annum or more consistently over two decades. This growth is necessary to ensure that the country's per capita income crosses the threshold the World Bank uses to classify a nation as high-income.

Equally, the 8 per cent-plus growth would inevitably lead to higher total emissions for the time being — and, unless dealt with aggressively, will adversely affect the health of citizens in all big cities in the country. Numerous studies have shown that consistently high air pollution reduces life expectancy — and new research indicates that it can also affect unborn babies at the foetal stage.

The hallmark of a developed country is not merely high per capita income but also high quality of life — especially education and health, along with higher per capita incomes as per the United Nations Development Programme (UNDP) Human Development Index (HDI). This would mean that India should focus on air and water pollution, among other things, such as universal and high-quality school education while encouraging higher industrial and service sector growth.

Ensuring quality school education while pursuing high economic growth is not very difficult — though most Union governments in India have so far preferred to leave improvements in education to state governments or the private sector. Reducing or tackling absolute emissions, however, is a far bigger challenge for policymakers.

India's future economic growth will need to come from both manufacturing and services. At one point, the theory was that services-led growth would require less energy and produce lower emissions than rapid manufacturing growth. But the advent of artificial intelligence (AI) and gargantuan data centres has caused alarm bells to ring about their energy and water consumption. This is why it is important for policymakers to realise that they cannot wait till India becomes a high-income nation to tackle total emissions or issues like air pollution. Even interim targets on the path to net zero by 2070 that India has adopted will need to provide solutions for absolute emissions while continuing to reduce the emission intensity of economic growth.

The answer obviously is not to slow down economic growth, but to figure out how to tackle the very real problem of air pollution — an inevitable byproduct of high growth — that citizens face. At least some of these problems could be addressed by implementing more stringent environmental regulations and ensuring better enforcement of existing norms.

It is no secret that many industries — large, medium, and small — pay little heed to emission norms. Nor do local, state, or even Union authorities particularly care about emissions or air pollution. Old thermal power plants have often been given additional time to implement emission control systems by authorities. Water pollution and depletion continue unabated across the country. Trees, which are crucial for absorbing emissions, are cut down with impunity to build roads, factories, and for mining activities, with little effort to create alternative green lungs. Similarly, cleaning water bodies could help absorb emissions, along with measures such as stricter emission controls for construction activity and related sectors. The Union government needs to find the right balance between high growth and an improved quality of life for citizens. It cannot focus on one while ignoring the other.

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03 Dec 2025

Inconsistent solutions

Recent telecom directives must be reconsidered

Two recent directives from the Department of Telecommunications have led to confusion and controversy. One mandates that apps such as WhatsApp, Telegram, Signal, Arattai, Snapchat, and JioChat and other "telecommunication identifier user entities" must ensure that subscriber identity module (SIM) cards are continuously linked to respective services. If users opt for website or web-app-based access, the apps must ensure they are logged out every six hours and re-login through the QR-code. This directive will interfere in the functionality of these apps and disrupt the business models of many services provided on them, as well as cause inconvenience to a large number of individual users. The second directive orders all smartphone manufacturers and importers to pre-install the Sanchar Saathi (SS) app on all new cell phones manufactured or imported for use in India. Moreover, the SS must be force-installed on older smartphones already in use through an update. This would in effect install in every smartphone a backdoor, which could be a threat to privacy and security. The government on Tuesday clarified that the app was not mandatory and users could remove it.

The rationale for SIM-binding is that apps like these may allow access even when the underlying SIM is not present or active. It has been argued that this creates vulnerabilities that may be exploited to commit cyber fraud. But these apps are already bound to devices. While subscribers sign up for accounts by using the SIM, one of the most useful functions is that these apps allow communication even when the SIM is not active. Some obvious use cases are for mariners at sea or persons (such as oil prospectors, civil engineers, and defence personnel) working in remote areas where a SIM-based telecom network is not present but WiFi connectivity is available. The SIM-binding directive would also disrupt the provision of WhatsApp business accounts, where multiple persons using different devices log in using the same business account. This directive could obviously be disruptive to many users including businesses, and interfere in core features of messaging apps.

The SS app is used to protect smartphone devices, verify the international mobile equipment identity (IMEI) number, and report suspicious activities. Developed by the government, it has features like Chakshu, which allows users to report suspected fraud attempts, by call, SMS or WhatsApp, including impersonation, financial scams, and spoofed calls. The app also helps users report lost and stolen phones, which can then be traced or disabled. Users may also use the app to check if any unauthorised mobile connection has been issued in their names. SS requires permission to handle call and SMS logs, phone management, SMS sending, camera and file access, and location. It is, therefore, potentially a backdoor into every device on which it is installed and it could enable government surveillance on a large scale. The SS code is not open-source so it is hard to check if there are any bugs that may allow hackers to access devices. The best way to combat cybercrime would be to foster awareness among users rather than to force SIM-binding and the pre-installation of an app that many users may not know how to use, and some may prefer not to use.

03 Dec 2025

Protecting revenue

GST may need further reforms

The Union government this week introduced two Bills in Parliament to enable it to impose taxes on select sin goods. In a way, this is a logical step forward after the rationalisation of rates in goods and services tax (GST). In September, the GST Council had decided to move broadly to a two-slab system of 5 per cent and 18 per cent. Besides, select sin and luxury goods were put in the 40 per cent tax slab. The adjustment also ended the compensation cess on most items, except sin goods, on which it was retained to repay the remaining debt incurred to compensate states for the revenue shortfall during the pandemic. As the debt gets fully repaid, the new Bills will ensure that taxes on sin items do not decline.

As the statement of objects and reasons for the Central Excise (Amendment) Bill, 2025, explains that with the levy of GST and the compensation cess on tobacco and tobacco products, central excise rates were reduced significantly. Now that the cess will be discontinued once the debt incurred to pay compensation is fully repaid, the government is increasing the excise duty. Further, the Health Security Se National Security Cess Bill, 2025, will enable the government to levy a cess on machines used to produce specified goods, such as pan masala or other items, which may be notified later. Cess collection is intended to be utilised for public health and national security. Since this will be a cess, the Centre will not be required to share it with the states. Notably, the simplification of the GST system was welcomed by most stakeholders. In the same reformist spirit, the government could simply have imposed a sin tax over and above the GST rate on items it deemed fit. This would have kept the tax structure simple, and the collection, like all other central taxes, could have been shared with the states. The imposition of the cess must be avoided. State governments in this regard have a genuine concern that the increasing dependence on cess collection affects the flow of tax revenue because that is not part of the divisible pool. Ideally, it should be imposed only as a temporary measure in exceptional circumstances.

Although the new Bills will help protect revenue to some extent, GST collection may settle at an unfavourable level. Net GST collection in November increased just 1.3 per cent, year-on-year, without factoring in the compensation cess. One way to see the numbers is that despite reduction in GST rates on most items, collection has not dropped. However, it is worth noting that the collection reflects the surge in demand during the festival season after the rate cuts. It needs to be watched if demand sustains over the coming months. A possible reduction in GST collection will affect both the Union government and the states. As things stand, the Union government's gross tax revenue increased only 4 per cent, year-on-year, during April-October and will have to grow at a much faster rate to achieve the full-year revenue target. Things could become difficult if GST collection drops in the coming months. In this regard, once cess collection ends and a clearer picture of revenue collection emerges, the GST Council could deliberate on the next set of reforms. Further rate adjustments may be necessary to safeguard revenue over the medium to long run.

03 Dec 2025

ILLUSTRATION: BINAY SINHA

Big banks, or more agile banks?

With rapid tech innovation and fast-changing customer expectations, the sector is ripe for disruption

BEYOND IDEOLOGY

R JAGANNATHAN

Finance Minister Nirmala Sitharaman said the other day that the government was in talks with the Reserve Bank of India (RBI) to consolidate the six public sector banks that were left out of the previous merger process. These banks include larger ones like Bank of India, as well as medium and smaller banks such as Central Bank of India, Indian Overseas Bank, Punjab & Sind Bank, Bank of Maharashtra, and UCO Bank.

The big question is: Do we want big or agile? It is not that size isn't important in banking, but agility is what will make the crucial difference between survival and failure in the future where fintechs, mutual funds, big non-bank finance companies (NBFCs) and even corporations may be looking for investments in the banking sector. The sector is ripe for major disruption.

There is little doubt that foreign players are seeking to buy stakes in Indian banks and fintechs. Some years back, DBS of Singapore took over Lakshmi Vilas Bank. More recently, two small private sector banks, Yes Bank and RBL Bank, have seen two foreign promoters, Sumitomo Mitsui Financial Group and Emirates NBD, taking them over.

Clearly, the RBI's old mindset of allowing failing banks to merge with large public sector or private banks is changing. But, in the context of changing trends in technology and customer needs, it must change even faster. When competition is going to heat up, it has to find more innovative answers to the problems of regulation.

The first change in mindset can probably be with respect to corporate promoters. Very large corporate-run NBFCs have huge assets under management. For example, Bajaj Finance's consolidated assets are as high as ₹4.6 trillion, which means the systemic risks are no less than those of a medium-sized regular bank. Ideally, such large banks should be enabled to convert into regular banks, but the RBI balks at the idea of letting businessmen own banks.

The point is: If they can be trusted to run massive NBFCs, why not banks? The RBI's hesitation is partly the result of old history, when banks before nationalisation were seen to be giving loans to their promoter companies, leading to real problems with related-party risks. But today, when corporations already own payment banks, owning universal banks — with many strong regulations and surveillance in place — hardly sounds unreasonable.

There is also another way to look at it. As NBFCs grow larger, the risks are not any lower for them compared to banks, except for the fact that they cannot raise unlimited liabilities (deposits). But when payment banks can theoretically raise unlimited liabilities by expanding their user base (no doubt limited to ₹2 lakh per account, which may rise to ₹5 lakh at some point as regulations are eased), the logic of not allowing corporations to run banks will grow weaker and weaker. The largest NBFCs surely can be trusted with the responsibility of running banks as they have more to lose in terms of reputational damage if they mess up.

If the RBI truly wants more competition and better consumer servicing, there are other areas where it could start thinking differently. It began by allowing foreign banks to take over banks running into trouble, but how long will it be before more such banks, including some in the public sector, start feeling the squeeze as bank deposits steadily migrate to mutual funds? The name of the game is nimble money management and not just making a decent spread between the cost of raising deposits and earning interest on loans. Spreads will get thinner as savers see better opportunities in mutual funds. It won't be very long before mutual funds start issuing cheques for withdrawals from schemes, thus mirroring savings and current accounts. The line between raising deposits and mutual fund investments will begin to thin.

Mutual funds now account for roughly 33–35 per cent of bank deposits, up from just over 10–12 per cent a decade ago. In a few years' time, they may command as much money as banks. This does not mean bank deposits will fall, but such deposits will become less stable, which means treasury management will need to be sharper — almost like managing open-ended funds.

Payment banks, which are expected to hold 75 per cent of their deposits in short-term papers with tenures up to one year, also will become good treasury managers since it is the float that will give them some margins.

At another level, with the rapid expansion of the unified payments interface (UPI), it is not banks, but fintechs like GPay, PhonePe, and Paytm to a lesser extent, which control billions of monthly customer transactions. GPay and PhonePe between them account for over 80 per cent of transactions. They may not be making money right now, but these tech giants own customer data caches that are larger than most banks. More fintechs may ultimately enter the picture to intermediate between lenders and borrowers, with banks being left out of the action. Since data is the new oil, it implies that those who own the customer's data can cross-sell many products, and it is anybody's guess whether Google will do better than banks in using data to sell more products and make money from advertisers and marketers. Banks are sitting ducks for disruption.

Contrast this: As of last October, unlisted PhonePe's business was valued at $14.5 billion, more than three times that of Bank of Maharashtra. The RBI should be asking itself whether a well-regulated fintech company would be a better owner of smaller banks or of other banks, which may not have as many customers and are also less nimble.

In short, whether you are the government and own a lot of banks (big or small), or the regulator, who has to supervise them and ensure that none of them pose systemic risks, it is not enough to just think big banks or stable banks. While we do need big banks that can take up wholesale banking or shoulder the risks involved in project financing and mergers and acquisitions, the vast majority of banks and non-bank financial companies need to focus on agility and adaptation to ever-changing market needs. More so in the emerging gig economy, where there are no easy EMIs to base your asset growth expectations on.

In the era of huge tech innovation and fast-changing customer expectations, banks and regulators have to be quicker on their feet than they were before.

The author is a senior journalist

04 Dec 2025

ILLUSTRATION: BINAY SINHA

Stop blaming Nehru 60 years later

The real question is why others changed course but India did not

INCOME TRENDS

Per capita income 1960-2024; India and Selected Asian countries (Thousand)

1965 income per capita	
China	$98.7
Korea	$108.7
India	$121.5
Thailand	$140.9

Korea, Rep.; China; Thailand; India

1960 1970 1980 1990 2000 2010 2020

Source: World Bank

More than 60 years after his death, Nehru is still being blamed for many of India's problems and ills. In his latest book, *The Nehru-Era Economic History and Thought & Their Lasting Impact*, Arvind Panagariya rehearses all of Jawaharlal Nehru's economic mistakes, but then goes on to show that they had a lasting impact that was hard for those who came after him to reverse. While it is true that Nehru, as the country's first Prime Minister, made many mistakes in his economic policies, the Nehru-bashing has gone too far.

First, by the time Nehru left power in 1965, India's economic performance was not so far behind that of its Asian neighbours. The country's per capita income was just a bit lower than Thailand's and better than China's or even Korea's (*see chart*). Its income per capita fell far behind these countries much later, when they changed course in the 1970s and 1980s, while India plodded along.

Second, Nehru's policies were not that unique. The state-led import substitution model, which he favoured, was followed in many parts of the developing world after decolonisation and the end of World War II. From Latin America through much of Africa, and in China and East Asia, that model was quite popular. What was perhaps unique in India was the licence raj, where the private sector was given production quotas, and the Industrial Disputes Act of 1947, which made it very difficult to lay off workers in firms larger than 100 workers. Dr Panagariya appears to give the impression that Nehru developed socialist ideas on his own, whereas the reality is that those ideas were the flavour of the day.

IF TRUTH BE TOLD

AJAY CHHIBBER

In fact, even the Bombay Plan, prepared by a bunch of capitalists led by Birla and Tata in 1944 looked very similar to the socialist Second Five-Year Plan brought in by Nehru and Mahalanobis in 1956. Dr Panagariya explains this awkward evidence by arguing that these industrialists already knew Nehru's mind and, therefore, prepared a plan that mirrored Nehru's thinking. He fails to explain why such powerful industrialists who had Gandhiji's ear would be so scared of Nehru in 1944. As I have argued in a chapter in a book on the Bombay Plan edited by Meghnad Desai and Sanjaya Baru, India's industrialists did not follow the path of Japanese and Korean industry, which sought government support to industrialise. Instead, they prepared a plan that handed over all key sectors and heavy industry to the state, leaving only consumer goods to the private sector.

Third, countries in East Asia — such as Taiwan, Korea, Singapore, and Hong Kong — followed Japan in shifting to export-led growth in the 1970s, and China under Deng Xiaoping did the same in the 1980s with spectacular success. India did not change course until the economic crisis of 1991, and even then did so only partially, continuing to maintain a large and expanding public sector. In fact, Nehru's successors pushed his failed model even further. Indira Gandhi nationalised the entire banking system, something Nehru never even imagined. India had five public sector units (PSUs) in 1951, and around 80 by 1965 — the year after Nehru passed away. By 1991, when the first wave of economic reforms began, the number had risen to 246, and by 2014–15 it had reached nearly 298. Surprisingly, the Modi government has increased the number even further to a whopping 365, doubled the Maharatnas (giant PSUs) from 7 to 14, and reintroduced import protection since 2018.

Dr Panagariya's explanation for the persistence of the Nehru model is that it created an entire cadre of politicians, civil servants, policy analysts and even businessmen that were wedded to the socialist model and resisted any attempts to change. The problem with Dr Panagariya's book is that it is devoid of any comparative analysis. Why was Deng Xiaoping able to change Mao's policies so dramatically after 1979, even while working with the same Communist Party that had previously owed complete allegiance to Mao, whereas Nehru's successors found it so difficult to change course? He provides no convincing explanation for this. He praises Narasimha Rao for the partial change in course in 1991, crediting him with having read about Deng Xiaoping's reforms, and forgets that even in 1990, India's income per capita was higher than China's. China's explosive double-digit growth came later. In fact, Rao said so explicitly in an interview with Shekhar Gupta — that he was not inspired by Deng's reforms.

I am, of course, heartened by the labour reforms notified by the Narendra Modi government last month, which were passed by Parliament five years ago. Based on that five-year-old legislation, 19 states had already implemented labour-market flexibility — raising the threshold from 100 to 300 workers for government permission to lay off — along with many other elements of the codes. So the additional benefit of last month's notification may not be huge, but it is welcome nonetheless. What India now needs is more aggressive and transparent privatisation to unlock the huge capital locked in PSUs, which could be used to build more public infrastructure and reduce public debt. With the economy doing well despite Donald Trump's tariffs and inflation staying low, that is where I hope the next Budget will focus.

My point in writing this column is not to defend the Nehruvian economic model. I studied economics under the redoubtable Raj Krishna, who was a staunch critic of that model. He famously coined the phrase the "Hindu rate of growth" for India's niggardly economic performance from 1950 to 1980, and was a severe critic of the licence raj. My point is that we have had 60 years to fix whatever Nehru left us, and if his successors have not done so, let's not keep blaming Nehru for it. And while his economic policies were in hindsight flawed, we must not forget that he sacrificed a lot for India's independence, including nine years in jail, and left us a vibrant democracy that has endured despite many challenges.

The author is a distinguished visiting scholar at the Institute for International Economic Policy, George Washington University. His book *Unshackling India* (HarperCollins India) was declared the best new book in economics by the *Financial Times* in 2022

04 Dec 2025

Psychological levels

A weaker rupee will help exporters

The rupee on Wednesday breached the psychological level of 90 a dollar in trade and has fallen over 5 per cent since the beginning of the year. However, it is important that this depreciation is seen in the context of broader macroeconomic developments, and policymakers and other stakeholders do not get carried away by its specific levels. The data shows that the balance of payments in the second quarter this financial year turned negative to the tune of $10.9 billion, as against a surplus of $18.6 billion in the same period last year. The trade deficit has also widened, and economists are expecting the current account deficit to expand this financial year. It has also been reported that the Reserve Bank of India (RBI) is not aggressively intervening in the currency market, which is a sensible policy choice.

In a situation where the balance of payments has turned negative, the currency would be expected to depreciate and act as a stabiliser. The currency-market movement is also being influenced by the India-United States trade position. India is facing a 50 per cent American tariff, which has started to affect exports. While some segments are reported to have found alternative markets, the data on this must be interpreted carefully. High-value items such as gems & jewellery may be getting rerouted from other markets to the United States (US) and may not be sustained. Thus, it is important that India and the US arrive at a mutually beneficial trade deal as soon as possible. Negotiators on the Indian side have expressed hope that an agreement will be finalised by the end of the year.

However, it is unclear how the agreement will affect the India-US trade over the medium term. Given the context of global trade, a weaker rupee will help Indian exporters. Although rupee depreciation will not be enough to offset the current US tariff disadvantage, it will help Indian exporters find other markets to some extent. The latest RBI data shows that the rupee has also fallen in real terms as reflected by the real effective exchange rate. Currency weakness in the present situation will be useful for exporters. Notably, as highlighted in a recent analysis in this newspaper, while the rupee has declined against a basket of currencies, in real terms, it has appreciated significantly against the Chinese yuan since the pandemic. This makes Chinese imports much cheaper in real terms and can worsen the trade deficit with China.

Therefore, the ongoing depreciation is in India's favour and will help provide some protection to the tradable sectors of the economy. The RBI is holding foreign-exchange reserves worth over $688 billion, which will help ensure that the conditions in the currency market remain orderly. In the immediate short run, the value of the rupee will be influenced by the outcome of India-US trade negotiations. It will not only sway outcomes on the current account but also on the capital account. A favourable deal will encourage foreign-portfolio investors (FPIs) to start buying Indian assets. FPIs have sold Indian assets worth over $15 billion so far this year. The ongoing Monetary Policy Committee meeting will likely also deliberate on the implications of developments in the currency market, though these may not sway its decision. Given the low-inflation environment, a weaker rupee does not pose a risk.

04 Dec 2025

Danger-free driving

India must build safer road networks

As a recent analysis by this newspaper of the latest data showed, deaths in India due to road accidents, adjusted for population, reached a 30-year high of 12.02 per 100,000 people in 2023, higher than in Nepal (7.4), China (4.26), and Brazil (2.66). Union Transport Minister Nitin Gadkari has emphasised the need for better road design and safety enforcement, noting that over 400 people die every day on Indian roads. The National Crime Records Bureau (NCRB) data for 2023 states that more than 173,000 people lost their lives and 447,000 were injured in road accidents across India, with two-wheeler riders accounting for nearly 46 per cent of the fatalities. The leading causes remain speeding and careless driving, indicating that strict enforcement of traffic regulations and behavioural change remain weak links in India's transport system.

In this regard, it is worth noting that the budget allocation for road safety and maintenance remains low. For 2025-26, the Ministry of Road Transport and Highways has allotted ₹595 crore for road safety, which is 0.002 per cent of the budget of the ministry. Road maintenance and repair get a mere ₹4,595 crore, barely 2 per cent of the total, far below the 10 per cent norm suggested by the NITI Aayog. This underfunding has risked degraded roads and, by extension, resulted in rising fatalities. Experts highlight that mixed traffic, inadequate pedestrian infrastructure, and poor emergency response exacerbate fatality rates. Cars, trucks, bicycles, two-wheelers, and pedestrians share the same lanes, often without proper demarcation or speed-calming measures. The absence of pedestrian infrastructure, such as safe crossings and footpaths, means that the most vulnerable road users are at constant risk. Moreover, emergency response remains inconsistent, with trauma-care facilities often too distant or ill equipped to save lives within the critical "golden hour" after an accident.

India needs to build safer highways and road networks. Stricter enforcement of road laws is essential, supported by technology such as automated surveillance, e-challaning, speed-detection cameras, and artificial intelligence-based violation tracking. These tools can ensure compliance while reducing discretionary enforcement. Every highway project should be integrated with mandatory road-safety audits during both design and post-construction stages. Accident-prone stretches or "dark spots" need targeted engineering intervention such as better signage, lane separation, and surface improvement. Equally important is reform in driver licensing, and it should be examined on the knowledge and execution of safe driving rather than a skill test. Regular vehicle inspection, particularly for commercial vehicles, must be made mandatory to ensure fitness and emission compliance. Further, robust trauma-care networks must be inbuilt in the overall framework. To be sure, a lot needs to be done at state and local levels. Ensuring safer roads is the responsibility not just of the government but also of every driver and pedestrian. The cost of haste on the road is often a life lost. No journey or deadline is worth that price. Without this realignment towards safety, India's mobility gains will keep coming at an unacceptable human cost.

05 Dec 2025

Responsive regulations for resilience

Regulations are never cast in stone, evolution is essential

While speaking at a recent conclave, the Reserve Bank of India governor emphasised that "no regulatory measure can be understood in isolation. Each measure has to be seen in the continuum of regulatory evolution and not in isolation". His remarks perhaps were prompted by the public commentary that followed a series of proposals announced by the RBI recently.

Many have welcomed these announcements; some have said it is "big, bold, courageous". Others have cautioned that they may be "sowing the seeds of the next AQR [asset quality review]". I believe both descriptions miss the point.

What is really happening is something subtler, but more important: India's financial sector regulations are being calibrated to align with a banking system and an economy that look very different from a decade ago.

Regulations are written at a point in time. However, markets, technology, and risks keep evolving. If rules that were written for a stressed banking system in 2015 are applied unchanged to a much stronger system in 2025, it is not prudence. Instead, it may be termed as regulatory inertia. Therefore, the recent measures need to be seen in the larger context of regulatory evolution, and not as regulatory exuberance.

BANKING & BEYOND

SWAMINATHAN J

A continuum, not awakening

Since the constitution of the Regulations Review Authority 2.0 (RRA 2.0) in 2021, the RBI has been pruning redundant instructions in phases. RRA 2.0 recommendations have already led to the withdrawal of over 1,000 circulars, as well as rationalisation and streamlining of returns.

The latest consolidation drive goes further, folding approximately 3,500 directions, circulars, and guidelines, into about 244 consolidated Master Directions across 11 categories of regulated entities, while repealing redundant instructions.

Rationalisation of returns, withdrawal of redundant circulars, and a push towards consolidation, are all part of a sustained effort to make regulation responsive — stricter where it matters and simpler where it does not.

Why the "next AQR" fear is misplaced

Maybe there is anxiety in some quarters that, by allowing banks more room in areas such as acquisition finance and capital market lending, the RBI is sowing the seeds of avoidable risk build-up, bringing back memories of the AQR of 2015. However, that AQR took place against the backdrop of highly leveraged corporations, and their heavy concentration in bank books.

Today's starting point is different. System-wide capital ratios have risen to about 17.5 per cent in 2025, while gross non-performing assets (NPAs) have dropped to a little over 2 per cent, and net NPAs to around half a per cent. Profitability has swung from losses to healthy returns. Corporations have deleveraged their balance sheets and diversified their funding sources.

Supervision has also come a long way since then. Risk-based supervision has stabilised, off-site monitoring is richer and more data-driven, and a system-driven income recognition and asset classification is firmly in place. Stress tests are more rigorous, and macroprudential tools such as counter-cyclical risk weights are selectively, but effectively, used to cool pockets of risk.

Moreover, the new freedoms proposed are hedged with prudential guardrails. Illustratively, easing of limits on lending against securities is proposed to be accompanied by prudently calibrated LTV (loan-to-value) norms and eligibility criteria. Bank financing of acquisitions is capped relative to deal size and bank capital, with attention to debt-equity mix and concentration risk.

Boards move to the frontline

A less discussed but equally important shift is governance. Over the last couple of years, the RBI has engaged more directly and intensively with boards and senior management to ensure that regulations are implemented in both letter and spirit, and that business ambitions do not outrun risk capacity.

The latest announcements fit this arc. Implementing the expected credit loss framework will require banks to build robust internal models, strengthen credit risk management, and make forward-looking judgements with informed board oversight. Risk-based premium for deposit insurance will sharpen board incentives to strengthen balance sheets and risk controls.

On the customer side, empowering Internal Ombudsmen and tightening the RBI's own grievance redress scheme sends a clear message that good conduct is not optional and first-line responsibility lies with those who approve products, sanction loans, and sign off on risk frameworks.

Why this matters for growth

For the real economy, there are several benefits from this re-calibration. Better provisioning and capital rules improve the resilience of the banks to shocks, allowing them to keep lending through the cycle.

Revised capital market exposure norms and a more flexible external commercial borrowing regime can give corporations more avenues for fundraising, especially in a world where domestic investment needs are substantial and global capital is mobile.

New project finance regulations and rationalising risk weights for infrastructure lending by non-banking financial companies (NBFCs) should improve the flow of long-term capital to operational projects that genuinely deserve lower capital charges, without subsidising riskier exposures.

A living rulebook

In public debate, it is tempting to take each new circular or line of a speech in isolation and pronounce it either too harsh or too lenient.

That is like judging a *thali* by a single grain of rice, ignoring the poriyal, kootu, vadai, sambar, rasam, and, of course, the payasam that together define the experience. In a lighter vein, one could say: The servings are liberal, but each board is expected to consume responsibly, in line with its own (risk) appetite!

Regulation must be seen as a comprehensive system: Minimum capital requirements, lending limits, provisioning norms, governance standards, consumer protection, resolution tools, and supervisory responses all reinforce one another.

India's experience with past crises suggests that its financial system, while not flawless, has shown a capacity to bend without breaking. Each episode has left behind a deeper layer of institutional memory in financial institutions and at Mint Street. The current set of measures is, therefore, better read as the outcome of those learnings rather than a sudden change of stance.

Ultimately, if India is to become a developed economy by 2047, it will need a financial system that is both larger and safer to support the real sector. This requires regulation, which is prudent yet responsive, principled yet practical. In other words, a rulebook that keeps learning. The hallmark of good regulation is not that it never changes, but that it knows when and how to evolve.

The author is Deputy Governor, Reserve Bank of India. The views are personal

05 Dec 2025

Groundwater contamination

India needs a coherent strategy

India's dependence on groundwater has only intensified in recent years. Nearly 85 per cent of rural households still rely on it for drinking, and around two-thirds of irrigation needs are met by aquifers. As extraction has risen relentlessly, the quality of groundwater continues to deteriorate at a pace that threatens public health, agriculture, and water security. The Annual Ground Water Quality Report 2025, released by the Central Ground Water Board, confirms that the crisis is no longer confined to a few states or pollutants. India is now confronting a multi-contaminant emergency, with several regions simultaneously exceeding safe limits for nitrate, fluoride, arsenic, uranium, salinity, and heavy metals.

The most striking finding is the presence of uranium contamination across North India. Districts in Punjab, Haryana, Delhi, western Uttar Pradesh, Telangana, and Andhra Pradesh show concentrations far above the permissible 30 parts per billion (ppb) limit. Alarmingly, the highest uranium contamination was observed in Punjab, where 53.04 per cent of the pre-monsoon samples and 62.50 per cent of the post-monsoon samples exceeded the limit. This is accompanied by elevated nitrate levels, often driven by fertiliser overuse and agricultural runoff. Nearly 20 per cent of samples in the report exceed nitrate limits and around 8 per cent contain fluoride above the limits set by the Bureau of Indian Standards.

Such contamination arises from a mix of natural and anthropogenic factors. Geological formations in parts of Rajasthan and Punjab release fluoride or uranium when groundwater levels plunge. Industrial effluents, unregulated mining, and untreated sewage worsen water quality in fast-urbanising districts. Microbial contamination in urban aquifers remains high due to inadequate waste management. The report's most worrying trend is that several villages appear on multiple contaminant lists simultaneously, indicating aquifer-level degradation. This has profound ramifications. For millions relying on borewells, exposure risks include fluorosis, nitrate poisoning, arsenic-related illnesses, and long-term carcinogenic effects linked to heavy metals and uranium. The agricultural fallout is equally concerning. Contaminated groundwater not only reduces yields but also introduces toxins into the food chain.

State-level initiatives such as Tamil Nadu's rooftop rainwater harvesting mandate or arsenic-mitigation initiatives in West Bengal remain inadequate. Addressing this crisis demands a coherent national groundwater health mission. Improving agricultural water practices such as crop diversification, controlled fertiliser use, and soil-moisture conservation can significantly reduce chemical leaching. Decentralised filtration systems, such as community-scale RO (reverse osmosis) and ion-exchange units, must be prioritised for high-contamination villages. Urban areas require stricter sewage-treatment norms, leak-detection systems, and industrial-discharge monitoring. Ensuring the availability of safe drinking water must be prioritised through piped water supply, potable-water kiosks, and real-time quality monitoring. Given the stark regional variation in contaminants, localised groundwater management is also essential. Empowering local governments to deploy hydrogeological assessments, create water-security plans, and manage aquifer recharge structures can anchor community participation. It is equally important to move toward well-defined groundwater rights detached from land ownership to prevent reckless extraction.

05 Dec 2025

Redrawing the flight path

IndiGo crisis calls for greater focus on HR management

Mass flight cancellations by IndiGo, India's largest airline by market share, on account of new pilot-roster norms, have shone an unwelcome spotlight on human-resource management, which lies at the heart of efficient and safe operations in the industry. Although the airline has apologised for the nationwide disruption, the patent absence of planning demands a fuller response. All Indian airlines have had ample time to prepare for these new rules. The rules were initially notified by the Directorate General of Civil Aviation (DGCA) in January last year for introduction in June last year but were deferred following requests by airlines for time to prepare. Instead, the DGCA permitted the rules to be introduced in two phases — in July and then November this year. That means airlines had over a year to prepare for the new rostering rules.

Given the explosive growth of the Indian aviation industry, these new rules, which align with best practices set by the International Civil Aviation Organization, are critical. They principally address the issue of pilot fatigue, which is said to account for almost 20 per cent of human error in fatal accidents globally. The flight duty time limitation (FDTL) stipulates 48 hours' consecutive weekly rest; restricts to two the number of night landings, the definition of which covers midnight to 6 am against 5 am earlier; and limits the amount of consecutive night duty. This apart, pilots are not allowed to fly more than one hour (that includes the time for pre- and post-flight duties) in addition to the flight hours, and those flying ultra-long haul routes require an additional 24-hour rest period between two consecutive flights.

It is easy to see that these rules require airlines to accelerate their pilot and crew hiring programmes. In fact, the FDTL norms are not the only compulsion to do so. High fleet growth — with IndiGo placing orders for more than 1,000 aircraft, Air India about 500, and smaller airlines also expanding — is expected to see demand for trained pilots soar to over 20,000 in the near future. The current "shortage" of pilots is less a result of supply-demand mismatches than of periodic slowdowns in hiring by airlines in response to cyclical demand, which prompts large airlines such as IndiGo to pursue a lean manpower strategy across departments. The Federation of Indian Pilots has accused the airline of imposing a hiring freeze and has urged the DGCA not to approve airlines' seasonal flight schedules unless they have adequate staff to operate their services "safely and reliably" under the new FDTL norms.

Though there may be some merit in this argument, especially given that other airlines do not appear to have suffered problems on a similar scale, the airline could also point to the quality of pilots graduating from training schools as a deterrent to faster hiring. Earlier this year, the DGCA's first ever ranking of flying-training organisations revealed that none achieved top ranking (A or A+) and most fell into the B and C brackets. This implies that even if airlines were to hire on a regular basis, their ability to do so is constricted by quality constraints as well as bearing the costs of either training newly hired pilots or hiring expensive foreign talent. All told, the crisis points to the need for a broader focus on human-resource needs in aviation, its availability, and training.

08 Dec 2025

Phase-II of carbon control

January 2026, the CBAM, is a big deal for India

ILLUSTRATION: AJAYA KUMAR MOHANTY

SNAKES & LADDERS

AJAY SHAH

Discussion on global warming has existed since the early 1990s. For decades, this remained in the domain of conferences, treaties, and corporate social responsibility reports. Practical people often ignored it. Climate-change considerations first impinged upon the real world through the changed behaviour of the global financial system. The mighty tycoons of the Indian business world moved away from fossil fuels because global finance showed them that the path to more wealth lay in renewables. And now, we are ready for the second big impact of climate-change considerations upon reality: The carbon border tax. This will accelerate global decarbonisation, it will fight global warming, and as India stands to suffer greatly from global warming, this is good news for us. In January next year, the Carbon Border Adjustment Mechanism (CBAM) begins implementation in the European Union (EU). The global trading system is thus at a regime change where polluting firms are directly affected. This requires a reset in how we in India think about business strategy and trade diplomacy.

There is a misconception in some quarters that the CBAM is a form of protectionism. The analogy with value-added tax (VAT) is useful. VAT is a destination-based tax. It is levied where consumption occurs. There is tax neutrality: European producers and Indian producers are treated identically when selling in Europe.

The CBAM applies this same logic to carbon. The EU has a domestic price on carbon. If an Indian firm exports steel to the EU, and pays no carbon tax in India, the EU imposes a levy equivalent to the difference between the EU carbon price and the Indian carbon price. This gives tax neutrality: European producers and Indian producers are treated identically when selling in Europe. This is not protectionism.

As with VAT, the CBAM has virality. The United Kingdom has already signalled intent. We expect other nations of the Organisation for Economic Cooperation and Development will follow. Fighting this as a trade barrier is an intellectual failure. It is as futile as asking a trading partner to exempt its VAT-on-imports for Indian sellers into that country.

This creates a new landscape for Indian firms. In the pre-CBAM world, a firm could be a "pollution hero". This is a firm that generates high profits by utilising dirty energy and imposing negative externalities. Current balance sheets in sectors like steel, cement, and aluminium reflect this distortion. Indian firms look better than global peers partly because the cost of pollution is not reckoned correctly.

This outperformance is a trap. When selling into CBAM countries, this pollution arbitrage vanishes. On average, Indian exporters have a disadvantage when compared with Chinese exporters, while selling into CBAM countries, because the share of renewable energy in Chinese electricity consumption is about three times higher than that in India. This gives Chinese producers a natural lower embedded carbon footprint. The failures of Indian electricity policy now harm the Indian exporter.

The global trade system is absorbing two shocks. There is Donald Trump, the reduced state capability in the United States (US). The second is the CBAM. These two forces require deep thinking. The response to the first shock — US protectionism — is to diversify partners. The EU is an economy roughly the size of the US. The EU remains committed to the wise post-war policy paths. India needs a deep trade agreement with the EU.

In trade negotiations, negotiating capital is a finite resource. In recent years, substantial diplomatic capital was expended in negotiations with the UK, with an objective to seek exemptions from carbon adjustments. This was a misallocation of effort. A deep trade agreement cannot be obtained when one seeks to carve out exceptions to fundamental fiscal principles like VAT or carbon border pricing.

The resulting treaty with the UK gave headlines, but it was not a deep trade agreement. It did not integrate markets in a way that reduces friction for high-value exchange. As we turn our eyes to the EU, we must avoid this mistake. To achieve a deep free-trade agreement with the EU, we must accept the CBAM as a boundary condition. Asking the EU to drop the CBAM undermines respect for Indian policymakers.

If the EU collects the carbon levy, the revenue goes to Brussels. If India collects the carbon levy, the revenue stays in New Delhi, and the exporter faces no additional charge at the EU border. The rational response to the CBAM is, therefore, the implementation of a domestic carbon-pricing framework.

India has initiated steps toward a Carbon Credit Trading Scheme (CCTS). While the intent is correct, the instrument selection warrants caution. A cap-and-trade system is theoretically elegant but institutionally demanding. It is a solution suited for advanced economy-style intellectual capacity and state capability. If the government remains committed to the CCTS path, better implementation is required. Building a functioning carbon market requires deep knowledge in financial markets, public finance, economics, and international trade law. We should not assume that the notification of a scheme equates to the solution of the problem.

The carbon tax is a superior alternative. It is administratively simpler. It can be made to integrate nicely with goods and services tax. It provides price certainty to firms planning capital expenditure.

We in India should rejoice: The world is making progress on fighting carbon-dioxide emission. The first phase was the financial system, which turned away from fossil fuels, which restrained the most powerful business people of India. Now the second phase is the CBAM. This comes in a difficult global context characterised by the protectionist impulses of the US and the regulatory rigour of the EU. Navigating this requires intellectual clarity. We must stop viewing carbon adjustments as unfair trade practices and respect them at the level of VAT. This will interfere with the "pollution hero" model of corporate profitability. We need a trade strategy that embraces deep integration with the EU, and a domestic fiscal strategy that internalises carbon pricing through a simple, robust mechanism: The carbon tax.

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08 Dec 2025

Favourable position

Near-term focus will be on currency

Despite trade-related uncertainties, the year 2025 is likely to end on a more favourable note for the Indian economy than most analysts had anticipated earlier in the year. Economic growth has been much stronger with benign inflation. The low consumer price index (CPI)-based inflation rate in recent months, along with a downward revision in projections for the coming quarters, enabled the Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) to cut the policy repo rate by 25 basis points last week. Cumulatively, the MPC has reduced the policy rate by 125 basis points in the current cycle. The RBI also announced open-market operations worth ₹1 trillion and other measures to inject durable liquidity in the system, aiming to smooth the policy transmission. Given that recent inflation outcomes have been below expectations, prompting the RBI to once again revise its projections, the debate in financial markets now is whether the MPC will find space to further reduce the repo rate in the coming meetings.

The headline inflation reading for October, at 0.25 per cent, was the lowest in the current series. The MPC has revised the inflation projection for the current year to 2 per cent. The disinflation, though driven largely by food prices, has been broadbased. Excluding gold, for instance, the core inflation rate was at 2.6 per cent in October. The inflation rates for the first and second quarters of 2026-27 are now projected at 3.9 and 4 per cent, respectively. Assuming the projection holds, the real repo rate would be about 1.25 per cent, which is lower than the neutral rate — real policy rate that is neither expansionary nor contractionary — estimated by RBI economists last year. However, it is possible that the neutral rate itself might have changed.

Therefore, the MPC's next move will depend on inflation outcomes in the coming months and the level of real policy rate it intends to maintain. In this regard, it is also worth noting that India will get a new CPI and national accounts series by February before the end of the current financial year. The anticipated decline in the weighting of food items is expected to make the inflation rate more stable and predictable. In terms of growth, after positive surprises in the first half of the year, the MPC has revised its gross domestic product (GDP) growth projection for the current year to 7.3 per cent — it expects growth to soften in the second half of the year. Growth rates in the first and second quarters of 2026-27 are projected at 6.7 and 6.8 per cent, respectively. Apart from the impact of the rate cut, which could be marginal, growth will depend on the outcome of India's trade negotiations with the United States (US). Indian officials are hopeful that an agreement will be reached soon.

While the inflation and growth outcomes are favourable, the focus in the near term will be on the external position. The rupee crossed 90 against the dollar last week, having depreciated by over 5 per cent this year. Although it has become undervalued in real terms, the RBI has done well to let the rupee correct. Currency depreciation will help exporters contain the impact of the adverse trade environment to some extent. The rupee also needs to adjust to the capital outflows, largely from the equity markets. Foreign portfolio investors have sold shares worth about $17.7 billion so far this year. Outcomes on the currency in the near term will also depend on the conclusion of trade talks with the US. A delay can increase the pressure on the rupee.

Fit solar into electricity

Think of "roof", and you see solar panels. Think of "solar", and you see the energy generated during the day — powering appliances and even feeding into the grid, from which it can be brought back at night when the sun is not shining. It's the world's most uber solution, where each of us becomes a generator of electricity. It works because solar is modular: The panels can fit almost anywhere, unlike thermal or nuclear generators. While building utility-scale solar plants requires vast amounts of land, which is always scarce and often contested, in this model every available roof becomes a power plant.

You may ask why I am expounding on the known advantages of rooftop solar. I believe the potential is enormous. Then why is progress still not at a transformative scale, despite the Union government's programme to incentivise rooftop solar in offices and homes? It is not the lack of policy or intent. The real question is: How will this technology integrate with existing distribution systems?

DOWN TO EARTH

SUNITA NARAIN

The challenge is not unique to India. All new technologies follow a similar path: They must find ways to displace the old to secure their place in the sun — in this case, quite literally. The fact is that solar technology, being intermittent and providing electricity only when the sun shines, requires some form of backup. Remember that night-time energy consumption is often as high as, or even higher than, daytime, when natural light is available and there is typically less need for heating or cooling. The ideal arrangement is that solar panels generate electricity during the day, part of which is consumed on site, while the excess is either "exported" to the grid or stored in batteries, which are then tapped for use during non-sun hours. Since batteries are still expensive, exporting to the grid remains the most practical option. In this setup, the distribution company (discom) or power utility serves as the backup.

This is where the going gets tough. Take the case of Kerala, which runs one of India's most successful rooftop solar projects. The state has installed rooftop systems aggregating 1.5 gigawatts (gw), reaching 2 per cent of its 10 million household customers. In August, the Kerala State Electricity Board (KSEB), which implements the programme, said its financial losses had become unsustainable. The problem was that the KSEB was buying electricity from rooftop generators during the day, when the rates were low, and selling an equivalent amount back to them at night, when the cost was high. With only 2 per cent of consumers served through this programme, the burden on electricity rates increased — this in turn raised the bills for the remaining consumers. So, the KSEB issued a draft order, which would cap net-metering capacity, put a levy on grid charges, and introduce tariffs based on time-of-day calculation. Just as soon as this order came out, the rooftop programme stalled; within a month, installations had fallen by half.

In November, the Kerala State Electricity Regulatory Commission (KSERC) issued the final notification for grid-connected rooftop systems. This is an attempt to reduce the burden on the discom by mandating new connected households to install battery storage so that their night-time power purchases are reduced. Rooftop solar systems above 10 kilowatts (kw) would need to have 10 per cent battery storage and those with 15-20 kw would require 20 per cent. After 2027, even smaller 5 kw systems would require storage. The policy also introduces incentives through a gross metering mechanism, offering higher tariffs to customers who supply solar power during peak hours. Customer bills would be settled at the end of each financial year. After deductions for fixed and grid charges, any surplus or banked units would be paid at ₹3.08 per kilowatt-hour (kwh) for existing customers and at ₹2.79 per kwh for new connections — much lower than peak electricity rates. The notification has been stayed by the Kerala High Court and it will be interesting to see how this matter will be resolved.

The question we are left with now is: What is the regulatory environment that will work best for rooftop solar producers (households) but also for energy distributors? Or, can there be ways to build solar futures without relying on the distribution route, particularly in countries and regions that lack a grid today?

News coming out of neighbouring Pakistan suggests a different path. The country faces cripplingly high energy costs because of power shortages. It has, however, removed import duty on Chinese solar panels and lithium batteries. International energy analysts estimate that by 2024, Pakistan installed 25 gw of net-metered distributed solar, compared to 50 gw of installed grid power, and imported 1.25 gw of lithium batteries to support off-grid systems. At this pace, by 2030 Pakistan could meet 100 per cent of its daytime electricity demand and 25 per cent of its night-time demand through solar. But reports indicate this transition is adding to costs of the discom, prompting pushback and a policy review. It is not clear where this will go.

This is the central energy question of our age: How will new energy systems displace, replace, or retrofit the existing fossil fuel-based grid, and what must we do differently? It is a question that we all must watch closely.

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09 Dec 2025

ILLUSTRATION: BINAY SINHA

India in 2026

The market setup for next year is far better than in 2025, provided domestic flows continue to be robust

The Indian markets are ending calendar year 2025 on a subdued note. While they are near an all-time high, India has been the worst-performing major equity market in the world. Flat in US dollar (USD) terms, we have been left behind by global emerging-market (EM) indices, which are up 29 per cent in USD as of end-November 2025. This is the worst relative performance for India since 1993. India has now dropped to third place in terms of EM weighting and is just about half the weight of China. Only 15 months ago, there was serious talk of India overtaking China — how narratives change!

India has also been shunned by foreigners, with foreign portfolio investors (FPIs) selling over $18 billion in 2025 year-to-date, marking five years of zero flows. The saving grace has been domestic flows, which continue to power ahead, with $80 billion invested by domestic institutional investors to date and the number of investors crossing 135 million.

AKASH PRAKASH

India has lost mindshare with global investors. Most are underweight the country and see no reason to raise weightings. We are not part of the artificial intelligence (AI) trade, and have disappointed on both growth and earnings. You can't be the most expensive market in the world, as India was coming into 2025, and then deliver negative earnings revisions and single-digit earnings. India is a consensus underweight at the moment.

However, looking into 2026, the prospects look better, to me at least. My more optimistic take is based on a few assumptions or building blocks.

India will see an acceleration in nominal gross domestic product (GDP) growth, which is the most critical variable for corporate earnings. In the latest quarter while we had strong real GDP of 8.2 , the GDP deflator was only 0.5 per cent, yielding nominal GDP of 8.7 per cent. Given that the 10-year average for the GDP deflator is about 5 per cent, formal inflation target of 4 per cent (+/- 2 per cent) and the willingness of the Reserve Bank of India to cut rates and increase liquidity, inflation should normalise. As nominal GDP accelerates back to double digits, this will drive a clear acceleration in corporate earnings. Aiding earnings further is the sense that on the ground, demand is coming back across categories as the goods and services tax (GST) cuts have catalysed consumption.

Foreigners are the most underweight India I have ever seen. If the EM equities outperformance continues, flows into the asset class will follow. Most global institutions are underweight EMs, given its awful performance over the last 15 years. These same institutions are however worried about their USD exposure and over reliance on US equities for returns. As money comes back into EM equities, India will also get its share, as the underweight will not likely increase. We have forgotten how markets trade with simultaneous domestic and foreign buying, as we have not seen this for five years now. There is the scope for quick and rapid price action.

Sometime in 2026, there is likely to be a wobble in the AI trade. The thematic may not come to an end, but a wobble is definitely likely. Some rethink and doubts are only natural, even if temporary. India will be a big beneficiary of any cooling of sentiment towards AI. We have not participated in this trade and will be seen as a hiding place. For context, 75 per cent of the EM equity index is made up of only four markets (China, Taiwan, India, and Korea). Except India, all the other three have been big beneficiaries of the AI trade. If money were to come into EM equities and the AI thematic goes out of fashion, India will be the obvious place to put capital.

India is also developing a positive reforms narrative. The government seems less complacent on growth, is taking steps to support consumption and is starting to move on structural reforms. Declogging the regulatory cholesterol finally seems to be on the agenda.

India also does not get enough credit for its macro stability. We have delivered strong growth over the last five years, despite reducing the fiscal deficit by 500 basis points. The majority of our fiscal adjustment is done. No other large economy has moved on fiscal adjustment. All macro indicators are green. The cost of capital should reflect the reduced macro volatility.

It is only logical that sometime in 2026 we will have a trade deal with the US. We are currently paying higher tariffs than China. Unless the US no longer considers China a strategic rival, this is illogical. Common sense will eventually prevail.

On both valuations and the rupee, we have already made the bulk of the adjustments. While we would always want markets to be cheaper, valuations today are about 15-20 per cent lower than the peak of September 2024. We are now more in line with long-term averages. The rupee has been the worst performing currency in Asia. From here we should see a period of stability and less drag on USD returns. We do not have a current account problem with oil at $60 and if you believe that the USD is in a downwards adjustment phase, further relative rupee weakness seems unlikely.

The one major assumption that you have to make to be bullish is that domestic flows continue to be robust. Despite 15 months of no returns, mutual fund retail flows continue to track about $3 billion per month. Both the number of investors and the share of non–Tier 1 cities in flows continue to increase. If these flows turn negative, all bets are then off. The markets will not hold. India is able to hold premium valuations because of the hothouse effect of structural domestic flows.

The other worry is the deluge of paper from new issuances and block deals. Investors will hopefully self-regulate and only allow good quality paper at sensible valuations to come to market. It is opening up opportunities in the secondary markets as investors chase new issuances. Unchecked, this flow can stall the market.

Net net, I think the setup entering 2026 is far better than in 2025. Markets are 20 per cent cheaper, India is unfashionable and delivered its worst relative performance in 30 years, earnings are accelerating, government is showing intent on reform, no macro imbalances, and domestic flows remain rock solid. India offers a good risk/reward. We should do well on an absolute basis even if the AI fancy continues, but can deliver very strong relative performance if the AI theme falters. For global investors looking to hedge their AI and US exposures, we present a good risk adjusted opportunity.

The author is with Amansa Capital

09 Dec 2025

Declining dependence

Falling MGNREGA demand is a positive sign

Demand for work under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) has shown a sharp and sustained drop, indicating improving economic conditions in rural India. According to the official data, the number of households seeking work under the law fell 35.3 per cent in October, compared to the same month last year. Moreover, this is one of the steepest mid-year declines in recent years. Over the longer term, too, the number of rural workers relying on the scheme dropped from the pandemic peak of 111.9 million in 2020-21 to around 78.8 million in 2024-25 (returning to pre-Covid levels of 2019-20).

There could be several proximate reasons for this decline. The government had imposed a 60 per cent cap on MGNREGA labour-budget spending in the first half of the financial year, which likely constrained work generation. Also, rain in October reportedly made many work sites inaccessible, disrupting field work and discouraging participation. However, these short-term factors don't fully explain the broader downward trend, which seems to be taking hold in many states. Indeed, the recent drop, which is beyond the usual seasonal pattern, suggests a structural shift in rural employment. This hypothesis finds support in the latest labour-market data. The most recent monthly bulletin of the National Statistics Office (NSO), under the Periodic Labour Force Survey (PLFS), shows the jobless rate in rural areas declined to 4.4 per cent in October from 4.9 per cent in June. This suggests many rural households may be now accessing non-farm or other non-MGNREGA work. Further, Motilal Oswal Financial Services, in a recent research note "Rural Rules, Urban Follows", reported that rural consumption expanded 7.7 per cent in the second quarter of 2025-26, the fastest pace in 17 quarters.

This improvement is attributed to a combination of factors, including stronger real wages in both agricultural and non-agricultural work, increased tractor and fertiliser sales, healthy growth in farm credit, and better rainfall distribution. At the same time, labour markets in urban areas have shown some signs of stress. The urban unemployment rate touched a three-month high of 7 per cent in October, compared to 6.8 per cent in September. This divergence between rural and urban labour trends may reflect a gradual movement of workers from villages to cities as rural opportunities stabilise or as households seek better earnings in urban centres. This again can be interpreted as a positive sign and would bring labour to more productive non-farm work in urban areas.

Given these developments, the policy focus should now be on sustaining the positive momentum in rural labour markets. Continued improvement in rural roads, connectivity, and irrigation, along with targeted skilling programmes, can help deepen non-farm employment. Expanding credit access and market linkages for micro and small enterprises would further support the diversification of rural livelihoods. Meanwhile, the MGNREGA should be used more thoughtfully during lean seasons, making it a crucial safety net without creating dependency. The broader policy objective, of course, should be to create non-farm jobs and pull out people dependent on agriculture. The notification of the four labour Codes should help in this regard over the medium term.

09 Dec 2025

Budget should reemphasise infrastructure

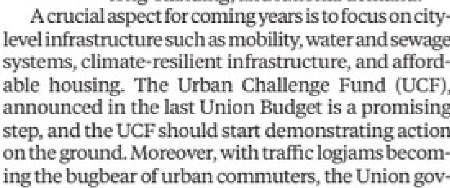
Infrastructure spending must, once again, be viewed as the turbocharger for economic growth because of its high multiplier effect. Every ₹1 invested in infrastructure is believed to generate ₹3 of economic output. This alone underscores why public capital expenditure in infrastructure remains crucial. Thus, the relative "de-emphasis" of infra outlays growth in the last Budget should be reversed. This is crucial also in the current environment where private investors in greenfield infrastructure are still hesitant.

INFRATALK
VINAYAK CHATTERJEE

The macroeconomic framework for determining infrastructure outlays is well-established. The underlying assumption is that gross capital formation in infrastructure (GCFI) should be around 7 per cent of gross domestic product (GDP) as a national intent. Within that, roughly 3.5 per cent typically comes from the Union Budget, while the remaining 3.5 per cent is contributed by states, private capital, and EBR (extra-budgetary resources including public-sector undertakings). Using this framework, infra outlays in the forthcoming Budget should be ₹14 trillion, as can be seen in the table.

The next stage of growth requires stronger private participation. Aggressively reviving the public-private partnership (PPP) ecosystem is central to this shift. The PPP unit, under the Department of Economic Affairs (DEA), must now start demonstrating deliveries, including crafting enabling frameworks for much-needed social infrastructure. This includes health care, education, tourism, housing, sanitation, water, skilling, digital projects and agri-infrastructure. The government's role should focus on preparing sector-specific model concession agreements, and de-risking mechanisms such as viability gap funding (VGF). States are also encouraged to do so and should seek support from the India Infrastructure Project Development Fund (IIPDF) that was announced in the last Budget.

Tax policy also needs to encourage private investment. Any medium-sized private infra player will have 20-30 special purpose vehicles (SPVs), while large players have to contend with over 50 of them at any point of time. A group taxation regime — allowing firms to "consolidate" losses and profits across group-owned SPVs would stabilise cash flows, strengthen credit profiles, and reduce borrowing costs. This has been a long-standing, and rational demand.



A crucial aspect for coming years is to focus on city-level infrastructure such as mobility, water and sewage systems, climate-resilient infrastructure, and affordable housing. The Urban Challenge Fund (UCF), announced in the last Union Budget is a promising step, and the UCF should start demonstrating action on the ground. Moreover, with traffic logjams becoming the bugbear of urban commuters, the Union government should stop funding any urban transportation projects till the concerned city fully implements the mandated UMTA (Unified Metropolitan Transport Authority).

Additionally, land-value capture (LVC) should be mandated to be a regular financing instrument, thereby ensuring that some portion of total infrastructure funding comes through tools such as betterment levies, development rights, or corridor value capture. For too long, appreciating land values accruing through public expenditure have just been allowed to be "captured" by a select set of brokers, bureaucrats, and politicians.

A dedicated budget for high-speed rail (HSR), separate from railways, is essential because it represents a new class of infrastructure that cannot be managed within the framework of the conventional Railways setup. HSR demands its own approach to technology, route planning, and land acquisition, while also requiring long-term financial commitment. It can help accelerate regional connectivity, linking tier-II and tier-III cities to major economic hubs, and unlock new corridors of growth. HSR should now replace the traditional roads and highways sector for receiving the highest amount of public funding. It should have a standalone allocation distinct from the traditional railways outlay along with fostering a modern institutional set-up distinct from the traditionalist Railway Board.

Upgrading the appropriate definition of infrastructure is also important going forward — with many sectors clamouring to be declared as "infrastructure." The classification of infrastructure embraces *carriage*, not *content*. Thus, a port qualifies as infrastructure, whereas ships do not (and certainly not shipbuilding — which has recently been given infrastructure status). The revision of the list of approved infrastructure areas is long-pending with the DEA and needs to be expedited. The addition of newer, professionally correct sectors will spur growth.

The 2026-27 Budget must once again signal that infrastructure remains the foremost priority of the Indian growth model.

Projections of infra investments required

(₹ trillion)

Year	Status	Nominal GDP*	A = B + C Infra investment**		B Investment provided in Union Budget		C All other infra investments #
			Investment	GFCI (% of GDP)	Investment	% of GDP	
2023-24	Achieved	301	18	6.1	9	3.2	9
2024-25 (RE)	Achieved	331	20	6.1	10	3.1	10
2025-26 (BE)	Anticipated	364	22	6.1	11	3.1	11
2026-27	Suggested	400	28	7.0	14	3.5	14

* At current prices. Expected to increase by 10% every year (6.5% growth + 3.5% inflation)
** Assumed 7 % GCFI (gross capital formation in infra as % of GDP) as intent
\# Thumb-rule: Infra investment by states + extra budgetary resources + private sector = Budget outlay

The author is an infrastructure expert. He is also the founder & managing trustee of The Infravision Foundation. Research inputs from Priyanka Bains

10 Dec 2025

Solar transition

Reforms needed to improve performance

India is making progress on clean energy. More than 50 per cent of the country's installed electricity capacity is now based on non-fossil sources — a milestone achieved five years ahead of target. Solar power has been the dominant driver of this shift, aided by an expansion in domestic module manufacturing, owing to strong policy support. Yet, as a new parliamentary standing committee report on energy makes clear, merely scaling up solar capacity is not enough. If efficiency and system readiness fall behind, it could jeopardise the country's renewable-energy goals in the long term. The most striking gap lies in performance monitoring. Despite an installed solar capacity of 129 gigawatts (Gw), India still lacks a national framework to rate photovoltaic plant performance. There is no standardised method to measure the degradation of modules, assess the quality of operations and maintenance, or compute irradiance-adjusted output. In the absence of such benchmarks, tariff bids are divorced from long-term performance risk. Underperforming assets remain invisible, and developers face little pressure to optimise quality. For a sector increasingly reliant on competitive bidding and thin margins, this information vacuum can only lead to inefficiencies and financial stress.

Grid-level constraints compound the problem. Solar generation is geographically concentrated, while transmission capacity and energy storage remain severely inadequate. Only about 5 Gw of storage is currently available, against a projected requirement of 60 Gw by 2030. The committee's recommendations regarding improving the green-energy corridor and strengthening intra-state transmission remain urgent. The Central Electricity Authority has also done well to issue an advisory stating that at least 10 per cent of future renewable-energy bids include storage components. Without these measures, solar addition will continue to outpace the grid's ability to absorb variable generation, causing curtailment and financial losses. The rooftop solar segment, too, demands course correction. Adoption remains far below potential, even under the PM Surya Ghar scheme. Kerala's recent experience is a cautionary tale in this context. A daytime surplus and night-time deficit created stress on distribution companies (discoms), prompting the Kerala State Electricity Regulatory Commission to revisit net-metering rules and even consider battery requirements. Ways need to be devised to address such issues.

Further, land acquisition is another silent but significant drag. Four to seven acres per megawatt, that is, 1.4 million to 2 million hectares of land is needed to harness the full potential. Overlaps with agriculturally productive or ecologically sensitive areas, delays in securing land, and obtaining connectivity approval continue to slow project development. A single-window clearance mechanism can streamline approvals and remove friction. Closer coordination with states and project developers is essential to identify bottlenecks early and prevent slippage. Additionally, India's manufacturing strategy must evolve beyond modules. The committee has urged the government to provide support for polysilicon, ingots and wafers, and solar glass — upstream components that are imported and are crucial for long-term supply-chain resilience. Clearly, the next phase of the solar transition should be defined not by how much capacity is added but by how efficiently it performs.

10 Dec 2025

ILLUSTRATION: BINAY SINHA

It's the regulator, stupid!

Not adequately empowering the DGCA despite its statutory status is a mistake that needs to be corrected

Imagine a huge residential complex in a city with thousands of apartments. Several months after these apartments have been built and residents have moved in, the municipal authorities of the area wake up to the reality that these flats do not have an adequate number of security guards to ensure residents' safety.

So, the municipal authorities ask the real estate company that had built those apartments to put the required number of security guards in place within a given time frame. The real estate company requests for an extension of the deadline for fulfilling the condition and the municipal authorities agree to it initially. However, they later enforce the guidelines once the extended deadline comes to an end.

Left with no option, the real estate company decides that till such time as it can fulfil the condition imposed by the municipal authorities, it will ask some of the families to move out of the residential complex. The selective approach is adopted because the real estate company has to maintain a minimum ratio of security guards to the number of families that stay in the complex. Hiring security guards could take some time. So, it decides to evict many families residing in those apartments. Chaos ensues.

For most Indians, this story must be ringing a bell. Yes, we are talking about thousands of flights that were cancelled last week by India's largest airline, IndiGo. The comparison between an airline and a real estate company is not proper. Yet, the comparison helps us understand what exactly hit IndiGo and, by implication, what is ailing the regulatory system for India's civil aviation sector.

There is nothing wrong per se about a company's desire to grow fast. But that pace has to be sustainable. When the Directorate General of Civil Aviation (DGCA), the regulator, decided to increase the minimum mandatory weekly resting hours for pilots by 33 per cent, all airlines, including IndiGo, should have realised that they had no option but to increase their pilot headcount significantly, even if they were to keep their daily flight schedules unchanged.

The DGCA announced its new guidelines in January 2024 to be enforced from June 2024. But as the airlines were not ready, the regulator deferred the implementation of the new norms in two phases, enforcing them partially from July 2025 and fully by November 2025. Air India managed this situation with less turbulence probably because it had quite a few of its aircraft already grounded, resulting in greater pilot availability, and also because it is a much less lean organisation compared to IndiGo.

In contrast, IndiGo, which had a daily schedule of 2,000 flights in January 2024, increased it to 2,200 a year later. For a real estate company, hiring security guards is relatively easy. But for an airline, employing pilots is significantly more difficult. Apart from strict rules that prohibit poaching of pilots from rival airlines (12 months' notice for a commander and six months' notice for a co-pilot), the pool of available pilots is very limited and the certification procedures to be followed before a pilot is qualified to fly an aircraft are time-consuming and not easy. Even hiring foreign pilots means a wait of several months.

It should, therefore, have become clear to IndiGo that its problem of pilot shortage was not likely to be solved easily. The deferment of these guidelines by DGCA to February next year will be of little help unless IndiGo decides to reduce its daily number of flights. So what was the top management of IndiGo doing in the last 23 months? Perhaps, the IndiGo management was supremely confident of its ability to persuade the regulator to defer the norms for Flight Duty Time Limitations (FDTL) and continue to operate its flights without reducing their frequency.

That is where the role of the regulators becomes extremely critical, perhaps as critical as that of the airline. If the airline failed to act responsibly in light of the new guidelines, the regulators did not cover themselves with glory either. It was not just the aviation regulator that was found wanting in discharging its regulatory functions. Even the competition regulator paid little heed to the market dominance of an airline that by this year had acquired a share of 65 per cent of total flights in the country.

Did the Competition Commission of India examine if IndiGo was abusing its market dominance to exploit consumers under Section 4 of the Competition Act? Did it notice that in spite of the looming pilot shortage after the enforcement of the new FDTL norms, IndiGo was merrily increasing its flights and was not ready with a credible plan for hiring more pilots to service its flights under the new guidelines? Would not have such negligence been tantamount to abusing its market dominance to exploit consumers? Eventually, consumers did get exploited with the large-scale cancellation of flights. If only the competition regulator had been a little more alert and aware of its responsibilities!

A bigger problem was caused by DGCA, the aviation regulator. In 1994, the Air Corporations Act, which was passed in 1953 to nationalise civil aviation in India, was repealed to facilitate the entry of the private sector to run scheduled airlines in the country. The DGCA, which has been in existence even prior to the nationalisation, continued to function as an attached office of the Ministry of Civil Aviation.

Strangely, it was only in 2020 that the DGCA was given statutory powers to regulate the civil aviation sector along with carrying out the safety oversight. What were the reformist governments of P V Narasimha Rao, Atal Bihari Vajpayee, Manmohan Singh and even Narendra Modi in his first term doing? The decision in 2020 by the Modi government in its second term, however, made little difference. The DGCA website continues to describe the organisation as an attached office of the civil aviation ministry, run mostly by serving government officers. Not only that, the DGCA suffers from an acute staff shortage, with half its approved posts remaining vacant.

Isn't it time to empower the DGCA as an independent statutorily-approved regulator and not just as an attached office of the civil aviation ministry? With the DGCA's statutory status remaining only on paper, the civil aviation ministry is making a bigger noise about what action should be taken against IndiGo. The most problematic aspect of the IndiGo controversy is how the regulators have acted weakly and ineffectively, without proper monitoring, while the civil aviation ministry has become more active and voluble in threatening to impose punitive costs on IndiGo and a fare cap on all other airlines.

The government and Parliament are within their rights to address the concerns of air travellers, but their primary job is to frame the right policies, ensure that the regulators are empowered to implement them, and that they don't go scot-free for not having anticipated such problems and taken advance remedial measures.

It is, therefore, time that the government undertook the much-delayed regulatory fix by adequately empowering the DGCA so that such chaos in civil aviation did not recur. IndiGo was irresponsible, but equally irresponsible and ineffective was the regulatory system. The current crisis in the aviation sector is an opportunity to reform that regulatory architecture in the country.

12 Dec 2025

India's textiles horse finally has both legs free

India's long decline in textiles and garments was not due to bad luck or weak factories, but poor policy choices. After years of hurting its own synthetic industry, the country is finally removing the barriers that held it back. The policy reset has begun — now execution, scale and speed matter most. The turnaround can start now.

China shipped $113 billion of garments last year, Bangladesh $51 billion and Vietnam $39 billion — while India, despite its rich textile heritage, managed only $17 billion.

India's real handicap in textiles: It missed the synthetic revolution that now drives 70 per cent of global apparel trade. Synthetics power sportswear, winterwear, athleisure, and fast fashion — the categories that dominate shelves in the United States, Europe, and East Asia.

AJAY SRIVASTAVA

Vietnam and Bangladesh built smooth, low-cost synthetic supply chains to serve this demand. India clung to cotton — and then made synthetics even costlier through high duties, anti-dumping actions, and sweeping quality control orders (QCOs) that restricted imports and priced micro, small, and medium enterprises out of the winterwear boom.

The impact is visible on the factory floor. Most Indian units run at full capacity only during the cotton-heavy spring–summer season and sit idle through autumn and winter, when synthetics drive global orders. Costs run year-round, revenues don't.

By ignoring synthetics — the growth engine of modern apparel — India tied one leg of its textile horse, limiting scale, depressing wages, and losing market share in the very segment where the future lies. The good news is that this is no longer the case.

Four reforms: Recent policy changes have removed four major barriers that had made India uncompetitive in synthetic garments.

First, the government has withdrawn QCOs on over 20 synthetic inputs such as polyester and viscose fibres and yarns, restoring access to global raw materials. Input prices are already falling, giving manufacturers a real chance to compete.

Second, labour reforms have raised the worker threshold under the Industrial Disputes Act from 100 to 300, while states like Tamil Nadu, Karnataka and Gujarat now allow flexible work schedules. This makes it easier for factories to hire, expand and run year-round.

Third, India is closing its tariff gap through free-trade agreements. Indian garments faced duties of 8–12 per cent in the United Kingdom and European Union (EU), and up to 22 per cent in the US, while Vietnam and Bangladesh paid zero. With the India-UK free-trade agreement done and talks moving with the EU and US, tariff parity is closer despite recent US trade actions.

Finally, the government has fixed goods and services tax anomalies that taxed fibres and yarn at higher rates than finished garments, improving cash flow and allowing factories to operate fully.

What India must do now: With the most significant distortions gone, India must now clear the second layer of frictions holding the sector back.

First, stop encouraging low-value exports of fibre and yarn. Current rebates make it cheaper to sell these abroad than at home, leaving Indian garment makers short of affordable inputs. India should promote finished clothing, not raw materials.

Second, fix the weakest link in India's textile chain — woven fabric and processing. India exports a lot of yarn but has only 6 per cent of the global fabric market because its weaving and processing units are small, outdated and informal. India must build large, modern, integrated weaving and processing parks to turn yarn strength into fabric leadership. That is how China built its textile power.

Third, fix export procedures. Under advance authorisation, exporters must link every imported fabric to each garment produced — an almost impossible task given the hundreds of fabrics and thousands of styles involved at a large unit. India must shift to Bangladesh-style value-based import entitlements that allow firms to import inputs up to a fixed percentage of export value.

Finally, simplify Customs rules to allow duty-free import of buttons, zippers, and labels on self-declaration and risk-based verification. Current system demands large data sets of information for even low value items.

Firm-level initiatives: India's leading garment exporters must stop acting only as suppliers to foreign brands. They need to create their own designs and labels, and learn the fast-fashion model that moves clothes from idea to store in a matter of weeks. To earn more, they must include high-value synthetic fabrics, branded clothing and new blends that dominate global markets. Competing on quality — not just on low tariffs — is the way to move up the value chain. The immediate priority should be to upgrade factories. India has about 1,200 fast-fashion-compliant units in cotton, but far fewer in synthetics. Nearly 80 per cent of exporters still miss key efficiency benchmarks such as standard allowed minute.

Japan is a reminder: Despite zero tariffs for a decade under the FTA, exports barely rose because Indian firms did not align with Japan's exacting quality and workflow standards. Millions of new jobs and a much bigger global market share are now within reach—if garment makers act boldly.

The author is the founder of GTRI

12 Dec 2025

ILLUSTRATION: BINAY SINHA

Four US economic policy shifts of 2025

Astonishingly, these shakeups have failed to unsettle the US or global economy — but 2026 will tell whether that continues

FINGER ON THE PULSE

T T RAM MOHAN

In 2025, the world saw one tectonic shift in United States (US) economic policy and at least three others that were consequential. These shifts will not be easy to reverse even if there is a change in administration in the US down the road. How exactly they will impact the US and the world is unclear at the moment. What is clear is that the rest of the world will have to adjust to them.

First, the tectonic shift. The US under President Donald Trump has decisively upended the free-trade regime that has underpinned the world economy for decades. The world has to live with a US base tariff level of 10 per cent, plus an element that will vary from country to country and from time to time, depending on how the US perceives its trade relationship with that country.

This will be reinforced by even higher tariffs for sectors, such as steel and aluminium, which are perceived to be of strategic importance to the US economy. The weighted average tariff under President Trump has risen from below 3 per cent to around 19 per cent.

During the year, major nations settled for deals with the US that are hopelessly one-sided. The European Union (EU), for instance, faces a tariff of 15 per cent (with higher tariffs on steel and aluminium) while US exports to the EU face zero tariff. For the privilege of doing business with the US, the EU has committed to spending an additional $750 billion on US energy products (over three years), investing $600 billion in America, and buying US military equipment worth "hundreds of billions of dollars".

Japan, too, will face a baseline tariff of 15 per cent and will invest $550 billion in the US. The United Kingdom gets away with a tariff of 10 per cent because of the "special relationship" with the US. China has secured a one-year truce with the US that allows tariffs to settle at a staggering 47 per cent for one year. In return, China has agreed to lift restrictions on export of rare earths to the US and buy more soybean from the US.

Switzerland was hit with a tariff of 39 per cent. Its President rushed to the US to negotiate a lower tariff but was rebuffed. Two months later, the US agreed to reduce tariffs to 15 per cent in return for $200 billion investment from the Swiss. India's refusal to be rushed into a trade deal looks very brave in comparison with the abject surrender of nations that are incomparably richer.

The second shift has to do with immigration policy. The US administration has clamped down on border crossings, deported thousands of illegal immigrants, paused asylum applications, and attempted to limit birthright citizenship.

Kevin Hassett, one of Mr Trump's economic advisers and now a front-runner for the post of chairman of the Federal Reserve, has argued that the issue is the quality of immigration. He notes that the US admits only 12 per cent of its immigrants on the basis of employment and skills, whereas 63 per cent of those admitted by Canada and 68 per cent of those admitted by Australia are selected for the skills they bring to these countries.

Mr Trump himself has lately spoken of the importance of H1B visas and foreign students in US universities. But the National Security Strategy document released by the White House recently makes the basic stance clear: "The era of mass migration is over". There will be no retreat from the view that migration strains domestic resources, undermines social cohesion and threatens national security.

A third shift is the Trump administration's rejection of climate change and green energy as priorities. One of Mr Trump's first acts after taking over as President in January 2025 was to withdraw from the Paris Agreement that committed all signatories to time-bound emission reduction plans. Mr Trump often calls climate change a "hoax" or a "con job", renewable energy a "joke" and talks of "clean, beautiful coal".

The Trump administration is actively working to dismantle subsidies for renewable energy and electric vehicles, instead opening up more land and waters for oil drilling — "drill, baby, drill" is the motto. The National Security Strategy document declares emphatically, "We reject the disastrous 'climate change' and 'Net Zero' ideologies that have so greatly harmed Europe, threaten the United States, and subsidise our adversaries."

Mr Trump's actions will mean higher costs for the rest of the world in battling climate change. It will also mean fewer resources with which to battle it as the Trump administration axes billions of dollars that support climate change projects. It could result in other nations withdrawing from the Paris Agreement as they view the burdens imposed on them as unfair.

A fourth shift is the rise in the level of public debt in the US as well as in other advanced countries. Public debt in the US and other advanced countries has risen relentlessly since the global financial crisis of 2007, and had averaged 104 per cent of gross domestic product (GDP) even before the pandemic struck in 2020. Mr Trump passed his Big Beautiful Bill that retained the tax cuts of Trump-1 and boosted defence expenditure. The International Monetary Fund projects US government debt to rise from 122 per cent of GDP in 2024 to 143 per cent by 2030. The corresponding figures for advanced economy debt are 109 per cent and 119 per cent, respectively.

Commentators worry that rising public debt in advanced countries poses a threat to macroeconomic instability in the global economy. Mr Trump's economic advisors, however, believe that faster economic growth, tariff revenues and lower interest rates will cause government debt to fall to 94 per cent by 2034. That is one forecast that will be watched closely. But clearly, the dogma about the unsustainability of high levels of public debt that advanced countries preached to the developing world has gone out of the window.

As the year draws to a close, the astonishing thing is that these massive shifts in economic policy have thus far failed to seriously unsettle the US economy, or the world economy, or the financial markets. The IMF projects growth in the world economy for 2025 at 3.2 per cent, just 20 basis points below last year's. The US will grow at 2 per cent, compared to 2.8 per cent last year. US inflation is running at 2.8 per cent, which is way below what was feared following Mr Trump's Liberation Day announcements.

The US equity market touched an all-time high during the year, with a return of 13 per cent over the year. The yield on the one-year G-Sec in the US is a full 50 basis points below its level when Mr Trump assumed office. Pundits, who predicted economic apocalypse, are trying to find reasons why their forecasts went wrong.

Has the moment of reckoning been merely deferred? Or is Mr Trump on to something? We should know for sure in 2026.

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12 Dec 2025

Risk factor

Railways too must carefully assess duty hours

The disruption in IndiGo's schedule after the enforcement of Flight Duty Time Limitation (FDTL) norms has revived a long-standing but unresolved concern in Indian Railways of how fatigue among loco pilots is managed, and what this means for safety on an increasingly busy network. Loco pilots continue to operate under the far looser "Hours of Work and Period of Rest" (HOER) framework, which permits an average of 52 working hours a week. The All India Loco Running Staff Association's demand is to cap duty at six hours for passenger trains and eight hours for goods trains, along with 16 hours of rest after every trip, weekly rest in addition to daily rest, and the use of fatigue-risk modelling in crew scheduling. These proposals must be carefully studied. They broadly reflect the global best practices, where duty and rest rules are based on scientific evidence of how fatigue affects human performance.

The problem is being compounded by staff shortages. As of March 1, 2024, nearly 15 per cent of train-driver posts were vacant across the network. In Southern Railway, shortages have reportedly delayed the introduction of additional services despite strong passenger demand. While the railways has announced recruitment for more than 120,000 vacancies, the process is slow, and the benefits will be felt only over time. Until then, the existing staff are being stretched thinner. The safety data further underlines why this matters. In 2024-25, there were 31 consequential train accidents, including over 20 derailments. Fatigue may not be the sole cause in most cases, but it is a recognised risk factor in safety-critical operations. Ignoring it increases the chances that small errors cause serious incidents. Notably, in the past decade, the number of women loco pilots has increased substantially, which makes predictable duty schedules, adequate rest, and basic facilities even more important if the railways is to retain talent and ensure safe operations. Further, the principle should not remain limited to loco pilots. Internationally, rail systems have moved decisively in this direction. The European Union enforces strict duty-rest norms, the United States mandates minimum off-duty hours under its "Hours of Service" law, and advanced networks rely on formal fatigue-management systems backed by data and technology.

However, Indian Railways' financial position complicates matters. An operating ratio estimated at 98.43 per cent in 2025-26, along with heavy reliance on central support to finance nearly 95 per cent of capital expenditure, leaves the organisation with limited financial room for manpower expansion. These constraints are likely to intensify with the implementation of the 8th Pay Commission, which will further raise the staff costs. Closing this gap will require more than incremental adjustment. Institutional priorities must explicitly treat crew training and fatigue monitoring as core safety investment, reinforced by technology-driven crew scheduling, a real-time monitoring of duty hours, a transparent disclosure of vacancies, and faster recruitment and training pipelines. As traffic grows and networks become denser, safety margins will depend increasingly on human limits.

15 Dec 2025

Nuclear energy for growth

Sustaining a vibrant enabling environment is the key

Cabinet clearance for the Atomic Energy Bill marks a significant step in India's nuclear-energy programme. The Bill, to be introduced in the current session of Parliament, reportedly seeks to enable the private sector's participation in operating nuclear-power plants for the first time and address the issue of liability. The Bill, labelled Sustainable Harnessing of Advancement of Nuclear Energy for Transforming India, or SHANTI, which is likely to amend the Atomic Energy Act, 1962, and the Civil Liability for Nuclear Damage (CLND) Act, 2010, attempts to bridge regulatory gaps and create an enabling legal framework for the flow of private, especially foreign, investment in the sector — up to 49 per cent. The strategy is to enable the expansion of nuclear power at scale and create a reliable low-carbon alternative to India's overwhelming dependence on coal, which renewable-energy technologies cannot sustainably achieve at the present moment.

To move closer to net-zero goals, India is betting big on small modular reactors (SMRs), which generate up to 300 Mw and are easier, cheaper, and faster to install than traditional large reactors. The government has announced a Nuclear Energy Mission for research & development on SMRs at an outlay of ₹20,000 crore. The mission has targeted at least five SMRs to be operationalised by 2033. Greater cooperation with Russia, the terms of which were concluded during President Vladimir Putin's recent visit, is a vital element of this strategy, given that country's significant expertise in this field. India's nuclear ambitions are understandably expansive and meeting them will require a sustained focus to create a vibrant enabling environment for private players.

Finance could be one challenge. India's goal is to boost its installed nuclear-power capacity to 100 Gw from the current 8.8 Gw by 2047. According to a power-ministry report, this scale-up would require $214 billion of cumulative capital. Accessing relatively low-cost finance, therefore, would be vital. The Department of Economic Affairs, under the finance ministry, had earlier proposed including nuclear energy in its climate-finance taxonomy. But it is unclear whether domestic finance would be sufficient to achieve the scale the government is hoping to achieve. Globally, there is considerable ambivalence on nuclear finance, with regions and even institutions within them varying in their approach to include nuclear energy in green taxonomies. Many large American financial players, for instance, exclude nuclear power from green taxonomies, whereas the European Union and China allow it with conditions such as waste disposal and safety protocols.

Amendment to the nuclear-liability law, which extended compensation liabilities to victims of nuclear accidents to suppliers as well as operators, will also be important. This single clause has been cited as a deterrent by some of the largest manufacturers of foreign reactors such as America's Westinghouse and France's EDF from participating in India's nuclear programme. The sector will closely watch how India addresses this issue. Although nuclear power is considered one of the safest sources of energy, accidents, Chernobyl or Fukushima, can have far more catastrophic long-term impacts than conventional industrial disasters. In India, the long-drawn fallout from the Union Carbide disaster in Bhopal is seared in public memory. Managing public perception and implementing workable compensation mechanisms would, therefore, be as critical as accessing technology and finance.

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15 Dec 2025

ILLUSTRATION: AJAYA KUMAR MOHANTY

A Goldilocks 2026

A recovery in cyclical demand and structural reforms can sustain the solid growth-benign inflation mix

The year 2025 has been a challenging one for India. Real gross domestic product (GDP) growth was above expectations and the inflation rate was below the target. But beneath the surface, there was more turbulence. At 50 per cent, India was singled out for American tariffs, domestic consumption softened, slowing nominal GDP growth weighed on revenues, large outflows in foreign-portfolio equity and a delay in the United States (US) trade deal have sustained the currency weakness, and the AI (artificial intelligence) exuberance has bypassed India. All considered, the economy has navigated this turbulence well, due to prudent macro policy choices, and the outlook for 2026 depends on five key questions.

Is improvement in cyclical growth likely?

Growth is important not only in itself but also because of its spillover effects on fiscal finances and in attracting more capital inflows. After a challenging 2025, we expect India's cyclical growth to improve in 2026, supported by multiple factors.

SONAL VARMA

Globally, we expect the AI-led investment boom and more supportive monetary and fiscal policies to set the stage for a strong 2026, led by the US and Europe. Domestically, low inflation is likely to remain a tailwind, boosting household real disposable incomes and supporting both consumption demand and corporate profitability. Unlike last year, when tight macro policies were a restraint on growth, the lagged effects of prior policy easing — repo rate cuts, liquidity, and credit easing — should boost growth. A likely trade deal with the US that lowers tariffs on Indian exports from 50 per cent to 20 per cent will also be a positive.

The government this year announced rationalisation in goods and services tax (GST) and labour-market reforms. More reforms are likely, focusing on improving the ease of doing business, further liberalisation in foreign direct investment, privatisation, deregulation, and factor-market reforms. India's share in global smartphone export continues to rise, and a broadening of the production-linked incentive scheme to other low-tech manufacturing sectors like toys, furniture, and footwear should be the next step.

Overall, we forecast real GDP growth at around 7 per cent year-on-year (Y-o-Y) in 2026, with likely improvement in urban discretionary demand and real estate investment.

Is the disinflation just cyclical or also structural?

It is a bit of both. Cyclically, the benign inflation rate reflects positive supply shocks in food, low commodity costs, moderating wage growth, and the transmission of GST cuts to prices.

But the inflation decline is also structural. Our analysis shows that the trend in the consumer price index has moderated from around 6 per cent in 2022 to 3.4 per cent in November 2025. This is due to a lower food-inflation rate and a sharp moderation in the super core inflation trend from 5.0-5.5 per cent over the last decade to 3.2 per cent now. Ongoing efficiency and productivity gains from infrastructure investment, increased digital transactions, the anchoring of inflation expectations, proactive supply-side food management, and increased competition from Chinese imports have all contributed to this trend.

Unlike food and fuel, where there is a risk of a trend reversal, the drop in the super core trend should be more sustainable. We expect the inflation rate to average 3.6 per cent in 2026, up from 2.2 per cent in 2025, marking two consecutive years below the Reserve Bank of India's (RBI's) 4 per cent target.

Is the RBI's ratecutting cycle over?

Fundamentally, low inflation will likely persist longer, a weak currency is not a threat to the inflation mandate, real rates remain elevated, and there is still some economic slack. So, there is scope for some further easing, but having cut the repo rate by 125 basis points this year, the RBI has the flexibility to go slow from here. The terminal repo rate is likely to settle lower than the current 5.25 per cent, and a low-rate regime appears sustainable. Transmission will need a greater push as forex intervention and a higher currency leakage drain liquidity in the banking system, so more open-market bond purchases will be necessary. Finally, the flexible inflation-targeting framework is up for review after March 2026, and a renewal of the existing framework would be seen as positive.

When will external pressures ease?

A negative balance of payments has been a pressure point this year, especially since September. With exports hit by tariffs, sticky imports, and large portfolio equity outflows, funding the current-account deficit has been challenging. With a US trade deal still elusive, these pressures may sustain in the very near term.

However, the external sector looks fundamentally healthy, and currency concerns should be a passing phase. The rupee has depreciated on a real effective exchange rate, which should help stabilise the current account by restraining imports and boosting exports. A weak currency also tends to attract more remittances. Export of services remains on a structural uptrend. On the capital account, improved domestic growth should attract portfolio equity inflows, and India's entry into the Bloomberg Global Aggregate Index could also lead to large bond inflows next year. Expectations of a trade deal are low, so any announcement would be a positive surprise.

Is the best phase of fiscal consolidation behind us?

Our estimates show a potential revenue shortfall of around ₹1.3 trillion in FY26, but this is likely to be covered by expenditure compression in H2FY26, since the government remains committed to its fiscal-deficit target of 4.4 per cent of GDP in FY26.

Starting in FY27, the central government will transition from setting fiscal-deficit targets to a debt-targeting framework, with the aim to lower central-government debt from around 56 per cent of GDP in FY26 to about 50 per cent (plus or minus 1 per cent) by FY31. The absence of a deficit target has increased uncertainty, as investors have become accustomed to the fiscal deficit being an anchor, whereas debt-to-GDP is not entirely in the government's control. While the government can lower the primary deficit, debt sustainability also depends on the extent to which nominal GDP growth exceeds the nominal interest rate. We believe the government will persist with fiscal consolidation during this transition, albeit perhaps more gradually.

Wrapping up

Overall, 2025 has been a challenging year for India, but the economy has managed to absorb these shocks well, via a focus on boosting domestic demand and a push towards diversifying exports. As past policy easing boosts cyclical demand and structural reforms boost productivity and investment, the Goldilocks mix of solid growth and benign inflation can sustain in 2026.

The author is chief economist (India and Asia ex-Japan), Nomura

16 Dec 2025

Sustainable growth path

China is not trying hard enough to rebalance its economy

Global economic trends over the past year were shaped by one force above all: United States (US) President Donald Trump's decision to rework trade policy by focusing on tariffs. But if he intended to force China, the world's export superpower, into retreating from global markets, then he has failed. The country's trade surplus crossed a record $1 trillion in the first 11 months of 2025. If anything, economic planners in Beijing should have hoped for a little more effect of the tariffs than they actually felt. As it stands, however, the year has seen China's dependence on export as a prop for its economy only grow.

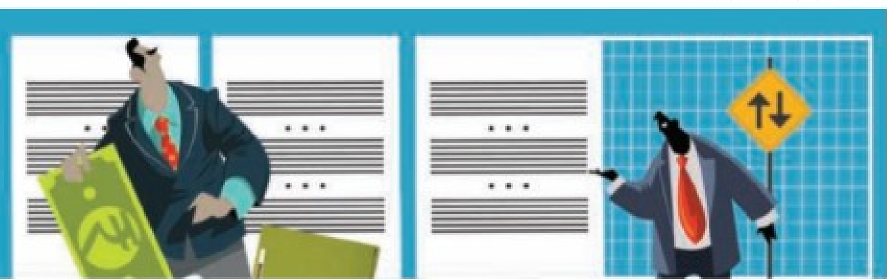
There is a gloomy consensus, incorporating both the International Monetary Fund (IMF) and the secretive leadership in the Forbidden City, that domestic demand in the world's second-largest economy is simply not stepping up to replace exports as a growth driver. Last week, the managing director of the IMF, Kristalina Georgieva, told reporters that the country needed to speed up its decades-long process of rebalancing, and to increase the salience of private consumption in its economy. Its economy is now "simply too big" to rely on exports, she said. She is right in the broadest of senses: The missing factor not just in its own economy, but the entire world's, is the Chinese consumer. Households on the mainland need to consume and import more — that is the only way that investment and demand will reach their potential levels.

This missing factor is also worrying the politburo of the Communist Party of China. During its recent meeting it pledged to "adhere to domestic demand as the main driver" and to "build a strong domestic market". The biggest problem is that consumption has cooled for the entire second half of this year after the first half was buoyed up by a series of subsidy payments, which have now petered out. Retail sales are growing, but more slowly than the overall figure. For the first time in two decades, household loans have contracted for two straight months, as uncertain Chinese citizens have begun to worry about amassing debt and have started to pay it down instead. Notably, for the investment-heavy economy, fixed-asset capital expenditure went down by 1.7 per cent in the first 10 months of 2026.

The government in Beijing has been far too hesitant in carrying out essential reform, and is now facing the consequences of that delay. The years-long crisis in the country's property market continues to be the biggest drag on consumer confidence. The problems in that sector keep on coming. Late last month, one of the few large boom-time developers still standing revealed state-controlled banks were withdrawing their support of its $50 billion loan book. Chinese households used to rely on property to build up savings, given that interest rates were kept artificially low by the investment-obsessed government. The removal of the one safe path to appreciation in asset prices for the average household has served to torpedo consumer confidence and demand. Meanwhile, the private sector, other than favoured sectors like artificial intelligence, remains constrained by excessive government oversight and control. The steps to complete China's rebalancing are known. What Beijing lacks is the political will to do what it must.

16 Dec 2025

ILLUSTRATION: BINAY SINHA



The trilemma monetary policy can't ignore

India needs an informed debate on when and how financial stability and currency markets should shape monetary policy

POLICY IN PRACTICE

ANANTH NARAYAN

A foundational principle in international economics is the "impossible trinity" or "trilemma." This asserts that a country cannot simultaneously maintain a stable exchange rate, allow full capital mobility, and pursue an independent monetary policy.

Putting inflation first: The January 2014 report of the Urjit Patel Committee shaped India's monetary policy framework. The report recognised the trilemma and recommended giving precedence to flexible inflation targeting. It then emphasised the importance of allowing flexibility in exchange rate determination, while managing volatility through a combination of capital flow management (CFM) and macroprudential tools.

The report concluded that although international policy consensus was shifting towards multiple-target, multiple-instrument frameworks, India should first focus on reducing the then high inflation. The report noted that anchoring inflation expectations would eventually allow flexibility to pursue other objectives, without sacrificing price stability.

A clear nominal anchor — an inflation target — was proposed to discourage time inconsistency or discretion in policy, including due to pressures from interest groups.

Additionally, the report recommended that the Reserve Bank of India (RBI) build substantial foreign exchange reserves as a buffer against capital outflows. Fresh from the 2013 taper tantrum, the report also called for retaining flexibility for unconventional monetary measures, again reflecting the trilemma.

By March 2025, India's total foreign exchange reserves (adjusted for outstanding forward sales) had more than doubled in absolute terms, compared to March 2013. However, in relative terms, the reserves were nearly the same at around 15 per cent of gross domestic product (GDP).

The MPC mandate: In June 2016, the RBI Act was amended. The preamble set the objective of monetary policy as maintaining price stability, while considering the goal of economic growth. The Act established a monetary policy committee (MPC) tasked with setting the policy rate to achieve an inflation target, which the government fixed at 4 per cent with a tolerance band of ±2 per cent.

Over time, the MPC has pursued an independent monetary policy, without reference to the external sector. As an example, the MPC's statement on December 5, 2025, was silent about the external sector, despite USD/INR flirting with the psychological 90 level. Notably, the RBI's discussion paper from August 2025 reviewing the monetary policy framework also does not mention the trilemma.

Currency market interventions: Officially, the RBI maintains that it does not target a specific USD/INR level and only intervenes to manage volatility. However, in practice, the RBI acts as a key player in absorbing large balance of payment surpluses and deficits, thereby influencing both prices and volatility.

Underscoring this, between FY2017-18 and FY2024-25, the RBI's average annual net intervention in spot and forward markets exceeded $60 billion, over 2 per cent of GDP.

USD/INR market volatility offers further insight. From FY2017-18 to FY2021-22, average annualised daily volatility was 5.5 per cent, close to the 6 per cent annualised daily volatility of the DXY index (which tracks the US dollar against a basket of six major currencies). During this period, net investment capital flows into India averaged 1.7 per cent of GDP.

In contrast, between FY2022-23 and FY2024-25, annualised USD/INR volatility dropped to 3.3 per cent, even as DXY volatility rose to 7.4 per cent. USD/INR became significantly less volatile than other major currency pairs. Media reports attributed this to active RBI intervention that prevented INR depreciation, while dousing volatility. Notably, capital flows dropped to 0.6 per cent of GDP during this three-year period, pointing to the possible impact and constraint of the trilemma.

The mechanics of day-to-day market intervention should be left entirely to the RBI. However, opacity around the RBI's medium-term currency policy has downsides for all stakeholders.

Should India always allow flexibility in USD/INR movements? While economic theory may favour letting currency markets adjust to changing fundamentals, there may well be strong arguments for active intervention under certain circumstances, even outside of political economy considerations. As an example, market participants warn of "reflexivity," a phenomenon described by George Soros, where sharp market movements can themselves impact fundamentals adversely, creating a self-reinforcing cycle of instability. This is even more relevant given the integration of offshore non-deliverable forward (NDF) and domestic currency markets.

Currency market stability: We need an informed debate on determining under what conditions (if any), maintaining currency market stability might be deemed essential in the short run. This should be guided by objective criteria, perhaps linked to real effective exchange rate and volatility, echoing the Urjit Patel report's call to "disincentivise time inconsistency, including due to pressures from interest groups." Note that in terms of the 36-country trade weighted real effective exchange rate, the INR is now the weakest it has been in many years.

If controlling currency market volatility is deemed desirable, monetary policy must be that much more nuanced. For example, if the immediate goal is to prevent a sharp INR depreciation, cutting policy rates may prove counterproductive, even if inflation and output gap projections allow for this. Lowering rates would reduce the interest rate differential with other currencies, making INR assets less attractive. This could lower USD/INR forward premia, encouraging importers to hedge, discourage exporters, and make speculation against INR cheaper. In fact, spiralling currency concerns could spur asset sales, and paradoxically, lead to higher bond yields.

Between FY2018-19 and FY2021-22, the USD/INR one-year forward premia averaged 4.3 per cent. Since then, it has declined to average 2.2 per cent. While this might seem justified given the narrowing inflation gap between India and the US, it can also encourage INR weakening.

Towards a nuanced debate: Given the impossible trinity, we need an informed debate on objective conditions under which financial stability and currency market could influence the conduct of monetary policy in the short run. The Urjit Patel report had suggested that well-anchored inflation expectations — now largely achieved — could eventually provide the flexibility to pursue other objectives without compromising price stability. Over the medium run, it would also be necessary to address the external balance by tackling the underlying fundamentals — namely, trade and capital flows.

This might make monetary and currency policy that much more nuanced, reflecting reality. Complexity in international economics cannot be wished or legislated away.

The author is a former whole-time member of Sebi. The views are personal

16 Dec 2025

The label wears Prada

Global deals, strong IP laws can galvanise India's handicraft

The deal between Prada, the 112-year-old Italian luxury fashion house, and makers of Kolhapuri chappals, the leather slip-on footwear that dates back to the 12th century, offers a useful template of upscale collaboration between India's vibrantly creative but resource-poor handicraft sector and powerful global brands with capital and marketing outreach. The deal was reached after Prada was accused of intellectual property (IP) violations for retailing footwear resembling Kohlapuris without acknowledging the design's Indian roots. The problem was magnified by the fact that Kohlapuri footwear received a Geographical Indication (GI) tag in 2019. Now, Prada has said it will make 2,000 pairs of sandals in Maharashtra and Karnataka under a deal signed with two state entities, combining Prada's advanced manufacturing technology with traditional designs and know-how. In addition, some 200 Kohlapuri artisans will be given training in Italy. The limited-edition footwear is set to hit the store in February and will retail at $930 a pair, a steep price even by European standards.

No doubt, the collaborative nature of the deal was driven primarily by Prada's wish to avoid the reputational damage caused by a potentially long-drawn IP controversy. But optics aside, similar deals between handicraft-promotion institutions of states and the Centre, on one side, and global brands, on the other, could galvanise a sector that has been languishing for want of a viable business framework. Millions of artisans in India mostly work in rural and semi-urban sectors. Despite the sheer variety of products spanning the subcontinent — Tanjore brasswork and Bidri work in the south, Warli painting in Maharashtra, Pattachitra or Madhubani paintings in the east, or Kashmiri embroidery in the north — artisans mostly depend on price-conscious domestic retailers, designers, and non-government organisations as marketing outlets. Little of this translates into sustainable livelihoods for artisans. In recent years, global giants such as Hermes, Louis Vuitton, and Gucci have begun collaborating with local artisans to add ethnic chic to their brands. Such tieups are mutually beneficial. They enable big fashion houses to enhance their social credibility since the manufacture of such handicrafts has a low carbon footprint. Artisans gain useful know-how in making properly finished products for more sophisticated markets and apply their ingenuity to newer products. Global brands can also enable local artisans to surmount tariff and non-tariff barriers, which are rising around the world.

As the Prada-Kolhapuri deal demonstrated, IP protection lies at the core of any dynamic collaborative arrangement between domestic artisans and global marketers. Over the past few decades, the government has worked on obtaining GI certification for hundreds of handicrafts, though these represent a fraction of India's artisanal riches. But the protections such certification accords are somewhat nebulous. The problem lies in the fact that GI law in India restricts the misuse of names and labels but does not prevent aesthetics or visual styles from being copied. Prada, thus, could have claimed non-infringement with impunity because it did not use the label "Kohlapuri chappals" on the product that closely resembled the popular Indian footwear. In this context, the legal fraternity has been arguing for a more expansive IP protection framework to prevent the appropriation of aesthetic and cultural values. *L'affaire* Prada offers a good opportunity to do so.

16 Dec 2025

Monetary policy needs good data

The Reserve Bank of India's (RBI) policy rate cut on December 6 took many analysts by surprise. It came just after the government reported that the economy was growing at a staggering rate of 8.2 per cent. According to the standard macroeconomics playbook, when an economy is growing so fast, central banks are expected to tighten monetary policy — meaning they raise rates pre-emptively — to control inflationary pressures and stop the economy from growing too quickly.

This time, however, the situation was different because inflation has been running at less than one per cent. This comfortable price environment gave the RBI the flexibility to lower rates but it does not automatically justify such a move. The core dilemma remains: Why provide further stimulus to an economy that is already booming at an 8 per cent growth rate?

MACRO PULSE

RAJESWARI SENGUPTA

Does this mean the RBI's policy decision was misguided? Not really. Rather, the rate cut becomes perfectly understandable when viewed through the lens of the policymakers' primary dilemma: The need to guide the economy while navigating through a thick statistical fog.

Let us begin by examining the gross domestic product (GDP) data itself. Official figures suggest that growth is soaring, far above last year's estimated growth rate of 6.5 per cent. On the surface, the expansion appears broad-based and robust, with the manufacturing and services sectors each growing at 9 per cent.

The problem, however, is that these numbers are hard to explain. Some commentators have suggested the cuts in goods and services tax (GST) rates boosted consumer spending, thus raising GDP. But this is unlikely: The tax cuts started on September 22, too late in the July-September quarter to significantly affect the data. Could other key indicators help provide a clue? Not really. In fact, they raise further questions.

For example, industrial output grew by only 3 per cent during April-September 2025. This is the slowest growth since the pandemic year of 2020-21. The core sectors of mining, manufacturing, and electricity showed slower growth or even contracted.

Bank credit growth also suggests a weakening economy, with non-food credit — a proxy for credit demand, slowing to 10 per cent in the July-September period from a growth rate of 13 per cent in the previous year.

Perhaps most worrisome, tax collections have decelerated dramatically. During April-September, the central government's gross tax collections grew by only 2.8 per cent, the slowest pace in 15 years. Income, corporation tax, and GST all grew in low single digits.

Finally, it is hard to square strong growth with the weak rupee. The Indian rupee has depreciated by more than 6 per cent against the US dollar this year, making it the worst-performing currency in Asia. While external factors have hurt exports, the current account deficit remains modest at less than 2 per cent of GDP and should, therefore, be easy to fund. But this has not proved possible, thereby putting pressure on the rupee. Capital inflows have remained feeble, and oddly enough, have weakened further after the GDP news was announced. The inability of the fastest-growing country in the world to attract capital seems quite an anomaly.

In short, it is hard to know how the economy is truly performing. What does this mean for policymaking?

For the RBI, it makes its job very difficult. To target inflation effectively, the RBI must set interest rates based on its inflation outlook. But if it cannot reliably assess the real strength of the economy, how can it accurately forecast future inflation?

It is true that all central banks find it hard to forecast inflation because food and fuel prices are volatile. They usually fix this by basing their forecast on core inflation, which leaves out these volatile items. However, the situation becomes harder for the RBI when it cannot even forecast core inflation, because it cannot properly judge the underlying strength of the economy.

In such circumstances, policymakers have to adopt an approach based on managing risks. The RBI likely worried that collapsing inflation was causing real interest rates to rise. This, in turn, could severely harm the economy if demand was actually weak. On the other hand, cutting the nominal interest rate would not threaten the 4 per cent inflation target, even if demand turned out to be strong, simply because inflation is so low right now. Therefore, the RBI cut rates. For the same risk-based reason, the government also reduced GST rates.

Both policy decisions were reasonable, but a large problem remains: They may prove wrong if it turns out that demand is, in fact, quite strong. Meanwhile, the inability to come up with accurate macroeconomic forecasts has already confused financial markets. This confusion has potentially weakened policy credibility, creating further problems.

For all these reasons, it is imperative to resolve the data issues. The good news is that the National Statistical Office will soon release updated GDP and consumer price index (CPI) series. We can only hope that these new numbers will mark a significant improvement. Until they do, monetary policy will remain constrained by this data uncertainty.

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18 Dec 2025

ILLUSTRATION: BINAY SINHA

Time to raise the bar in services exports

Growth in travel, wellness, and financial services is essential to reduce concentration risk

DHARMAKIRTI JOSHI, ADHISH VERMA & BHAVI SHAH

Global services exports grew at an average 6.1 per cent annually from 2014 to reach $8.6 trillion in 2024. In the same period, global goods exports rose at a more sedate 2.9 per cent to $24.5 trillion. The upshot of that acceleration? The proportion of services in total global exports climbed up a good 500 basis points to 27 per cent, spurring job creation, especially in developing economies.

According to a 2022 World Bank blog, services exports created 16 million new jobs across a sample of major developing economies between 2005 and 2018, while those supported by goods exports declined 31 million.The trend is expected to have continued in recent years, given the increasing reliance of modern manufacturing on capital-intensive production and highly skilled labour force.

In this milieu, India's services export trajectory has been phenomenal. For instance, while India accounted for only 1.8 per cent of global goods exports over the past decade and ranked 18th globally (with China ranked first), its share of global services exports rose to 4.2 per cent in 2024, from 3 per cent in 2014. That translates into a services export growth rate of 9.1 per cent versus 6.1 per cent globally, positioning India as the eighth-largest services exporter in the world in 2024, with China being the only developing country ahead of India (more on this later).

Nearly half of our exports are in services, which have been less affected than goods trade by the new United States tariff regime that has kicked in, and that has helped navigate the ensuing turbulence. Services used to account for only around 30 per cent of our total exports a decade ago.

Additionally, the composition of services exports is undergoing a rapid transformation. In recent years, the other business services (OBS) segment has emerged as the biggest exporting sector globally, replacing travel services, which dominated before the pandemic.

OBS comprises three categories — research and development services, professional and management consulting (PMC) services, and technical, trade-related services. In 2024, OBS exports of $2.1 trillion accounted for almost a quarter of total global services exports.

India has been a major beneficiary of this trend. According to the World Trade Organization (WTO), in 2024, India was the second-largest exporter of PMC services, which also include information technology-enabled services (ITes) and business process outsourcing (BPO) under the WTO classification, after the United States.

This coincides with the rapid establishment of global capability centres (GCCs) in India, currently estimated at over 1,700 — or more than half that exist globally. But there is a flip side to this is concentration risk. PMC and computer services account for over 65 per cent of India's services exports. On the other hand, leading services exporters such as the US, United Kingdom, Germany and China offer a far more diverse palette of services. This means that the current tendency towards increased protectionism, if extended to services, could be disruptive for India.

And herein lies the nub — shorn of PMC and computer services, India does not even rank among the global top 10 exporters in any other large services categories such as travel, transport, and financial services. These three account for nearly half of the services exported worldwide.

Our share of the troika? A bare 1-2 per cent. That compares poorly with a roughly 13 per cent slice of PMC services. In addition, while our share in global services exports saw an uptick for most of the last decade, the pie stagnated at 4.2 per cent in 2022, 2023 and 2024.

Also, between 2014 and 2024, India has not been able to move up from the eighth position globally, with Singapore, Ireland, and China successfully and aggressively competing for services exports and raising their spoils faster than India.

To be sure, China is a bigger services exporter than India, but its offerings are different. The country dominates transport services exports (second only to Singapore) and is likely a big exporter of technical, trade-related, and research and development services.

What that means is any efforts at diversification of India's services exports basket will run into stiff competition. In any case, we need a two-pronged, layered strategy premised on inherent strengths: Continue to maintain leadership in PMC, while simultaneously raise competitiveness in global exports of other services. For example, globally, travel services have grown the fastest since the pandemic and remain the second-largest services export segment. But for India, this segment is now a net negative for the balance of payments, unlike earlier.

Ergo, it's time to step up and get the mojo back. India's prowess in medical and wellness tourism is well known. Government initiatives such as the expansion of the e-visa scheme and the development of spiritual tourism circuits should provide further support. Medical and wellness tourism is crucial, as it has greater potential than PMC or computer services to create job opportunities beyond the metros. Other services also appear to be gaining traction. For instance, the maritime push for shipbuilding, ports and waterways could propel transport services exports.

Likewise, Gujarat International Finance Tec-City, or GIFT City, can become a hub for financial services exports. All said, given the global competition and early-mover advantage of other nations, focused efforts are needed for these initiatives to start contributing meaningfully to India's services exports on the global stage.

Yet another flank is vocational professionals. Because of a faster-than-anticipated ageing population, particularly in advanced nations, global demand for plumbers, electricians, welders, machinists, and paramedics/elder care professionals is rising. We must step up to fill the widening skill gap in these services both domestically as well as for external markets. More importantly, these professions are relatively resilient to potential job disruptions from the advent of artificial intelligence.

India's recent free trade agreements focused on reducing restrictions on services exports by allowing easier market access (physical/digital) and professional mobility (permits/visas), recognition of qualifications (mutual recognition agreements for chartered accountants/ nurses/ architects), and higher commitments for the education, IT and finance sectors should add to its competitiveness in high-value services globally, especially in the IT, business and creative fields.

Enhancing services exports across multiple flanks must become a cardinal priority, given their relatively fast pace of growth, demonstrated stability, and India's inherent advantages, even as we continue to step up targeted efforts to boost manufacturing exports in pharmaceuticals, electronics, and defence.

The authors are, respectively, chief economist, senior economist, and economic analyst at Crisil

19 Dec 2025

FDI for growth

Foreign participation in insurance should increase competition

Parliament this week cleared the Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Bill, 2025, raising the foreign direct investment (FDI) limit in insurance companies from 74 per cent to 100 per cent, enabling complete foreign ownership. This marks the culmination of liberalisation, which began in 2000, when the sector was opened up to private players with a 26 per cent FDI cap. The limit was raised to 49 per cent in 2014 and further to 74 per cent in 2021. As of March 2024, 41 insurance companies had FDI and, as of September 2024, the industry had attracted nearly ₹82,847 crore in FDI since the reforms began, underscoring investor interest. The expectation is that higher FDI will attract more global insurers, boost innovation, and strengthen governance standards. Despite hosting around 73 insurers across the life and non-life segments, India's insurance penetration remains low at 3.7 per cent of gross domestic product, which is roughly half the global average.

The Bill has amended three statutes — the Insurance Act, 1938; the Life Insurance Corporation Act, 1956; and the Insurance Regulatory and Development Authority Act, 1999. A key provision of the Bill empowers the Insurance Regulatory and Development Authority of India (Irdai) to issue sector-specific licences, allowing insurers to operate in single or niche lines of business such as cyber, property, or marine insurance. More broadly, the piece of legislation marks a shift from detailed statutory prescriptions to a regulation-driven framework, under which several operational norms will be set by Irdai through regulations rather than Parliament-approved law. This includes commission and remuneration caps for agents and intermediaries, giving the regulator greater flexibility to calibrate these limits in line with market conditions and consumer-protection objectives. The Bill also proposes moving key parameters such as minimum capital requirements, solvency margins, and investment norms from being under statute to bringing them under regulation, significantly expanding Irdai's supervisory role. The next set of reforms in the sector could possibly look at composite licences permitting both life and non-life insurance under a single entity as is the case in many jurisdictions, including in the developed world.

Even as the sector opens up to greater competition and foreign investment, long-standing challenges continue to constrain its reach and credibility. Insurance coverage remains uneven, particularly in the rural and informal segments, where gaps in awareness, affordability, and distribution persist. Delays in claim settlement and disputes over payouts have further weakened public trust, discouraging a wider take-up. To address these issues, Irdai has rolled out reforms such as the Bima Sugam digital platform, which aims to create an integrated marketplace for buying, servicing, and settling insurance policies. Common KYC (know your customer) norms and streamlined grievance-redress mechanisms are intended to reduce friction, improve transparency, and make insurance more accessible. Ultimately, the success of insurance reforms depends not just on ownership liberalisation but on how well regulatory flexibility, consumer protection, and last-mile delivery are balanced to translate reform into real financial security for households and businesses alike.

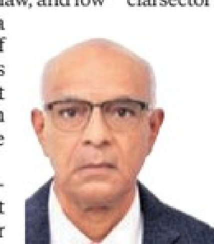
19 Dec 2025

ILLUSTRATION: BINAY SINHA

2025: A regulatory retrospective

Most public policy failures of 2025 are linked to poor 'regulation'. Reforming the regulatory state should be the big agenda for 2026

What happened in the Indian economy in 2025? A series of problems that surfaced — from civil aviation to public health — were linked to regulation. The Indian state has developed a potent regulatory arm, with interventions all across the economy carried out by "statutory regulatory authorities" (SRAs). But SRAs have inherited the sources of Indian state failure: Too much central planning, too little rule of law, and low state capability. This has turned into a major bottleneck for the possibility of exuberant private investment. What is required is not tinkering with the output of SRAs — one specific state intervention at a time — but changes in how SRAs are designed and how they work.



AARTHIKAM CHINTANAM
K P KRISHNAN

Consider the problems of IndiGo earlier this month. Crew mismanagement and the inability of the dominant carrier to comply with new Flight Duty Time Limitation (FDTL) norms were ultimately rooted in the weakness of the Directorate General of Civil Aviation (DGCA). When the foundations of a state organisation are weak, the response in a crisis is just an organisational rout.

In the same sector, only a few months prior, we were jolted by the tragic plane crash in Ahmedabad. That catastrophe, which prompted this column to discuss the structural flaws of the DGCA, highlighted the inadequacy of India's air safety oversight. Whether it is the ultimate failure of safety or the operational failure of commercial scheduling, the underlying vulnerability is the same: A regulator compromised by its administrative status and lack of autonomy and in-house capacity.

Moving beyond aviation, the country was shaken earlier this year by the renewed spectre of cough syrup-related deaths, which once again drew adverse attention to the Central Drugs Standard Control Organisation (CDSCO) and state drug regulators. In finance, we have seen difficulties of non-banking financial companies (NBFCs), governance failures in cooperative banks, and the big gap between the financial sector that growth in India requires, vs the stunted financial sector that has emerged out of the central planning system. The digital world is bedevilled by an array of problems such as data breaches, digital fraud, market power, and quality of service.

Through all these is a common thread. India has developed tentacles of a deeply interventionist regulatory state, without commensurate knowledge of how to make regulation work. Small tinkering at the output stage of these organisations will not help. Tens of tinkerers at the output stage are no match for thousands of public servants in SRAs guarding their turf and producing new outputs every day. What is required is foundational change.

From the foundations of public economics, regulation is the tool to be rolled out for two kinds of market failure:

1. Information Asymmetry: Consumers cannot possibly ascertain the safety of an aircraft's maintenance, the purity of a medicine, or the solvency of a cooperative bank. They rely entirely on the regulator to ensure minimum standards.

2. Negative Externalities: The cost of failure — a plane crash, mass poisoning, or a systemic financial collapse — is borne not just by the direct participants, but by society at large. This calls for ex-ante preventive action by the state.

Regulation attempts to modify behaviour, enforce compliance, and impose penalties without fear or favour, to force firms and other economic agents to behave in ways that diminish these two kinds of market failure. To do this, SRAs require five features:

1. Empowerment: They must possess the legislative mandate, powers, and resources (financial and human) to write quality regulations, conduct sophisticated supervision, investigation, and enforcement.

2. Arm's-length status: They must operate at arm's length from the executive government. When a regulator is an administrative office under a ministry (as the DGCA currently is), its budget, personnel, and decision-making authority tend to be inferior.

3. Focus on consumer protection: Their primary mandate must be clearly defined in terms of consumer and public welfare outcomes, not industry promotion.

4. Accountability: They must be accountable to the legislature for their outcomes, ensuring they act independently but not arbitrarily.

5. Checks and balances & rule of law: The primary legislation that creates the SRA must deliver surgically limited power to the SRA, demand high-quality processes, and put the board (dominated by independent directors) in control of the top management, defining objectives and holding the managers accountable.

India now has nearly two dozen SRAs at the Union level, spanning finance, energy, telecom, and competition. However, these institutions are spread across a wide spectrum on the characteristics mentioned above. By and large, the full set of these features are missing for most SRAs. Hence, their performance is sub-optimal. Departments of government are frequently unsatisfied with the capabilities of regulators, and engage in backseat driving, which creates a spiral of low performance. Most employees of regulators and of departments that house SRAs are mired in practical detail and lack a strategic sense of how performance can be improved. Hence the immediate solution agenda, as seen by such personnel, is generally not a path to progress.

Advanced economies have walked this journey. They have achieved state capability in departments of government and in SRAs (which also requires the correct protocols for engagement between the two). So we know that this can be done. But their recipes cannot be readily transplanted into India owing to differences in invisible infrastructure. What is needed is a deeply authentic regulatory reforms community in India, which combines the full theoretical knowledge with the gritty Indian reality. New knowledge and action are required at all levels of the government to learn how to make SRAs work. This will require debate and research, multiple experiments to change how SRAs function, and feedback loops and careful examination of empirical evidence to learn what works.

Over the years, we have spread the tentacles of state intervention and hobbled private-sector growth through SRAs. In response, the private sector has become more wary of investing in India. The priority now is to learn to make the Indian regulatory state work.

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19 Dec 2025

Passengers must pay

Rail freight revenue can increase, but so must fares

The Parliamentary Standing Committee on Railways has produced a report titled "Increasing freight-related earnings of Indian Railways and development of Dedicated Freight Corridors", which was presented to Parliament on Tuesday. The report makes some important suggestions on diversifying the railways' freight income, for example, that it move beyond its traditional reliance on transporting coal and iron ore to more modern cargoes such as those relevant to India's fast-expanding ecommerce sector. It also argues for creating freight corridors, some of which it says should be privately financed. It has also made some consideration of the income that the railways receives from freight, which is vitally important for its operations. Freight provides between 65 and 70 per cent of the organisation's income every year. For example, in 2023-24, it received about ₹1.7 trillion from freight out of a total income of ₹2.6 trillion. The current management has focused on increasing this revenue stream through rationalised tariffs, increasing its rolling stock, and the creation of terminals under the Gati Shakti infrastructure programme.

The additional loading that has supported this increase in freight is partly due to the stability in tariffs that the railways has provided. This has, however, attracted the attention of the committee, which has pointed out that the last major revision of rates had taken place in 2018. The parliamentarians argue that the organisation should conduct an annual assessment of rates to ensure that they (the rates) remain competitive in relation to those of highways as well as other modes of transport. Certainly, the railways' share in freight transport is a problem that needs addressing. At the beginning of liberalisation, in 1991, its share was about 60 per cent, but it hovered at 27-29 per cent in recent years. The government has planned to increase this to 45 per cent by 2030-31, including as part of its commitment to climate change.

But looking only at freight rates would solve just one part of the problem. The cross-subsidisation of passenger travel by freight is the fundamental structural problem in Indian Railways, and one that the committee has touched on only gingerly. It has argued that revenues in the air-conditioned classes of travel should be "reviewed" to "align them with costs incurred". But it has also suggested that general-class travel remain untouched, and that the target should not be competitiveness but the "affordability" of tickets, even at the price of reviewing operating expenses for passenger trains. This is the wrong direction of travel. There is a real demand for accessible, comfortable, and safe railway travel — even if that means that general-class passenger fares are increased somewhat to bring them in line with upgraded facilities. On average, according to previous auditor reports, passenger tickets are subsidised by 45 per cent. This is the basic problem that has to be addressed. The railways is running out of time. The Eighth Pay Commission might increase the wage and pension bill for the organisation from 2026 significantly. How long can freight pay for both passengers and pensions, and also keep the railways competitive? Revenue will have to be raised from passengers, or the railways will continue to face problems.

19 Dec 2025

India's changing FDI story

In the last couple of months, we have seen large foreign direct investment (FDI) commitments into India by United States (US) technology giants in the artificial intelligence (AI) infrastructure domain. This has brought to the fore India's attractiveness as an FDI destination, especially for new-age sectors. In recent years, India has witnessed healthy gross FDI inflows across manufacturing and services. However, this has been accompanied by a sharp increase in the repatriation of profits and FDI outflows from India, resulting in a narrowing of net FDI flows.

Over the last five years, India's annual gross FDI inflows hovered between $70 and $85 billion, recording a compound annual growth rate of only around 2 per cent. However, the momentum has picked up, with gross FDI inflows surging by 18 per cent in FY25 and by 16 per cent in H1 FY26. Large domestic market, abundant skilled workforce, and steady economic growth have positioned India as an attractive investment destination among emerging markets. India has witnessed strong FDI in sectors such as semiconductors, electronics and electrical equipment, electric vehicle (EV) components, basic metals, and digital industries such as Cloud services and data centres.

RAJANI SINHA & SARBARTHO MUKHERJEE

Worldwide, cross-border FDI has been shrinking amid rising geopolitical tensions and growing concerns over supply-chain resilience. The ratio of global FDI flows to global GDP has dropped to 1.5 per cent post-pandemic (2020-2024) from an average of 2.7 per cent between 2010 and 2019. Moreover, over the past decade, the composition of global FDI is shifting, with Europe's share in outbound FDI declining and the US share remaining stagnant. However, there has been a sharp increase in China's share in FDI outflows. The decline in the share of Western economies in global FDI flows has weighed on India, as these nations have traditionally been key sources of investment inflows into the country. In terms of inbound FDI, countries such as Vietnam and Mexico, along with resource-rich nations in Africa, have experienced significant growth.

While India has been facing tough competition from some smaller economies in attracting FDI, our assessment shows that the average risk-adjusted return on FDI investment in India remains quite attractive. We have estimated returns on inward FDI as the ratio of FDI equity income receipts to the total inward FDI stock, with a time lag (inspired by OECD and Eurostat methodologies). The risk-adjusted return has been calculated as the ratio of the 10-year average return to its standard deviation. Our assessment indicates that the average risk-adjusted return on FDI investment in India over the past 10 years is around 7.3 per cent, ranking second only to Indonesia (10.6 per cent). The risk-adjusted returns for other emerging economies are 6.6 per cent for Mexico, 4.5 per cent for South Africa, and 4.3 per cent for the Philippines, according to our assessment.

Interestingly, while gross inflows to India have increased, there has been a sharp increase in profit repatriation and FDI outflows over the past two years, thereby weighing on the net FDI inflows. Net FDI flows (gross inflows - repatriation of profit - FDI outflows from India) have fallen from $44 billion in FY20 to $1 billion in FY25, and despite some improvement, the weakness has continued in FY26. Repatriation is not inherently negative as decisions to reinvest or remit profits reflect multinational firms' global strategies and capital allocation priorities.

Similarly, rising outward FDI is a sign of Indian companies expanding access to new markets and technologies. Outward FDI investments have risen to an annual average of $20 billion in the last three years from an average of $8 billion in the pre-pandemic years (FY15-19).

According to the United Nations Conference on Trade and Development, there was a 20 per cent rise in greenfield project announcements by Indian investors in 2024. Indian companies are expanding their global footprint, especially in Europe, South America and Africa, investing across diverse industries such as telecommunications, automotive, mining, energy, defence, pharmaceuticals, ports and steel.

In a nutshell, the FDI narrative for India in recent years is that, even as capital is entering through gross FDI inflows, a significant portion is also exiting — either as repatriated profits or outbound investment —resulting in a narrowing of net FDI inflows. While inflows signal confidence in the opportunity provided by India, outflows reflect profit-taking and growing outward expansion by Indian firms. The steady expansion of Indian firms abroad underscores the evolution of India's global economic footprint, and this trend is likely to continue and gather further steam in the coming years.

Looking ahead, India needs to continue focusing on attracting stable and diversified FDI inflows. India's attractiveness as an FDI destination will be strengthened by continued reforms to its financial and regulatory frameworks and by a focus on improving infrastructure and reducing logistics costs.

Recent factor-market reforms — such as the introduction of the new and simplified labour Code — also represent a step in the right direction. Strengthening global economic linkages, broadening investment partnerships, and enhancing overall ease of doing business will be critical.

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The views are personal

22 Dec 2025

Ease of investing

Sebi's intervention will bring transparency

The Securities and Exchange Board of India (Sebi) at its board meeting last week set easier guidelines for mutual-fund investment and companies aiming for an initial public offering (IPO). Compliance on raising listed debt has also been eased with a change of thresholds for high-value debt listed entities (HVDLE), where stricter norms will now kick in at an outstanding debt worth ₹5,000 crore, instead of ₹1,000 crore. Mutual-fund investing may become cheaper and more transparent as new Mutual Fund Regulations replace the Mutual Fund Regulations, 1996. One key change is the treatment of the expense ratio with a new concept, the base expense ratio (BER), replacing the earlier total expense ratio. Costs like securities transaction tax, goods and services tax, stamp duty, and exchange fees will not be included in the BER, which will consist only of core fees charged by the fund.

Other pass-through costs, such as those mentioned above, will be mentioned separately. Hence, the cost structure becomes more transparent, with the BER, brokerage, regulatory levies, and statutory levies shown separately. Sebi has also lowered the limits on the (BER) across categories, which will reduce costs slightly for investors. The new stockbroker regulations, Sebi (Stock Brokers) Regulations, 2025, have been introduced, replacing the Stock Brokers Regulations, 1992. These are organised into 11 simplified chapters, with a focus on easing compliance. The new framework was introduced to meet the needs of digital trading. It establishes a formal definition of algorithmic trading, clearer norms for proprietary trading, and a regulatory framework for execution-only platforms, which facilitate direct transactions in mutual funds. Changes in the reporting system mean that the bourses will now act as first-line regulators for stockbrokers. New brokerage limits apply to brokerage fees, reducing them from 8.59 basis points (bps) to 6 bps in the spot market and from 3.89 bps to 2 bps in derivatives.

Easier IPO guidelines — with amendments to the Issue of Capital and Disclosure Requirements norms — mean that shares held by non-promoter individuals will be locked in for six months before the IPO. The higher threshold for HVDLE will make life easier for issuances in the bond market. Credit-rating agencies will also be allowed to rate instruments that fall under the umbrella of other regulators, such as the Reserve Bank of India. This expands the scope of ratings for unlisted debt instruments. A clear distinction will be mandatory in rating reports and the marketing of products regulated by Sebi versus those under other regulators.

Share transfer and related processes have been made faster and simpler with much less paperwork for investors. For example, investors are no longer required to get hold of a separate confirmation letter from the company for a host of equity-related activities, and shares will be credited directly to the investor's demat account once verification is done. Shares held physically will also be easier to transfer now under a one-time window. Investors will be able to transfer the shares to their own name in digital form using the window. This will be a limited-period opportunity and will only apply to shares purchased before April 1, 2019. Overall, these changes will bring greater transparency to the market, reduce friction for investors, and ease compliance for stakeholders.

22 Dec 2025

Western approaches

PM's three-nation tour created useful momentum

Prime Minister Narendra Modi's tour to Jordan, Ethiopia, and Oman represented small but significant steps to reinforce India's historically cordial trade and security relations with West Asia and Africa at a time of grave America-led geopolitical uncertainty both in the region and in global trade. The import of these visits lies as much in its external messaging — underlined by the unexpected gestures of the Ethiopian Prime Minister and Jordanian crown prince in personally chauffeuring Mr Modi — as the deals that were concluded. Of these, the free-trade agreement (FTA) signed between Oman and India, celebrating 70 years of diplomatic ties, marked an important step forward.

The Comprehensive Economic Partnership Agreement (Cepa) is the second FTA signed between India and a West Asian nation — the first being with the United Arab Emirates (UAE) in 2022. This one, however, goes beyond the UAE FTA by allowing India near universal duty-free access to the Omani market (98.08 per cent of tariff lines), with immediate tariff elimination for 97.96 per cent. India, meanwhile, has reciprocated by liberalising nearly 95 per cent of India's imports from Oman by value. Though Oman is by no means one of India's largest trade partners in the region — at $10 billion, it looks small before the $100 billion with the UAE and the $42 billion with Saudi Arabia — it signals major potential for economic engagement and expansion. A provision for 100 per cent foreign direct investment (FDI) by Indian companies in major services sectors offers opportunities for building on India's traditional strengths in services in West Asia and Africa as does a liberalised mobility framework for Indian professionals. The fact that Muscat has agreed to lift its ban on the export of rough marble blocks to India, enabling the country to gradually replace its dependence on Turkiye, must also be seen as a key geostrategic gain. India's relations with Turkiye have soured following Ankara's support to Pakistan and its criticism of the Indian policy on Jammu & Kashmir.

In Jordan, which marked the first leg of the trip and the Prime Minister's first full bilateral visit, a raft of cooperation agreements cemented a long-standing friendship rooted in mutual economic interests. India is Jordan's third-largest trade partner, and has long played an important role as a fertiliser supplier to India. In Ethiopia, mutually reinforcing bilateralism sought to enhance investment opportunities in this strategic country on the horn of Africa. Some 675 Indian companies are registered in Ethiopia and have invested $6.5 billion, mainly in textiles and pharmaceuticals. But as with the rest of Africa, India is a minnow compared to China. Though India is the third-largest source of FDI in Ethiopia, China and Turkiye have far more extensive trade, security, and military agreements with Addis Ababa, highlighting India's need to deepen the scope and tenor of its cooperation. Doing so is becoming critical to Mr Modi's ambitions for India to gain leadership of the Global South. India had played a role in Ethiopia's membership of the BRICS grouping in January last year. Addis Ababa is also headquarters to the African Union (AU), with which discussions are on for an early scheduling of the India-Africa Forum summit, which has been in limbo for a decade. In both style and substance the three-nation tour marks a constructive continuum of India's traditional ties with the region. The real test is how far New Delhi can capitalise on this momentum.

22 Dec 2025

Shrimp exports can beat the tariff challenge

FARM VIEW

SURINDER SUD

India's export-oriented shrimp industry seems set to convert the challenge from the punitive tariffs imposed by the United States (US), the largest importer, into an opportunity. This is by diversifying its export destinations and increasing shipment to non-US markets. Appreciable headway has, in fact, already been made in this direction. Exporters anticipate that the losses suffered due to a sharp decline in supplies to the US, as a result of the cancellation of orders after the tariff increase in August, are likely to be recompensed to a large extent by higher exports to countries like China, Vietnam, Belgium, Russia, Canada, and the United Kingdom (UK). Besides, the supplies of shrimp (also called prawns) to traditional markets, such as the European Union, Japan, and West Asia, are expected to hold steady.

According to industry sources, exports this financial year to non-US markets witnessed around a 30 per cent surge in value. This has helped India maintain its flagship position in the international shrimp bazaar. Export prospects remain upbeat, thanks to firm global demand, the competitiveness of Indian prawns in terms of both quality and pricing, and strong government backing. The continuous upgrade of indigenous technology for shrimp farming has also played a significant role in sustaining India's predominance in the global shrimp sector.

India has, for long, been the world's leading producer and exporter of shrimps, accounting for nearly one-sixth of global output and over one-fifth of international trade. However, Ecuador has caught up with it in recent years, and is now giving it a tough competition in export. But experts on fisheries are confident that India would manage to regain top position, notwithstanding stagnation in marine catches, because of robust growth in shrimp aquaculture and greater emphasis on the value-addition of export-bound products. Shrimps now comprise close to 70 per cent of the country's export in seafood.

Though commercial-scale shrimp farming began in India in the late 1980s, when demand for this premium fish species began to look up in the international market, it got a fillip in 2009 because of two factors. First, domestic production in major shrimp-producing and -consuming countries then — like China, Thailand, and Vietnam — sharply plummeted due to the outbreak of the early mortality syndrome disease in their black tiger shrimp farms. And second, the Indian government allowed the introduction of a "new" variety of shrimps called Vannamei (whiteleg tiger shrimp), which enjoyed several advantages over the traditionally cultivated blackleg tiger shrimp. The most significant among these included relatively high immunity against diseases and a lower feed requirement, which meant substantially lower production costs and larger profits. Vannamei also fetched premium prices in the export market. Unsurprisingly, therefore, Vannamei farming spread rapidly, and this became the main cultivated species across the shrimp-producing regions in just a decade. It now accounts for nearly two-thirds of the country's shrimp output, and the bulk of the shrimp exports.

The technological support provided to shrimp farmers, processors, and exporters by fisheries research centres has played a significant role in bringing about the shrimp revolution. The conventional methods of shrimp farming have been replaced by novel, high-tech, cost-effective, and sustainable shrimp-growing systems. These new techniques facilitated a higher yield of marketable produce from less space, and with a lower cost, to enhance the net profitability of shrimp cultivation.

The innovative "super-intensive precision shrimp farming system", evolved by the Chennai-based Central Institute of Brackishwater Aquaculture, can be a case in point. It involves culturing prawns in circular tanks lined with polythene sheets, using digital tools like larval feeding and waste management based on internet of things and artificial intelligence (AI). It has the potential to yield as much as 100 to 120 tonnes of shrimp per hectare of water. It also uses AI to monitor and control diseases, thereby minimising the risk of drug residues in prawns, and boosting their export worthiness. Notably, the shrimps produced with this technique have been found to have a relatively good texture, colour, and taste. Besides, this method allows farmers to plan their production in accordance with the projected demand in local and export markets.

The Centre and the governments of coastal states have launched schemes to promote scientific shrimp farming. Liberal financial and other kinds of incentives are being offered to shrimp farmers for adopting advanced technology under the Centre's umbrella fisheries development programme called the Pradhan Mantri Matsya Sampada Yojana. Besides, government agencies like the Marine Products Export Development Authority and the Coastal Aquaculture Authority are helping in prospecting, and gainfully tapping, new export markets, and looking after regulatory matters. However, the bigger issues concerning trade barriers, such as the US tariffs, arbitrarily fixed quality standards, and consignment rejections on frivolous grounds by importers like the European Union, need to be addressed by the government to let the shrimp sector withstand escalating rivalries in international trade.

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23 Dec 2025

More ambition needed

New FTAs welcome, but bigger targets lie ahead

India and New Zealand on Monday announced that they had concluded discussions successfully on a free-trade agreement (FTA). Shortly before that, it was revealed that a Comprehensive Economic Partnership Agreement, or Cepa, had been signed with the state of Oman, West Asia. While neither of these two economies is large or of significant global scale, these agreements are an opportune moment to consider India's fresh approach to such pacts in recent years. An initial distrust of FTAs, particularly those signed by the previous dispensation, has now been partly rescinded. India has not gone so far, however, as to begin meaningful negotiations with any of its peer economies. There is still a belief that other developing countries might be able to outcompete India and thus there is more benefit to be had in economic integration with richer nations. In an age in which competitiveness depends on the ability to be part of flexible and disaggregated global supply chains, this is not entirely true. However, any attempt to open up new markets and deepen global integration will be a net positive for the Indian economy, and thus these new agreements are welcome, as is the broader shift in policy that they represent.

Both build on existing, if recent, precedent. A Cepa was signed with the United Arab Emirates shortly after New Delhi began to take a relook at the possibilities of such pacts. And the agreement with New Zealand follows a similar deal with another agricultural powerhouse, Australia. An FTA has also been agreed upon with the United Kingdom (UK), which means that India now has formal trade pacts with three of the five Anglosphere economies. Union Commerce Minister Piyush Goyal has said that discussions with Canada will now resume — which is significant, given the downturn in ties between the two nations, which had held up such talks in recent years. Mr Goyal has also indicated that talks with the United States (US) are at "an advanced stage". That agreement, of course, will be harder to obtain.

These piece-by-piece deals with smaller countries are a useful indicator of a new attitude in New Delhi, but it is deals with larger economies, like the US, or with plurilateral groupings, such as the Regional Comprehensive Economic Partnership (RCEP) or the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), that have a far greater impact and must be a priority. Deadlines for concluding talks with the European Union (EU) and the US have already been missed. They must be finished, however, latest by the end of the first half of calendar 2026 before the new age of tariffs begin to really bite and take a chunk out of the growth momentum that the Indian economy is displaying. For the EU, a possible visit by the senior leadership in the first months of next year serves as an informal deadline. As for the US, the longer it takes to finalise a deal, the more exporters lose valuable contracts that they will not be able to replicate elsewhere. Finally, it is past time to take a relook at larger blocs. Even if the RCEP, which includes China, is considered geopolitically too sensitive an idea at this point of time, the CPTPP — which includes several countries with which India now has FTAs, including New Zealand, Australia, Japan, and the UK — remains a possibility. New Delhi's direction of travel on trade agreements is welcome, but it must show more ambition.

23 Dec 2025

Can India learn from China?

China's rapid development since 1978 shows why govt support should be strongly directed at new starters and R&D

ILLUSTRATION: BINAY SINHA

In 1978, a new development approach was introduced by Deng Xiaoping in China. A centrally planned, public-sector oriented and inward-looking economy was transformed to one that relied on attracting foreign corporate investors, promoting local private corporations, and rapid export growth. In India, the major policy shift came later in 1991 with delicensing, major financial sector reforms, and enhanced links with the global economy.

The difference between the two economies has widened since these basic policy shifts. Until 1978, China's per capita gross domestic product (GDP) was below India's. Thereafter, it rose rapidly and had reached twice India's per capita GDP by 1992. This widening of the per capita GDP ratio continued even after India's liberalisation started in 1991 and tripled by 2000, quadrupled by 2007, was fivefold by 2012, and about five-and-a-half times in 2024. It is widely believed that China's growth forging ahead of India's growth is largely because of the exceptionally rapid expansion of the manufacturing sector, with its share in global manufacturing shooting up to 28-30 per cent in 2023, while India's share was just 3 per cent.

NITIN DESAI

The first and perhaps the most important point worth noting is the rapid development of the private sector in China after 1978, when there were virtually no significant private sector enterprises in China. The growth of the private sector in China in the post-1978 reform era came from new entrants. They were often individuals with technological skills who focused on rapid growth. In fact, it has been argued that the rapid emergence of private enterprises was not envisioned or promoted by the central government initially and much of the early governmental funding went to public-sector enterprises. The private sector development at the start of the liberalisation reform was led by new enterprises that were set up with support from local governments. Most of the private sector firms that are now large players, not just in China but also globally, were established after 1995.

In India, despite the focus on the public sector as the driver during the pre-liberalisation era, there were a significant number of private sector enterprises and conglomerates. Even after liberalisation, the inherited presence of an established private corporate sector, particularly the large conglomerates, constrained the emergence of newcomers in manufacturing. Where newcomers did emerge and grow large was primarily in the services sector, particularly in the skill-intensive information technology sector. Perhaps this accounts for the fact that India's exports of services are comparable in quantity with China's, while its manufacturing exports are just one-tenth of China's.

This suggests that, for increasing our growth rate, one lesson from China's growth boom and from our infotech boom is that the government's financial and policy support should be strongly directed at new starters, move away from support for established conglomerates and rely on competition from newcomers to stimulate them. A closely related issue is government spending to support private manufacturing development. The Make in India scheme has several programmes, the main ones being the production-linked incentive (PLI) scheme, and a scheme for the promotion of electronic components and semiconductors, which between them have a budget of about $36 billion.

Compare this with government spending in the Make in China scheme, which involved substantial funding amounting to about $330 billion to support manufacturing enterprises. This near ten-fold difference in public spending on promoting new manufacturing is one of the reasons behind the difference in performance of the two initiatives. Hence, another lesson from the Chinese experience is that more carefully planned and more substantial financial support should be directed mainly at new starters.

A third lesson from China is the substantial role played by local authorities. In China, local political elites played a major role in promoting and protecting the new entrepreneurs who emerged, providing welcome options for employment and local financial development, even when it was not a formal part of the central government's policy. This continued at the level of provincial government when private sector development was an accepted part of official strategy. One particular point of interest is the role played by city governments in promoting industry in China, for instance, recently in the development of electric vehicle companies.

In India, control over financing and formal support for private enterprises rests largely with the central government, although state governments exercise some influence through their direct involvement in land acquisition and the provision of local infrastructure support required by companies. But the substantial role of the Union government in choosing and providing support to specific private projects gives an advantage to large conglomerates and national-level corporate entities relative to local enterprises, particularly the small and medium starters. Learning from the Chinese experience, India should shift the responsibility for supporting projects to states. Perhaps even more important is to strengthen and empower our municipalities to play a much more active role in promoting local entrepreneurship.

Another area where the difference between China and India is substantial is the promotion of research and development (R&D) by the government. R&D spending as a percentage of GDP was more or less comparable between the two countries until 1999. It was 0.75 per cent in China and 0.72 per cent in India. China's industrial strategy evolved to focus on emerging technologies such as solar and wind power, chip manufacturing, robotics, and later AI and electric vehicles. This was accompanied by a substantial rise in R&D, which reached 2.4 per cent of GDP by 2020. In contrast, India's R&D as a percentage of GDP declined from 0.85 per cent in 2008 to 0.64 per cent in 2020. In absolute terms, the difference in R&D investment is roughly 20:1.

China also strengthened the link between research institutions, producing enterprises, and universities, 8-10 of which have risen to the global top-100 universities list. This has not happened in India. Perhaps the most important lesson from China for India — raise R&D spending substantially and improve the link between research institutions, producing enterprises, and IITs and other universities. This should be the strategy to guide the recent initiatives by the government, such as the Anusandhan National Research Foundation and the RDI scheme. One thing worth adding here is the importance of a sharper focus on improving the quality of school and college education.

There are some aspects of China's strategy that India cannot and should not emulate. India is a democracy, and its governments cannot be as authoritarian as the Chinese government. As a democratic federation, the Union government cannot favour a few selected regions or control the regional migration of workers as the Chinese government did. But the Union government can and should focus more on supporting new starters, reducing bureaucratic red tape to speed up decision-making, encouraging more effective action by states and municipalities for industry promotion, substantially accelerating R&D initiatives by public institutions, and pressurising private enterprises, particularly large conglomerates, to do the same.

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29 Dec 2025

Fare deal

Rail passenger-fare increase is an important first step

The second tranche of increase in railway passenger fares this financial year, effective from December 26, signals the Indian Railways' intention to improve operational efficiency. The move saw key railway-linked stocks jump as much as 10 per cent as a result of expectations of better revenue visibility. It is unclear, however, whether the current increases will make a meaningful difference or address the deep-seated structural imbalances in railway finances.

The Railways has described the move as "modest" and calibrated to impose a minimal burden on travellers. To this end, suburban and monthly season tickets and fares for ordinary class up to 215 km have been kept unchanged. Fares for air-conditioned classes and non-air-conditioned classes on mail and express trains will go up by 2 paise a km. Fares for non-air-conditioned travel on ordinary trains will increase by 1 paisa a km for journeys of more than 215 km. The Railways expects to earn ₹600 crore more from this latest round of increases for FY26 in addition to the ₹1,500 crore from the earlier round. This additional revenue, though much needed, is unlikely to alter the basic structure of the railways' earnings, over 60 per cent of which derive from freight services, or make a significant difference to the operating ratio (the ratio of operating expenses to traffic earnings), which hovers at 98 per cent. Before the fare increases, under recoveries on passenger fares — which were largely seen as fulfilling the Railways' social obligations — amounted to more than 40 per cent of the ticket cost. This deficit is bridged by freight rates, which derive from the Railways' near monopoly on the bulk transport. The irony is that this cross-subsidy is dependent on a steadily dwindling market share vis-à-vis the private network of road transport.

Today, the Railways has a 27 per cent share of the freight market, a predicament that largely has to do with inefficiencies such as relative speed and limitations of last-mile connectivity. It aims to increase its share to 45 per cent by FY31. The problem is that this target is predicated on two infirmities. First, coal accounts for more than half the freight revenue — up from 45 per cent in 2015-16. This increasing reliance on coal is now being viewed as a medium-term risk because climate change-related decarbonisation targets are gathering traction. The focus on commodities rather than other high-value goods such as finished metals, chemicals, agricultural products, and so on also constrained freight earnings. Two nearly completed dedicated freight corridors — from Punjab to Bihar and Navi Mumbai to Noida — which aim to address problems of congestion on high-demand routes are yet to yield a noticeable increase in the Railways' freight share.

Reliance on a stressed freight sector for revenue has left the Railways in a precarious situation because of its rigid cost structure. More than 40 per cent of revenue expenditure goes to pay staff salaries and pensions — a figure that could swell after the 8th Pay Commission recommendations. Taken with rising debt-service obligations and fuel costs, the Railways' revenue expenditure accounts for about 99 per cent of its internal revenue receipts, leaving almost nothing for capital expenditure. This keeps the railways heavily dependent on budgetary support for expenditure on expansion, modernisation and safety infrastructure, and increasing borrowing, both untenable in the long run. To metamorphose itself into a genuinely world-class utility, the railways will have to rethink its current model of balancing social obligations with its commercial accountability.

29 Dec 2025

A year of economic earthquakes

The long-term effects of the tectonic shifts visible in 2025 are hard to parse

ILLUSTRATION: AJAYA KUMAR MOHANTY

Major shifts in economic policy or in an economy's dominant technology have long-lasting and sometimes unpredictable effects on internal political dynamics, wealth distribution, and inequality. The age of easy money, for example, led to asset prices ballooning and entrenched wealth disparities, creating a politics of populism and political divides between generations and educational strata. Freer trade led to geographical disparities developing in industrial nations and to the reduction of the social and political power enjoyed by traditional landowning castes and classes in countries like India — again, with major consequences for political trends decades after the economic shift in question began.

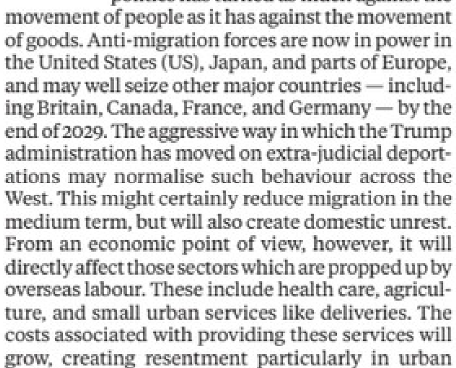
POLICY RULES

MIHIR S SHARMA

The year 2025 has been tectonic in multiple ways. Two major shifts in policy have taken place globally, alongside one major development in the technological substrate. The world's trading architecture is being remade; politics has turned against the migration of people; and investment in artificial intelligence has become the driver of global growth. Each of these will have important — but sometimes clashing — consequences.

The re-election of Donald Trump to the White House has brought us to a more transactional, less connected moment in our global economic architecture. The rise of China had already led to some constraints on trade flows — in India, the European Union, and elsewhere — to protect crucial infrastructure like telecom and power, or to retain strategically important manufacturing sectors like automobiles. But Mr Trump has ensured that trade skirmishes stop being bilateral and local, and instead become a global conflict. It is now a world war, with unexpected adversaries arising every month. Last December, it would have been hard to predict that within a year Mexico would be imposing 50 per cent tariffs on Indian cars.

The shift away from efficiency to security as the core principle for the design of trade will have major implications. Prices will have a tendency to rise. Given that central banks will nevertheless target moderate levels of inflation, this means that specific tradeable goods will become relatively expensive. That is equivalent to saying that other tradeables and non-tradeables will become relatively cheap, and those who produce them will find their purchasing power reduced. This might include the providers, for example, of low-level entrepreneurial services — barbers in the West, pakoda-makers in India. Over time, this immiserisation will cause the growth of political factions that demand access to cheaper goods — or, more likely, demand specific sector-focused welfare. Trade barriers certainly create jobs, but each job created will be prohibitively expensive when seen in terms of income and welfare foregone for other citizens. Over time, that creates its own discontent. In addition, if the jobs created by trade barriers are concentrated in certain areas, that will intensify political resentment between geographies.



In many countries of the West, politics has turned as much against the movement of people as it has against the movement of goods. Anti-migration forces are now in power in the United States (US), Japan, and parts of Europe, and may well seize other major countries — including Britain, Canada, France, and Germany — by the end of 2029. The aggressive way in which the Trump administration has moved on extra-judicial deportations may normalise such behaviour across the West. This might certainly reduce migration in the medium term, but will also create domestic unrest. From an economic point of view, however, it will directly affect those sectors which are propped up by overseas labour. These include health care, agriculture, and small urban services like deliveries. The costs associated with providing these services will grow, creating resentment particularly in urban areas. While in Europe, the focus has been on reducing lower-skilled migration and leaving higher-skilled migration unchanged, this will not satisfy more right-wing ethno-nationalists of the sort that have attacked even the H-1B programme in the US. Higher-skilled migration may also be paused. This will be a net loss for technological development, as high-skill clusters are necessary for growth. At a local level, however, such clusters in source countries for migrants — such as Bengaluru — might prosper. The average expected income for a developing-nation potential migrant with high skills, however, will fall as opportunities in the West close themselves off. The additional income in the prospering areas will thus accrue to companies and investors and not to engineers or entrepreneurs.

The movement across frontiers of goods, technology and people might face restrictions going forward, but that of capital will apparently continue unimpeded. In other words, producers and skilled workers will find their markets constrained, while financiers will not. The logical fallout of this disparity is for the returns to finance to grow at the expense of returns to investment in production or human capital. At a macro level, this might further unbalance some economies — such as Britain's — that are already too dependent on financial services. Other economies will see internal pressures increase unless household savers are allowed to access some of the financial returns that are being delivered to more mobile capital. In countries like India, where prudential norms prevent this from happening, and other misguided regulatory concerns limit even the ability to invest in indices abroad, this will come to be seen as amounting to the expropriation or repression of regular savers.

While the consequences of these policy shifts on the global and domestic political economy are relatively predictable, their interactions are not. Investors in Western delivery apps might make more money (thanks to the free flow of capital) even as their specific services become more expensive for end-users (thanks to restrictions on immigrants) while such services sectors become relatively cheap (thanks to the relative price of non-tradeable services decreasing) although the actual food delivered might become more expensive (thanks to trade barriers).

The final ingredient in this unstable cauldron is artificial intelligence (AI). Whether or not it is a bubble, the fact is that investment in AI is a major component of growth in multiple economies. When the supportive infrastructure is built out, it will reduce costs for some services and processes while replacing some human roles in the supply chain for those services. But we do not yet know the degree to which it will raise productivity, the sectors it will render redundant, and the spatial and class distribution of the long-term returns to this investment.

In other words, a broadly predictable global economy has been thrown into long-term chaos by the events of 2025. Perhaps 2026 will provide some clarity as to the effects of the tectonic changes over the past year.

29 Dec 2025

Wind's strong return

Revival faces conservation and regulatory constraints

Wind energy in India this year achieved a landmark recovery. According to the latest BloombergNEF (BNEF) report, India is expected to add an estimated 6.2 gigawatts (Gw) of wind capacity this year, the highest annual addition from the previous record of 4.2 Gw set in 2017, with 5.8 Gw of new capacity already added through November. This has helped India rise to third position, after China and the United States (US), in wind capacity addition, ahead of countries such as Brazil and Germany. Another factor behind this is the spillover of projects that were originally expected to be commissioned last year but were held back due to the lack of grid connectivity. Grid access has historically been a bottleneck for developers of renewable energy because transmission infrastructure typically takes far longer to plan and build than a solar or wind project itself. This bottleneck began to ease towards the end of last year, when key projects in grid expansion in wind-rich states such as Rajasthan, Gujarat, and Karnataka were commissioned, with more capacity added early this year.

Wind's rebound is part of broader acceleration in renewable energy. According to the data from the Ministry of New and Renewable Energy (MNRE), India added a combined 21.9 Gw of solar and wind capacity in the first half of this year, a 56 per cent increase over the same period last year. Solar installations increased by 51.6 per cent year-on-year, while wind capacity grew by a sharper 82 per cent. India's renewable capacity now stands at around 234 Gw (including 54 Gw of wind power), with non-fossil sources accounting for over half the installed power capacity, reinforcing the country's clean-energy transition.

One of the ongoing issues is the slow signing of power-purchase agreements (PPAs). Many states struggle to finalise long-term contracts with developers, creating uncertainty around offtake and revenue streams. Alongside this, land acquisition and project clearances remain difficult in many regions, often leading to execution delays and cost overruns. While such issues affect most renewable-energy projects, they tend to be more acute for wind energy, which requires large, contiguous land parcels and multiple statutory approvals. Beyond sectoral constraints, the wind industry is adjusting to recent directives of the Supreme Court to protect the critically endangered Great Indian Bustard (GIB). In a key judgment this month, the court held that conserving GIB habitat was "non-negotiable" and redrew priority zones in Rajasthan and Gujarat, where new wind turbines and major transmission lines are barred and expanding existing projects is restricted. The court also identified "no-go" areas where high-risk overhead lines are prohibited to prevent bird collisions. While these measures bring regulatory clarity, they add to operational complexities and costs.

To sustain momentum and achieve its long-term goals of clean-energy transition, including ambitious targets of roughly 100 Gw of wind capacity by 2030, India must address these challenges urgently. Accelerating transmission upgrades, streamlining clearances, expanding battery storage and hybrid renewable auctions, and ensuring bankable long-term offtake agreements will be critical. Balancing environmental conservation with energy expansion will also require clear, consistent regulatory frameworks that give developers certainty while protecting vital ecosystems.

Markets caught in a fiscal tug of war

The Reserve Bank of India (RBI) on December 23 announced a $32 billion programme of liquidity injection via purchases of government bonds and dollar-rupee swaps. In normal times such largesse would have lifted spirits on Dalal Street. Instead, equity indices fell that very day and continued to slide over the next two. Throughout the year 2025 the central bank has been cutting interest rates and pumping money into the financial system, hoping that cheaper credit and abundant liquidity would lift loan demand and spur growth. Yet the bond market has barely obliged. The yield on India's 10-year government bond has fallen by only 13 basis points this year, while the yields on top-rated corporate bonds have risen by 11 basis points. State-government bonds have fared worse still. Their spread over central-government securities has widened to about 40 basis points, according to *Bloomberg*. The problem lies in states and their borrowing plans.

IRRATIONAL CHOICE

DEBASHIS BASU

The finance minister has said in multiple public forums that while India's debt-to-gross domestic product ratio had improved after the pandemic, some states showed worrisome debt levels. While the RBI is easing the flow of money, states are financing themselves more and more through the debt market. State debt is up almost 20 per cent in one year from FY24 to FY25 at ₹12 trillion ($134 billion). In the next quarter (January-March), states are estimated to borrow ₹4.5 trillion. No wonder investors are demanding higher yields; India's 10-year bond yield rose to a nine-month high of 6.68 per cent last Monday as states announced a larger than scheduled bond auction for the week. That led to state-owned utility firm Power Finance Corporation scrapping its bond sale on Tuesday.

In effect, states have thrown a spanner in the RBI's easy-money machine. They are soaking up much of the liquidity the central bank injects by flooding the market with their own bonds. On December 24 Vikas Jain, a senior trader at Bank of America, warned that record state borrowing would weigh on bonds and keep interest rates stubbornly high. "The state bond supply is definitely going to increase sharply and that's why real-money investors are not ready to commit a significant amount at this point," he told *Bloomberg*. Could the finance ministry rein in this spree? Probably not, for two stubborn reasons.

High GDP

State debt is rising, first, because revenues are disappointingly weak. States complain, with some justification, their share in goods and services tax is lower than the levies it replaced, and that transfers from the Centre have been tight. But that cannot be the whole story. India's economy is supposedly booming: Gross domestic product (GDP) grew by 8.2 per cent in the latest quarter, and most forecasters expect growth of 7 per cent or more next year. Such vigour ought to translate into buoyant tax receipts. Yet, as noted in these pages earlier, headline GDP growth is not mirrored in corporate earnings — and now it appears not to be reflected in state coffers either. Either growth is overstated, or it is less fiscally potent than many assume.

Low revenues, high spending

The other half of the problem is spending. The RBI estimates that aggregate state debt now stands at 27-28 per cent of gross state domestic product (GSDP), well above the 20 per cent ceiling recommended by India's fiscal-responsibility watchdog. Ten states have debt ratios exceeding 30 per cent. Under India's federal system, states are responsible for most public services and for delivering many centrally sponsored schemes. But much of their outlay is locked in rigid overheads. According to PRS Legislative Research, interest payments, salaries, pensions, and subsidies consumed 62 per cent of state revenues in 2023-24. That year states ran a revenue deficit of 0.4 per cent of GSDP, meaning they were borrowing simply to meet day-to-day expenses.

The freebie trap

Worsening matters is the rise of competitive populism. In a bid to win elections, parties in states like Bihar, Punjab, Rajasthan, Madhya Pradesh, and Andhra Pradesh have rolled out lavish giveaways — cash transfers, farm-loan waiver, free power, and transport — pushing up deficits beyond the limits set by fiscal-responsibility laws. In 2025-26, 12 states that provide cash transfers to women will together spend ₹1.68 trillion, estimates PRS Legislative Research. Six of them already run revenue deficits. No party is innocent. On December 26 Punjab announced free medical treatment of up to ₹10 lakh per family from January. Punjab is also one of India's most indebted states, with a debt-to-GSDP ratio of 46 per cent, compared to 19 per cent in Maharashtra, 18 per cent in Gujarat, and 16 per cent in Odisha.

What should investors make of all this? The markets appear to have drawn their own sombre conclusions. Strong GDP figures and the RBI's easy-money policy should have been an explosive fuel. Instead, all major indices have barely stirred. Indeed, the hidden fiscal risks are bigger. States' official deficit figures exclude large contingent liabilities — from loss-making power-distribution companies to transport firms and infrastructure projects. Add these in and the true burden looks heavier still. India's bond and equity markets will shrug off the overhang of rampant state borrowing only if something more compelling comes along to distract them.

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30 Dec 2025

Fixing world trade

US suggestions for WTO reform are revealing of a new era

It is unusual for the United States' (US') federal government, under President Donald Trump, to take a constructive approach to multilateral affairs. It is far more likely to exit agreements, declare them disadvantageous and abrogated, and generally take a "burn it all down" approach to global governance. The President himself has long believed that trading arrangements are in particular designed unfairly as far as the US is concerned. It is both unexpected and welcome, therefore, that Washington has submitted a memorandum to the World Trade Organization (WTO), detailing its concerns when it comes to the operation and possible reform of the institution. It has also paid its dues to the WTO for both 2024 and 2025. This suggests that even the Trump administration retains some hope that the institution might be salvaged. It should be noted that subverting the WTO is not a priority of the Republicans alone. The previous administration of Joe Biden did not just delay payments but also continued to veto the operation of the organisation's appellate body, without which it is toothless when it comes to dispute settlements. And when the WTO ruled that restrictions imposed on the import of steel and other items in the first Trump term was illegal, it was the Biden administration that declared that it was refusing to acknowledge or follow the ruling.

The US' memorandum is revealing of the various ways in which Washington now believes — to an extent across parties — that the WTO is not working properly. Some of these complaints are widely shared. For example, it has identified the self-identification of economies as "developing" and thus deserving of "special and differentiated treatment" as a problem. In the past year, China said it would give up developing-country privileges. But both the US and many emerging economies will believe that Beijing held on to these privileges for too long, thereby discrediting the system. The US wants these henceforth restricted to the least developed economies. It has also called for a more transparent investigation into illegal export subsidies. This is again an ongoing problem when it comes to China. Many of its trading partners are of the belief that hidden subsidies for capital, power, and water break WTO rules — but, because of the opacity of the Chinese system, no accountability is imposed. The US correctly believes this is unsustainable.

Both these issues, and others, are concerns that the rest of the world might well have been willing to engage with. It is unfortunate that the US believes it is unnecessary to create a broad coalition for such changes rather than trying to shift the governance architecture single-handedly. On the other hand, the US has additional complaints, around which it might struggle to develop a coalition. One of these is its attack on the very concept of the "most favoured nation", or MFN, which is the bedrock of multilateral trade agreements. Rather than negotiating bilaterally in such a way that specific countries benefit and others lose out, the MFN norm means that all trading partners with that status automatically benefit when a country's trade rules change. Abandoning this norm would lead to chaos — but the largest economies would be least hurt, which is why Washington has undermined it. India must argue against this development, as well as the unnecessarily broad expansion of "national security" as a reason for tariff walls. But New Delhi must also recognise that some US demands — such as for the recognition of plurilateral agreements — will be broadly popular. India has overused its veto at the WTO, and the growth of plurilateralism is a natural blowback.

30 Dec 2025

Skilling India

Internship scheme needs reassessment

When the Prime Minister Internship Scheme (PMIS) was announced in the Union Budget 2024-25, it was projected as an important step in India's youth skilling strategy. The ambition was expansive: Provide internships to 10 million young people over five years by partnering the country's top 500 companies, with a particular focus on the youth from Tier-II and -III cities. Two pilot programmes were rolled out, one late last year and another in August this year, to test the model before full-scale implementation. Early evidence, however, suggests that the scheme's challenge is not a lack of company participation but a deeper mismatch between design and demand. The data placed before Parliament shows that candidates' acceptance of internship offers fell 12.4 per cent between the first and second rounds of the pilot, even as the absolute number of offers rose and more than 70 new companies joined the programme. This decline is significant because it occurred despite greater outreach and refinements in the second round, including clearer job descriptions and better information on internship locations. In other words, awareness is improving but willingness to commit is weakening.

The reasons cited by the government are revealing. The Ministry of Corporate Affairs has acknowledged that the year-long duration of internships, limited alignment between candidates' interests and the roles offered, and eligibility concerns, such as the age criterion, have affected participation. For many candidates, particularly from smaller towns, moving to other places, even if the distance involved is short, for modestly paid internships carries real opportunity costs. There is also an inherent tension in how the PMIS is positioned. While the scheme is framed as a programme on skilling and exposure, the government has repeatedly clarified that it is not designed to guarantee placements. Yet, in a labour market marked by high youth unemployment and underemployment, the absence of a credible employment pathway weakens the scheme's appeal. The fact that companies may, at their discretion, offer jobs after assessing interns' suitability does little to offset this uncertainty. The state-wise data from the pilot further underscores the uneven outcomes. While some states have seen high numbers of internship opportunities or offers, these have not consistently translated into a take-up. This divergence suggests that the bottleneck lies not in supply or initial interest but in the conversion of offers into meaningful participation, precisely the stage at which the design of a scheme matters most.

Perhaps the most telling indicator of the PMIS's current limitations is the underutilisation of funds. Despite a substantial budgetary allocation for FY26, spending remains a fraction of what was earmarked. In 2024-25, the scheme was allocated ₹2,000 crore in the Budget estimates, and was changed to ₹380 crore in the revised estimates. Low utilisation reflects weak absorption on the ground and signals that the scheme, in its present form, is unable to scale up in line with its ambitions. None of this means the idea behind the PMIS is flawed. On the contrary, closer engagement between young people and formal enterprises is essential for bridging the gap between skills and jobs. But the pilot has made clear that scale cannot be a substitute for substance. Before committing itself to a nationwide roll-out, the government must recalibrate the scheme, shortening internship tenures, improving role-skilling matching, prioritising local placements, and more clearly signalling employment outcomes.

30 Dec 2025

Ring out the old, tired consumption debates

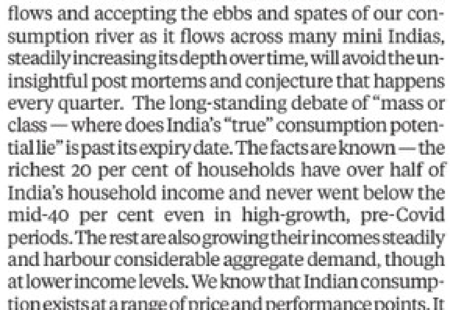
The discussion around India's household consumption has been stuck on the same issues for the last 20 years, even though the answers to them are now well-known. It's time to "man up" and say: "This is not the narrative or number we like, but let's just accept it." For example, household income, formal salaried employment. It is also time to embrace the quintessentially Indian idea of "many truths, all true" — for example, mass and class markets both being attractively large and growing; gen-next includes both startup founders and government job seekers; and the ageing and youth are both significant demographics. Only then can we move forward.

Whether household consumption is in good health or not is a popular media debate, especially when favourite listed companies post results that fall short of analysts' forecasts. Private Final Consumption Expenditure (PFCE) growth has slowed down in periods, but it has been steadily, sustainably growing over time, a trend that we can safely bet on in the future. As this column has often pointed out, here is the world's largest mass of people who are very keen to consume and whose incomes are slowly and steadily rising. Even at modest gross domestic product (GDP) growth rates, the PFCE expenditure offers enough headroom for companies to grow. Where and how to get this growth is a business strategy question, not a macro consumption health question. We know that all our defining numbers are large on aggregate, small on per capita; absolute numbers of consumption of most things are very large, especially relative to the rest of the world, while penetration levels are still low. We know that a small percentage of a large number is large, and all interpretations are correct.

RAMA BIJAPURKAR

There is also no need to debate, as is often done, who the "demand stars" or the next wave of consumption drivers are — rural or urban, Tier I or II & III, Uttar Pradesh or Karnataka, the young or old. It is proven that demand is everywhere and even rich households are spread wide and deep. Instead of continuing to seek normative answers, the model to work with is that of many mini Indias, each with its own mini economies affected by different factors (for example, America, monsoon, politics, natural disasters, infrastructure spurts, acts of God and acts of governments). So the focus should shift to building excellent, dynamic tracking, and forecasting models of where the good news and bad news on income, hence consumption is going to be.

Forecasting models such as Crisil's DRIP (Deficient Rainfall Impact Parameter, created by the late economist Subir Gokarn) can be used to monitor and forecast agricultural incomes in real time, as the monsoon advances. Another model, used by a rural lender, continuously monitors agriculture, construction/ mining/ infrastructure building, and political activity/government actions across districts to forecast consumption health at any point in time in Consumer India's labyrinth.



Shifting the focus to proactive tracking of fundamental drivers of household cash flows and accepting the ebbs and spates of our consumption river as it flows across many mini Indias, steadily increasing its depth over time, will avoid the uninsightful post mortems and conjecture that happens every quarter. The long-standing debate of "mass or class — where does India's "true" consumption potential lie" is past its expiry date. The facts are known — the richest 20 per cent of households have over half of India's household income and never went below the mid-40 per cent even in high-growth, pre-Covid periods. The rest are also growing their incomes steadily and harbour considerable aggregate demand, though at lower income levels. We know that Indian consumption exists at a range of price and performance points. It is for companies to decide where on this spectrum they want to play and with what intensity, depending on whether they can innovate or achieve cost positions that enable them to make money. Companies that choose not to serve or play in "mass" markets give up large swathes of aggregate demand where scale can be built and where long-term value, volume, and price-point growth tends to happen on autopilot over time. To portray such company specific choices based on desired pain-gain-valuation as macro-consumption truths of vanishing middle classes, or disappeared demand is incorrect.

What we do need to better understand consumption is more insights on occupation, leading to a risk assessment model for income — how exactly Indians earn the money to consume (and pay back what they borrow to consume). We know from existing data that the bulk of consumers are own-account workers or micro business owners. We know anecdotally that doing multiple gig jobs is becoming the norm, especially for the young. What we need is a deep dive well beyond National Sample Survey categorisations of Consumer India's exact work, the share and predictability of each component of a person's total income, and the resilience to bounce back from bad times. This will also help establish the size of the genuine middle class and avoid specious debates on its true size.

We need to understand at an equally granular and nuanced level, the priorities (life attitudes, goals, anxieties) of different income/occupation/education segments that shape their thinking around spending portfolios and drive their spending. Maybe productivity-enhancement remains the most important value space that drives consumption. Maybe the new aspiration is to experiment and experience life's goodies rather than invest in capex for life's future.

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30 Dec 2025

ILLUSTRATION: BINAY SINHA

Impinging upon regulator's autonomy

The proposal to cap Sebi's spending and route its surplus to the government is a bad idea

In the recently concluded Winter Session of Parliament, the government introduced the Securities Markets Code, 2025, Bill to consolidate and amend the laws relating to the securities markets.

This column focuses on Clause 124 of the Bill, which deals with the transfer of the Securities and Exchange Board of India's (Sebi's) annual surplus general fund to the Consolidated Fund of India (CFI).

So, what in a nutshell is the proposed change to the existing provisions? What are the inflows into and outflows from this fund? The fees and charges levied by Sebi on market infrastructure institutions, regulated entities, and market participants constitute the inflows to this fund. The fund is utilised to meet the expenditure, both revenue and capital, of the regulator. The regulator's annual budget is approved by its board. This is how a financially autonomous institution is expected to work.

AJAY TYAGI

Now, according to the proposed amendment, the statute hard-codes the ceiling of the regulator's annual funding requirement, with the balance of the fund accruing to the CFI. The relevant excerpts from Clause 124 say:

"... (3) The Board shall constitute a reserve fund and twenty-five per cent of the annual surplus of the General Fund in any financial year shall be credited to such reserve fund which shall not exceed the total of annual expenditure of the preceding two financial years.

(5) After crediting the portion of the annual surplus under sub-section (3), the remaining annual surplus of the General Fund for that financial year shall be credited to the Consolidated Fund of India..."

The statement of objects and reasons of the Bill relating to this clause is: "Clause 124 of the Bill provides that the General Fund, established under section 14 of the Securities and Exchange Board of India Act, 1992, shall be deemed to be the Fund for the purposes of the Code." This doesn't explain, or even talk of, either the objective or the reason for the regulator constituting a reserve fund, and transferring surplus fund to CFI!

So what is the logic of proposing this change in the existing provisions? Commentary available in the public domain suggests that it was triggered by the government noticing excessive build-up in Sebi's fund over the years, and the government's right to transfer this surplus to itself to meet budgetary requirements. Some draw a parallel to what the government did about transferring the Reserve Bank of India's (RBI's) surplus funds to the CFI a few years ago. These arguments are specious on several counts.

The logic of establishing Sebi's general fund under the Sebi Act, 1992, was pretty straightforward — namely, to enable the regulator to earn income to meet its own expenditure and not be dependent on government grants. Now the tables have turned — the government is looking to receive an annual revenue stream from the regulator!

As the fees and charges levied on regulated entities are its only source of income, the projected expenditure of the regulator in the short to medium term is the major factor while taking a view on their quantum at any given time. The regulator is expected to calibrate the fees and charges on a regular basis so that the inflows to the fund are adequate to meet the projected expenditure. Admittedly, at times, despite being diligent in making assumptions and projections, there could be a mismatch between the inflows and outflows. One of the reasons for the sizeable build-up of surplus in Sebi's fund in recent years is the increased activity in the capital markets in India, with an increased number of participants and the entry of new entities. As a first step, the right course of action for the regulator to correct this situation would be to appropriately reduce the fees and charges after due analysis and pass on the benefit to the regulated entities.

In any case, the fees and charges levied by the market regulator on regulated entities and market participants cannot legitimately become a source of annual revenue for the government. These aren't taxes or duties. Nor can this transfer be construed as a dividend paid by Sebi to the government. A major problem with this formulation is that once income from Sebi becomes an annual revenue stream for the government's deficit budget, there would be constant pressure to increase such receipts year on year. This is absurd as it would amount to — tasking the regulator with earning more and more from regulated entities to feed the government's budget. One is not sure whether the proposed annual transfer is even legally tenable.

Moreover, how can a law arbitrarily fix a ceiling on the expenditure needs of a statutory regulator? Then there is the question of adhering to the basic and well-accepted international principle of the regulator working at arm's length from the government. Note that the market regulator also regulates government-owned listed companies. Any possible conflict of interest, or even its perception, is highly avoidable. This is likely to be adversely commented upon by the World Bank and the International Monetary Fund in their financial sector assessment programme report.

The comparison with the transfer of the RBI's surplus funds to the CFI is totally misplaced. The government allows the central bank to earn, on its behalf, seigniorage income from printing and issuing currency. The RBI also earns income from various commercial activities and operations. The RBI's transfer of funds to the government is categorised as a dividend payment.

The logic apart, what is the comparison of the amounts involved? While the RBI transferred about ₹2.69 trillion to the government for FY25, Sebi's general fund closing balance and surplus were only around ₹5,500 crore and ₹1,000 crore, respectively, for FY24. The transfer of the surplus fund wouldn't be even a drop in the ocean for the government's budgetary revenue requirements.

So what is the way out to deal with the surplus fund build-up with the market regulator? As argued earlier, the first step should be to reduce fees and charges. In case, at any given time, the surplus becomes too big — and is likely to remain idle and unutilised in the foreseeable future — the board may decide on the transfer of some lump-sum amount to the government. Of course, this should be considered a one-off action, and shouldn't be taken as a norm or precedent. Sebi has senior, responsible persons on its board — secretaries from two ministries, of finance and corporate affairs, a deputy governor from the RBI, and independent directors of repute. Let the board handle the issue. Fixing a statutory ceiling on the revenue requirements of the regulator and proposing an annual stream of receipts from Sebi to the CFI is a bad idea, which should be dropped.

The author is a distinguished fellow at the Observer Research Foundation, former Sebi chairman, and a former IAS officer

31 Dec 2025

Banking for growth

More operational freedom needed for growth with stability

A highlight of the Indian economy in recent years has been the strengthening of the balance sheets of banks. The banking system came under stress in the years following the global financial crisis of 2008. This coincided with excessive leverage in the corporate sector, and the resulting twin balance-sheet problem posed serious constraints on economic growth. However, the situation has changed markedly since then owing to policy interventions and improved management. The continued improvement was again highlighted in the Reserve Bank of India's (RBI's) "Report on Trend and Progress of Banking in India 2024-25", released this week. Gross non-performing assets (GNPAs) in scheduled commercial banks are estimated to have declined from about 8.5 per cent in 2020 to a multi-decade low of 2.1 per cent (September 2025). Net NPAs also declined from about 3 per cent to 0.5 per cent during the same period. Fresh slippages have reduced while recovery has improved. In financial performance, the return on assets has improved while the return on equity has remained stable. The banking system is adequately capitalised and is in a position to support growth.

While banking is stable and resilient, it needs to evolve and adjust to the changing dynamics of the Indian financial system. As has been noted by the RBI, banks will continue to face competition from non-banking sources in lending to the commercial sector. Further, loan growth has outpaced deposit growth, pushing up the credit-deposit ratio. Thus, banks could face challenges not only in deposit mobilisation but also in the credit market. The data shows that nearly half the financial flows to the commercial sector are coming from non-banking sources, including market instruments. As the debt market deepens over time, it is likely that large, better-rated companies may raise resources directly from the market, and banks would be servicing smaller firms, which could increase risks and costs.

On deposits, the increasing exposure of Indian households to the capital market would mean banks need to offer better returns to attract deposits. Thus, competition on both deposits and lending could put pressure on interest margins and profitability. Banks need to carefully adjust to this change. It may also need regulatory support. In this context, one of the important aspects of banking is worth highlighting here. Banks are expected to ensure that a portion of credit flows to priority sectors, including agriculture, small and medium enterprises, education, and social infrastructure. The data shows that GNPAs in the priority sector at the end of March 2025 were 4 per cent, significantly higher than the overall level. Further, the share of the priority sector in GNPAs increased to 64.7 per cent in 2024-25, compared to 58.2 per cent in the previous year as non-priority sector NPAs declined.

However, this also suggests that lending standards are comparatively weak in these areas. While the objective of supporting certain sectors or sections of society, which otherwise may not have access to credit, cannot be faulted, there is perhaps a need to review priority-sector norms. Banks are commercial enterprises and compete for business not only among themselves but also with other sources of credit. Thus, a more enabling environment with greater operational freedom would help achieve growth with stability.

Disclosure: Entities controlled by the Kotak family have a significant holding in Business Standard Pvt Ltd

01 Dec 2025

MY VIEW | GENERAL DISEQUILIBRIUM

Let's be a bit more selective in using the word 'reforms'

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Everybody should take a beat and think before uttering the word 'reforms' the next time. Glib usage, frequently in the wrong context, threatens to rob the word of its import. The term 'reforms' became a permanent fixture of the universal policy lexicon during the early 90s, when, after the fall of Berlin Wall and break-up of the Soviet Union, there was a sweeping economic policy overhaul in parts of East Europe, Asia, Africa and South America. The changes implemented had a common thread running through them, with some variations in the degree of implementation across individual nations: the focus was primarily on reducing the role of government in business, relaxing cross-border investment rules and transferring state-run enterprises from public to private ownership. Thereafter, the word 'reforms' has become a placeholder to denote any and all changes. Much like its universal acceptance, there is widespread misapplication as well.

India is not immune to this affliction. The term's random and frequent use seems to be diluting its meaning. In fact, it is now often employed as an external stimulus in the hope of generating a spontaneous, positive response from market operators and media platforms. This is typically seen around times of economic despondency and, interestingly, the use of 'reforms' almost always manages to elicit a favourable response from the target audience. This reflexive response to the word has become a bit too predictable.

Take the example of recent changes in the goods and services tax (GST), which were first announced by Prime Minister Narendra Modi in his customary Independence Day speech and subsequently formalized as a policy on 4 September at the 56th meeting of the GST Council. The GST rate changes—in conjunction with lower inflation, rock-bottom interest rates and revised income tax rates—were viewed as a major stimulus for private consumption, which had been flagging over the past few quarters and was partially responsible for dampening economic growth impulses. The announcements were met with an overwhelming response and rekindled hopes of a rejuvenated growth momentum. True to form, these changes were universally termed as 'reforms.'

Under the bonnet, though, most of the changes constituted what everybody has been demanding for more than seven years. The GST changes are in reality a rate rationalization that collapsed a multi-tiered tax structure into a two-layered structure, with a special 40% demerit rate reserved for some select items. The multi-layered GST structure had spawned confusion, inefficiency and added compliance costs. Industry and tax experts had been clamouring for simplification. The 2024 Article IV consultations report from the International Monetary Fund had observed: "Currently India has four main non-zero rates, an outlier among countries with a GST. Simplification can be achieved by moving towards a single rate and rationalizing the items that are exempt or zero-rated.... A single GST rate applied on a broad base can improve compliance, facilitate enforcement, and reduce the risk of evasion (for example, from misclassifying the good or service to take advantage of a lower GST rate)."

We should refrain from describing any change as a reform unless it improves things for everyone

And yet, the government's press release of 4 September on the rate rationalization used the word 'reform' five times in its text. Even the Reserve Bank of India (RBI) has fallen prey to the temptation and has been using the word repeatedly for rate rationalization in all its communications. The central bank's October 2025 *Monetary Policy Report* used the word 'reform' 11 times and the governor's statement used it twice. The *State of the Economy* article in its September 2025 bulletin employed 'reforms' 12 times to denote GST rate rationalization.

This then begs the unavoidable question: does the government's 21 November announcement bringing into effect four contentious labour codes, which seek to rationalize 29 existing labour laws, also count as a major reform?

The codes do envisage sweeping changes and have the potential to alter the country's industrial relations landscape. But here's the rub: the government may have been a bit hasty in announcing the implementation of the codes because the eventual execution of the codes will depend on the finalization of rules. The draft rules are expected to be announced soon, and will then be put in the public domain for 45 days for stakeholder inputs before being finalized. Till then, it is *status quo*.

But, there's even a larger problem: labour relations are a concurrent subject and states get to have a say on how the codes are implemented through state-specific rules. They may even refuse to accept the codes. Currently, eight large states are ruled by opposition parties—Tamil Nadu, Kerala, Karnataka, West Bengal, Jharkhand, Telangana, Punjab and Himachal Pradesh—and it will be interesting to see which ones do not consider the labour codes as a major reform. There is also a distinct possibility that the entire policy framework could become an electoral issue, especially in states that have elections scheduled next year.

There is a commonly accepted touchstone for categorizing any policy change as reform: change when it lacks any element of improvement cannot be termed a reform. The consolidated labour codes can thus be rightfully termed as reforms once it ushers in all-round improvement for all stakeholders: labour, industry and the consumer. Till then, let's hold our horses.

01 Dec 2025

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MY VIEW | THE INTERSECTION

Creative conservatism can make our foreign policy more effective

India needs a framework that secures its national interests amid fast evolving geopolitical realities

NITIN PAI
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After this year's shocking turn in India-US relations, many argued that India must tilt towards China to counterbalance America. It is true that we have ended up becoming geopolitically more dependent on the United States than the US is on us. However, there are at least three problems with the 'tilt to China' argument. *One*, it is the US that has what India needs for its development and is prepared to trade, albeit with tariffs. China, on the other hand, is bent on exporting only finished goods and does not really believe in two-way trade. *Two*, Beijing will accept India's tilt only on its own imperious Middle Kingdom terms. And *three*, India has unresolved direct and indirect boundary disputes with China that put a hard limit to the angle of any tilt that one might conceive.

So the idea that we can use the China card against the US is untenable in practice. What about other centres of power? India's engagement with Western Europe, which finds itself amid its own dilemmas, is constrained by the Russia factor. This will limit ties with Germany, France and the UK even after the Russia-Ukraine war comes to an end. With West Asia, our relationships are circumscribed by the Israel-Palestine and Israel-Arab-Iran factors. Towards the East, our own security considerations limit how far we can go with the Quad, while our economic constraints keep us distant from our South East Asian neighbours. Then there is Brics, essentially an anti-American showboat that we don't want to be completely aboard, and finally the fictitious 'Global South,' a collective noun coined by the West to refer in shorthand to the rest of the world.

It is clear that India needs a new strategic framework for this new world, one that conservatively carries forward core conceptions of national interests, but at the same time is creative enough to find its way through emerging realities. To have a chance of being implemented at all, any strategy must be consistent with India's political culture and implementable by governmental machinery.

So what should India's foreign policy for the next 10 years look like? When my colleagues and I pondered this question, the following outline emerged.

As outlined by the Prime Minister, India's primary goal is to become a developed nation by 2047. This means sustained high economic growth, with peace, harmony and environmental sustainability our big national policy objectives. The role of foreign and defence policy is to create a conducive environment for achieving these goals. While this means a front-footed approach to border disputes, there is little room for ambitious military operations across India's *de facto* boundaries.

Despite the challenges thrown up by the Donald Trump administration, New Delhi will have to find ways to strengthen its relationship with the US. It is likely that in its second year, the Trump administration will have a better sense of the consequences of its early policy decisions, and thus be in a better position to close a bilateral trade agreement. Even as the New Delhi establishment invests in repairing the relationship with Washington, it cannot and should not forget 2025.

We must also repair ties with China while being fully aware that power is the only language of this relationship. We should not yield on border questions, nor accept that China is a normal trade partner. This does not mean that we cut ourselves off from our northern neighbour. At the risk of overdoing a pun, there is no one China policy. We must explore trade, economics, technology, territory and global issues on separate tracks: cooperating where we can and confronting China where we must.

The US-China relationship will remain volatile: it can be a G2 or its opposite, a Cold War or its opposite, or various other forms that can change from one to another in months. To manage the vagaries of its dynamics, India needs a new systematic approach to engage with the rest of the world.

It is in dealing with the rest of the world that Indian foreign policy will have to creatively shift towards a more purposeful sectoral plurilateralism. To create backstops and leverage against being pressured by the US or China, New Delhi should invest in a constellation of plurilateral groups centred around specific sectors and comprising countries that share similar geopolitical concerns. The most effective plurilaterals are those that require India's participation to be viable. The recently concluded India-Australia-Canada partnership on technology and innovation is a case in point. There are a number of sectors, including defence, energy, biotech, space, higher education, public health, food security and environment, where India can bring together a few countries to achieve meaningful outcomes. In time, some of these overlapping relationships could grow into plurilateral blocs. Recall that it was the European Coal and Steel Community of 1951 that grew into the European Union four decades later.

Quite a lot of this is incrementalism, which is a good thing. Instead of flashy new doctrines and strategies, New Delhi's foreign policy establishment should restructure and reorient its portfolio of relationships towards the more coherent purpose of creating meaningful leverage with its partners.

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OUR VIEW

ISTOCKPHOTO

GDP growth of 8% plus: How to sustain this pace

Last quarter's economic expansion has cheered India but the challenge is to sustain a brisk rate for years to come. For private investment to chip in, revive infrastructure partnerships

India's 8.2% growth in GDP reported for the second quarter of 2025-26 sprang a surprise. It exceeded expectations and took the first half's pace of economic expansion to 8%. This has led economists to revise upwards the entire year's rate of growth to around 7.5%. The good news is bound to cheer markets. However, it would not be out of place to temper this moment of optimism with a reality check. The 8.2% number for the three months from July to September rides on the back of a strong 9.1% uptick in manufacturing. This is at odds with the index for industrial production, which averaged under 4% over those months, and also data on the core sector, which registered cumulative growth of 2.9% over April-September. Bear in mind too the International Monetary Fund's recent reservations about the quality of India's income accounting; it gave India a 'C' in its data adequacy assessment. Since corporate earnings in the consumer goods sector have been anaemic, a rise in private consumption expenditure of 7.9% in the second quarter (9.3% in current prices) could tempt marketers of various consumer goods to break into a jig. But that would be premature. They should wait for another quarter's numbers to reveal the impact of India's mid-year GST cuts.

The difference between growth rates in constant and current prices is explained by inflation (both wholesale and retail). The second quarter's real GDP expansion rate of 8.2% is just half a percentage point less than its nominal rate of 8.7%. For the first half, the 'deflator' is only a bit more; a nominal rate of 8.8% translates to 8% in real terms. This year's budget, however, had assumed nominal GDP growth of 10.1%, which now looks steep. Unless inflation jumps in the second half, the government's annual tax collections may turn out less than projected, which means public spending would need a pullback to keep the fiscal deficit within 4.4% of GDP, its target for 2025-26. While robust consumption could conceivably ease the Centre's need to support national output fiscally, it is unclear if we have reached that point. In the first half of this year, the 'public administration, defence and other services' component of GDP grew faster than overall output. Although this May's hostilities with Pakistan lasted only four days, the broader mobilization would have been on a far bigger scale. In the second half, thus, public expenditure faces compression and the economy is expected to lose some pace.

This is not to overlook the possibility of a boom in consumer buying spurred by GST rate reductions that took effect on 22 September. How this stimulus is playing out, though, will not be known till early next year. The hope is that it will lure businesses to invest more in capacity. For the economy to sustain a growth trajectory of 8% plus for years together, fixed capital formation must rise at least five percentage points above 30.5% of GDP, a level it seems stuck at. As the Centre shifts to reducing its pile of debt as its fiscal target from 2026-27, it will not have much space to invest. Private investment would have to kick in. If clouds lift on the export horizon, all the better. But if capacity addition disappoints, we should bet on infrastructure to attract private funds. The budget speech had promised a policy for public-private partnerships (PPPs) for that. While whiffs of scandal had given PPPs a bad name, given sufficient transparency, such projects could deliver what the economy needs.

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THEIR VIEW

India stands out for purposeful policymaking in a choppy world

Steady, pragmatic and long-horizon policies have been giving our economy the strength to convert volatility into possibility

V. ANANTHA NAGESWARAN
is chief economic advisor to the Government of India

HT

Seventeen months into the current government's third term, India finds itself with something increasingly rare among major economies: sustained momentum in a turbulent global environment. Growth across much of the world has been muted by the aftershocks of the pandemic, chronic supply disruptions, inflation and rising geopolitical contestation. Yet, India has navigated these shifts with surprising strength and has treated adversity not as an obstacle, but as an opportunity to reinforce its economic foundations.

Over the past 17 months, the economy has continued to expand at a healthy clip, recording 6.5% growth in constant prices in 2024-25, following three previous years of strong expansion. This sustained performance compares favourably with most major economies. Crucially, India has kept inflation under control even while the economy has grown briskly—a reflection of strengthened supply capacity and consistent macroeconomic management.

The fiscal anchor has been restored. From the peak of 9.2% during the pandemic years, the fiscal deficit is poised to fall to 4.4% of GDP this year, reaffirming the government's commitment to long-term sustainability. Markets have recognized this discipline: India secured its first sovereign credit rating upgrade from a major rating agency in over a decade, and long-term borrowing costs have fallen significantly. These are not mere financial statistics but critical enablers of productive investment and social spending.

This stability has been matched by the visible transformation of physical infrastructure. Highways, urban mobility networks and logistics corridors have expanded at unprecedented speed, reducing bottlenecks that once burdened businesses and raised prices. This deeper, broader supply base has meant that growth today no longer generates the overheating pressures that once lurked behind every uptick in demand.

Monetary policy has aligned with this momentum. The central bank moved decisively to support the recovery—cutting rates, easing liquidity and unwinding temporary prudential constraints once their job was done. The result: credit flows have revived briskly, and India's capital markets—larger, deeper and more confident—have let commercial financing expand consistently at nearly 30% annually over the past six years.

Corporate balance sheets, once repaired from the twin balance sheet crisis, are today healthier and more investment-ready than they have been at any time in the past decade. Private capital formation is accelerating. Contrary to common commentary, foreign direct investment interest has not waned: in fact, India's strong market performance offered foreign investors profitable exits, temporarily lowering net numbers while gross inflows held strong—a signal of confidence, not doubt. Recent central bank data indicate that both gross and net flows are increasing significantly once again.

The story is not only about corporate confidence. Households, too, have benefited. Tax relief in successive budgets, combined with softening inflation and rising agricultural output, has collectively bolstered real wages, particularly in rural India. Public and private data indicate strong job creation in the last two years—a fact often lost in noise but visible in the country's lived experience of expanding consumption. It is no surprise, therefore, that India's household savings ratio (percentage of GDP) improved in 2024-25.

Beyond macroeconomic stewardship, the government has utilised this period of stability to implement strategic reforms that could redefine India's global role. A nearly ₹70,000-crore package is modernizing India's shipbuilding industry, while legal reforms reduce compliance burdens and enhance maritime competitiveness. It also envisions the establishment of an Indian Ship Technology Centre.

In critical minerals, India has unlocked private participation in minerals essential for clean technology and electronics, while a new national mission and recycling incentives deepen supply resilience. Another key reform has been the omission of six minerals from the list of 12 atomic minerals. The mining and exploration of atomic minerals, which are currently done only by public sector units, have been very limited.

Just a few days ago, the Union Cabinet approved a ₹7,280-crore scheme to promote the manufacturing of Sintered Rare Earth Permanent Magnets (REPM), a first-of-its-kind initiative by the government to foster an REPM ecosystem, thereby enhancing self-reliance and positioning India as a key player in the global REPM market.

Notably, near-full fund allocation under the Semicon India Programme signals the most significant national effort yet to build a homegrown semiconductor ecosystem—a key determinant of economic sovereignty in the digital age. India's semiconductor roadmap marks the transition from a design-dominated ecosystem to an integrated manufacturing and R&D hub. With over ₹1.6 trillion in approved projects and deepening global partnerships, India is positioned to join the world's top five semiconductor nations within the next decade.

This progress was tested by an unexpected shock this fiscal year—the US imposed a 50% tariff on Indian goods. Analysts rushed to downgrade India's prospects. A fall to 6% growth was widely forecast. Yet, within three months, the country proved more resilient than expected: exporters adapted, domestic demand held firm and growth projections were revised upward to around 7%. Where others saw vulnerability, India demonstrated shock-absorption capacity.

Challenges remain, including the ongoing energy transition, the scale of job creation required to address India's youth bulge, urban mobility gaps and a need to strengthen state capacity. These involve real trade-offs. Yet, they are being confronted from a position of greater economic strength and strategic clarity than ever before.

A fiscal boost through direct and indirect tax relief, 'Ease of Doing Business' through deregulation, enhanced credit flows to micro, small and medium enterprises through digital inclusion and the cumulative effects of a decade-long public infrastructure build-up that has increased the availability of uninterrupted power and connected smaller cities and remote villages to major urban centres and ports are all delivering results.

The real growth rate of the Indian economy in this fiscal year's first half was 8%. The full year's growth is expected to exceed 7% easily, marking the fifth consecutive year of high growth. India has entered a period of sustained high growth with low inflation. Purposeful policymaking—steady, pragmatic and long-horizon—is poised to turn it into a more enduring feature.

These are the author's personal views and the second of a two-part series.

MY VIEW | GENERAL DISEQUILIBRIUM

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Green hydrogen: Fast fashion could help bump up demand

A boom in its use for clean synthetic inputs might make a difference

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Can we count on clean hydrogen adoption by the petrochem industry? BLOOMBERG

Rich countries have been left in the dust by China in the clean energy industries that have dominated the past decade or so: solar panels, wind turbines, lithium-ion batteries, and electric vehicles. Still, you might have hoped they would take the lead in technologies of the future, such as clean hydrogen. Not so.

In Europe and North America, the approach—which once seemed a sort of skeleton key to clean up hard-to-decarbonize industries such as steel, chemicals, shipping and aviation—looks like a failure. In the space of a few days in July, BP, Woodside Energy Group and Fortescue pulled out of hydrogen projects in Australia and the US that had been valued in the billions. BloombergNEF now expects Europe to be producing just 1.2 million metric tonnes of a promised 10 million tonnes a year in 2030.

To the extent that there is any life in the sector, it comes from blue hydrogen, typically produced by splitting fossil gas and then pumping the waste carbon dioxide underground to drive oil out of depleted wells. Cleaner green hydrogen, made by using renewable power to split molecules of water, is barely limping along.

China, however, is a significant exception. It accounts for over half of the roughly 506,000 metric tonnes of green hydrogen production capacity in operation globally right now. A further 2.86 million tonnes is under construction worldwide, with 45% of the total in China.

Hardly a week goes by without another project going into operation. A pipeline that broke ground last month will be able to carry gas from a renewables-rich area northwest of Beijing to the industrial city of Tangshan, more than 700km away. Another was approved in July to move hydrogen from wind farms in Inner Mongolia to a chemicals plant in Beijing. In total, more than 500 hydrogen projects have been launched this year, and the sector will be a target for growth under the next five-year plan starting in 2026.

It would be nice to say that all this activity was going to decarbonize the many areas of heavy industry that still dominate China's carbon footprint. Don't count on it, however. A more likely outcome is that much of it ends up in $15 pantsuits and $10 trainers on Shein and Temu [e-com sites]. That's because the primary use of hydrogen at the moment is in the refining and chemicals industries, where it is used to clean out impurities and produce raw materials for plastics and polymers. Such plants consume about 43% of the 100 million tonnes currently produced. Almost all of that is from grey hydrogen, which is the most polluting form, made from unabated fossil gas, coal and refinery products.

The unstoppable rise of electric vehicles is likely to make these plants even more hungry for it, though you need a quick chemistry lesson to understand why.

The petroleum that emerges from oil and gas wells is a mix of myriad molecular chains of hydrogen and carbon. Oil refineries sort and split all these molecules to maximize quantities of the medium-length chains used in petrol and diesel, and also the shorter ones used by the petrochemicals industry.

As electric cars and trucks take more and more market share, we'll end up with an ever-growing surplus of petrol and diesel, but the global consumption of plastics is likely to keep growing far longer. That means refineries are going to need to crack more and more medium-chain molecules into shorter-chain ones. Doing that is going to require extra hydrogen.

Turning the world's green hydrogen into takeaway boxes and water bottles feels like a disappointing outcome, relative to a future where hydrogen is used to achieve the really dramatic greenhouse gas emission reductions we need in the production of steel, cement, fertilizer and the like.

It shouldn't, however. On current form, dirty grey hydrogen is likely to be cheaper than the blue and green variants until 2050 at least, according to BloombergNEF.

If we want green hydrogen to ever reach the scale and price reductions needed to change that picture, it's first going to have to be adopted *en masse* by the biggest consumer of hydrogen, the petrochemicals industry. If dislocations in the refining business caused by the decline of the internal combustion engine help speed up that process, so much the better.

In short, any hope for the future of green hydrogen goes through China and its petrochemicals industry.

The foamy plastic insole in your trainers might not sound like much of a climate solution—but if it can help turn clean hydrogen from a pipe dream into a viable industry on the strength of mass-market consumer demand, it might be the best hope we've got.

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The US Fed's balance sheet: It cannot be shrunk any further

It wouldn't make space for lower interest rates in the US economy

BILL DUDLEY
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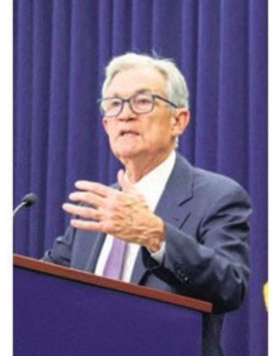

Fed chief Jerome Powell has endorsed the current 'ample reserves' regime. REUTERS

The US Federal Reserve's balance sheet has shrunk from a peak of $8.97 trillion in April 2022 to $6.56 trillion as it has unwound much of its Treasury and agency mortgage-backed security purchases undertaken as pandemic relief for the economy. This has bought the demand and supply of reserves into a closer balance.

Some advocate shrinking the balance sheet further for reasons ranging from reducing the Fed's financial-market footprint to allowing more volatility in money market rates (in order to better monitor incipient market stresses) and enabling more rate cuts. These advocates miss two points. *First*, that would not be an easy task, as it would require a dramatic change in how the Fed conducts monetary policy. *Second*, because a smaller balance sheet would not exert much restraint, it would not help lower short-term rates much.

The amount of reserves on the Fed's balance sheet has shrunk sufficiently to reduce the level from 'abundant,' where supply always exceeds banks' demand, to 'ample,' where demand can occasionally exceed supply, pushing up money market rates. As reserve conditions have tightened over the past two months, the federal funds rate has moved five basis points higher within its 25-basis-point target range. And repo rates have often risen above the rate available from the Fed's standing repo facility (SRF), encouraging banks to borrow from it.

With its journey from abundant to ample complete, the Fed will cease shrinking its balance sheet and end quantitative tightening. Soon, it will begin to buy US Treasuries to ensure that the supply of reserves remains 'ample' rather than 'scarce.' This will offset the drain in reserves caused by the growth in demand for dollars and fulfil rising demand for reserves by banks.

The amount of currency outstanding has increased about 3% over the past year, and if that trend continues, it would require about $70 billion in Treasury purchases in 2026. If bank demand were to rise at a rate equal to nominal GDP growth (perhaps 4%), about $115 billion of purchases would be required. Together, the Fed's total Treasury purchases would be less than $200 billion per year—a pittance relative to a $2 trillion annual budget deficit and outstanding Treasury debt held by the public of more than $30 trillion. Plus, the Fed would continue to roll over about $200 billion of mortgage-backed securities pre-payments into Treasury bills.

To shrink the balance sheet significantly further, the Fed would have to reduce demand for reserves by banks. To do this, it would need to make those reserves less attractive relative to other money market instruments. This is not straight-forward. When reserves shrink, repo rates rise and banks tap the SRF, which pushes the supply of reserves back up—negating any shrinkage of the Fed's balance sheet.

To push banks out of reserves, the Fed would either have to raise the rate on the SRF or eliminate it altogether. As reserves shrink, money market rates (including Treasury bill rates) would rise. And once these rates climb sufficiently, banks would be induced to hold higher-yielding Treasury bills and other money market instruments rather than reserves. In the end, banks would hold less reserves and more Treasury bills and other money market instruments, while the Fed would hold fewer Treasuries. One could engineer this outcome, but the transition would be difficult and the benefits modest, which is why Fed Chair Jerome Powell has endorsed the current ample-reserves regime. Banks would hold assets with less favourable attributes relative to reserves in terms of liquidity, ease of settlement and maturity. Money market rates would be more volatile and, with reserves scarce, banks would trade reserves among themselves, thereby increasing bank counterparty risk.

The only meaningful benefit would be that banks would no longer get a preferential rate on reserves relative to the rate available on Treasury bills and repos, and the Fed would no longer hold Treasury bills at rates slightly below the rate it paid on its reserves. This subsidy is modest, with interest rate paid on reserves at 4% and the four-week Treasury bill rate at 3.95%. Yet, it overstates the subsidy because the current four-week bill yield incorporates about a 80% probability that the Fed will cut rates by 25 basis points this month. Pushing banks out of reserves into Treasury bills would save the Fed (and by extension the US government) only about four to five basis points in my estimation.

After all this gymnastics, a smaller Fed balance sheet would exert little monetary policy restraint as its stance would still be determined by the level of short-term rates, not the size of the Fed's balance sheet. In short, further shrinkage of the Fed's balance sheet would not enable much lower short-term rates.

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| THEIR VIEW

Data rules: What's welcome need not be smooth sailing

VIKRAM KOPPIKAR

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At its core, India's Digital Personal Data Protection Act (DPDPA), whose Rules were issued recently, makes consent king. No personal data may be processed without "free, specific, informed, unconditional and unambiguous" consent for a "specific purpose." Such precision, in theory, should assure individuals of meaningful notice and control. But the Act also recognizes "Legitimate Use," a carve-out allowing data fiduciaries to process personal data without consent, unless the individual explicitly objects. Here lies an interpretative fork: if every usage must be individually specified and notified, when does 'legitimate use' ever truly apply? In effect, organizations are left with a puzzle: how to exhaustively abide by the rules while relying on loosely defined 'legitimate use' exceptions.

Unlike Europe's General Data Protection Regulation (GDPR), which offers flexible "legitimate interest" uses, provided rights are not overridden, India's model keeps the compliance screws tight. Indian businesses may find it challenging to draft consent forms that are both granular and operationally viable. The lack of exceptions such as those for fraud prevention or service improvement found in other jurisdictions adds yet another burden, particularly as the digital landscape evolves with AI, IoT and data-driven services.

Minors and consent—An untested frontier: Nowhere are DPDPA implementation challenges clearer than in the law's treatment of minors' data. The Rules require "verifiable consent" from parents or guardians against a backdrop of far-from-settled age verification standards. Data fiduciaries must verify ages as well as the authenticity of the adult providing consent, a logistical feat in any nation but profoundly so in one as diverse and differentially digitally educated as India.

Global data flows—Innovation at cross-purposes: For India's digital economy to continue its global march, seamless cross-border data flows are essential. Yet, the DPDP Rules empower the government to put the brakes on transfers by "significant data fiduciaries," with all others left to navigate potential future restrictions as central policy evolves. This ambiguity is a double-edged sword: while it gives legislators room to respond to new threats, it deprives enterprises of certainty, undermining business confidence, investments and the growing ambitions of India Inc's Global Capability Centres. To bridge this gap, many have called for standardized contractual transfer clauses, akin to those in the EU. These would let organizations comply through tested frameworks rather than risk sudden policy shifts, striking a balance between regulatory oversight and commercial reality.

India has finally set course for data privacy but the DPDPA rules form an imperfect lighthouse

Breach notification and the risk of noise: India is no stranger to headline-grabbing data breaches, with large-scale exposures rattling consumer trust. Accordingly, the DPDP Rules demand breach notification to consumers and the regulator within 72 hours. Cert-In, the government's cyber security agency, also requires incident disclosure within six hours. This overlap breeds a kind of regulatory *déjà vu*: companies must now notify two authorities (and sometimes the public) for even minor incidents, risking notification fatigue and administrative paralysis. Industry stakeholders argue for a Singapore-style threshold, where mandatory notification is reserved for incidents causing significant harm or impacting more than a set number of individuals. Without such refinement, India's breach regime may create so much noise that signals are lost in the noise.

Liability—where the buck stops: Major data breaches, including one at the Indian Council of Medical Research, have prompted lawmakers to affix liability for any data breach solely on the data fiduciary, irrespective of whether a vendor or sub-processor was responsible. While this may foster accountability, it hits at the heart of practical risk management. In contrast, the GDPR apportions liability based on contractual controls, adherence to instructions and oversight, thus allowing organizations to manage exposure and incentivize secure partnerships.

For India's C-suite, this means re-examining vendor contracts with newfound urgency. Legacy arrangements will need wholesale renovations to clarify liability, indemnities and escalation procedures. The coming 18 months, the Rules' compliance window, will be a scramble as businesses fortify supply-chain obligations.

The path to effective privacy: Despite operational headaches, India's new personal data protection framework lays a foundation for a digital economy aligned with privacy rights and international best practices. Our privacy law has been years in the making and it already lags technological advancements such as artificial intelligence (AI). All eyes will be on the Data Protection Authority, which is expected to update existing definitions. Moreover, as Indian society is largely unaware of privacy as a right, a grassroots government campaign that alerts citizens of it should help the Rules take effect and organizations serve people better.

Lastly, countries such as the Philippines provide 'certifications' to organizations that have demonstrated compliance with privacy regulations and this could fruitfully be emulated by Indian authorities.

India has finally adopted a path of privacy enforcement. Smooth sailing will depend on organizational ingenuity as much as on the legislated provisions. The privacy of a billion plus individuals is at stake here.

| MY VIEW | MUSING MACRO

Rare-earth magnets: Why an 'India fix' is not enough

AJIT RANADE & VIJAY L. KELKAR

are, respectively, senior fellow and vice president, Pune International Centre

Earlier this year, a Pune firm quietly solved a problem that has vexed policymakers for decades. Ashvini Rare Earth commissioned India's first plant to produce neodymium–praseodymium (Nd-Pr) metals, essential for the permanent magnets that drive electric vehicle (EV) motors, wind turbines and high-end electronics. On paper, this should have been a turning point. With a domestic source finally emerging, why didn't India's leading EV makers—Ather and Bajaj Auto included—switch from Chinese magnets to homegrown supply? As *The Ken* reported, they mostly haven't. India may produce the raw rare-earth metal, but it still depends heavily on China for these magnets and the technology that makes them.

This gap between metals and magnets reveals a deeper reality. The geopolitical supply chain has grown too entrenched to unwind quickly. What looks like an 'India solution' was only partial, arriving late and without the scale or reliability required. There is a reason why Ather and Bajaj still buy Chinese magnets. Those needed for EV two-wheelers are sintered NdFeB magnets, far more advanced than the bonded magnets historically made in India for sensors and small motors. Even with the Nd-Pr breakthrough, India lacks commercial-scale capability in sintered magnets that meet automotive-grade quality.

The persistence of Chinese sourcing is thus structural, not ideological. China dominates refining and magnet manufacturing, thanks to decades of subsidies, scale and tolerance for environmental costs. Indian firms like Sona Comstar, Uno Minda and Mahindra are testing magnet lines, but few produce at EV volume. And switching magnet suppliers is not like swapping screws. It involves product redesign, safety testing, re-homologation and warranty risk.

So while India now produces some rare-earth metals, the risk of using unproven magnets is too high. When China recently tightened export rules on heavy rare-earth magnets, Ather, Bajaj and TVS felt the shock.

This is a preview of a wider vulnerability. China has weaponized its control over various crucial inputs. It has an export licensing regime for gallium and germanium (critical for semiconductors and telecom), and controls on graphite (EV battery anodes). Supply chains have become tools of statecraft. Yet, our vulnerability also reflects years of underinvestment in domestic capacity. We relied on cheap imports instead of building strategic resilience. And now upstream capacity cannot be built overnight.

To reduce dependence on China, we need smart fiscal support for local suppliers. We must take care of three things: (a) high capital costs for cells and refining; (b) long learning curves to achieve automotive grade yields; and (c) the risk of factory demand switching away.

Geopolitics and our dependence on China form a complex scenario that calls for a very broad strategy

Fiscal tools can include capex subsidies and long-term low-cost credit. And incentives linked to volume, quality and reliability, not just capacity. This has to be selective, focused and time-bound. Another fiscal approach is to cover first-loss capital or back private investment with a sovereign guarantee. Demand aggregation, as done for LED making, can be used to pool multi-year purchase contracts across automobiles, electronics, railways and PSUs to assure suppliers scale.

To augment domestic capacity, countries like the US, EU, Japan and South Korea all have fiscal components to their industrial policy. The US Chips Act supports local semiconductor, battery and clean-energy manufacturing. The EU has outlays to support batteries, hydrogen and critical materials, and a proposed Critical Raw Materials Act to limit single-country dependence. Japan is attracting TSMC fabs. This is neither full decoupling nor self-sufficiency.

India's production-linked incentives echo this philosophy, but the difference between success and mediocrity will lie in full value capture. The proposed Rare Earth Permanent Magnet mission may be the missing piece that moves India beyond rare-earth metal production to full-scale NdFeB magnet making.

As for geopolitics, must we pick a camp? China will remain a major trade partner and we can't decouple from it abruptly. Magnets, wafers, telecom cores, battery materials and pharma inputs all need diversified sourcing: some domestic, some allied, some Chinese. India needs neither a hostile stance towards nor a full embrace of China, but strategic symbiosis. Where dependence is low, we can trade freely for mutual benefits. Where chokepoints exist, we can de-risk aggressively. We can pursue alliances and fiscal support to build alternative capacity. And we must stay away from rigid blocs while supporting a rules-based trade order.

The magnet story is not about corporate reluctance or lack of nationalism. Ather and Bajaj chose the only reliable option available and it exposed the cost of delayed upstream investment. Now that geopolitics has entered the bill of materials, India must treat all critical inputs as strategic infrastructure—and use targeted fiscal policy, regulatory clarity, long-term contracts and global partnerships for minerals and technology. The Niti Aayog could map out the potential strategic challenges, so that 'insurance' or countervailing measures can be planned much ahead. And large upfront subsidy to industry should include a clause giving the government a "carried" interest in gross profits. Success would help India move beyond being just a vast market and assembly hub to becoming a producer of materials and technologies in fast-growing demand.

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THEIR VIEW

What's the ideal policy response to China's tidal wave of exports?

Import barriers don't work but policymakers must still address its impact on domestic innovation, jobs and national security

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AFP

As China's trade surplus grows, with its merchandise exports increasingly dominating global markets, the rest of the world is grappling with how to respond. Should countries erect trade barriers against China? Try to decouple from China by reshoring manufacturing and building national supply chains? Emulate its strategy of boosting manufacturing through industrial policies?

Policymakers must begin by asking why China's exports are a problem in the first place. After all, cheap imports epitomize the gains from trade. In important areas such as renewables, Chinese innovation and manufacturing prowess have produced significant climate benefits—a global public good. Moreover, bilateral trade deficits on their own are of little concern. Large overall trade imbalances can be a problem, but these are better handled with macroeconomic policies than with sectoral strategies aimed at China.

Still, there are three sensible arguments for why China's exports are problematic. These centre on national-security considerations, the impact on innovation and job losses. Each of these motives calls for a separate strategy. But because current policymakers too often conflate them, we have gotten bad policy outcomes instead.

Start with national security. Leaders in the US and Europe increasingly view China as an adversary and a geopolitical threat. Hence, there is a valid justification for trade and industrial policies that protect strategic and defence interests, such as by reducing dependence on critical military supplies and safeguarding sensitive technologies. When such measures are deployed, governments have an obligation to show citizens—as well as China, lest international tensions be magnified—that their policies are appropriately targeted at national security-related goods, services and technologies, and that they are well-calibrated to avoid exceeding their objective.

Here the 'small yard, high fence' strategy that Jake Sullivan, former US president Joe Biden's national security advisor, articulated remains the correct approach. Applied in earnest, this doctrine would ensure discipline in the use of trade measures for national-security purposes. It would also encourage a mutual exchange of explanations and dialogue, thus preventing harmful escalation.

Next, consider innovation. The concern here is that China's exports could undermine innovative capabilities in importing countries, reducing the prospects for future prosperity. Although manufacturing employs an ever-smaller share of advanced economies' labour force, it remains a disproportionately large source of R&D and innovation spillovers. When those activities are crowded out by Chinese imports, the gains from trade are reduced or even transformed into losses. But addressing this problem also requires a calibrated response. Policies must focus on more advanced segments of manufacturing, where the prospects for new technologies and innovation externalities are greatest. It makes little sense to protect consumer goods or established industries that use standard technologies. In autos, for example, the US and Germany should focus on the next generation of electric vehicles, rather than on the mass-market EVs that China is so good at making.

The right way to counter Chinese imports in technologically sophisticated areas is to deploy modern industrial policies that directly encourage investment and innovation through the provision of public inputs, coordination and subsidies where necessary. In effect, other countries should emulate China's own industrial policies, though with appropriate adaptation to local economic, political and institutional contexts. Import protection is at best a temporary shield behind which such policies can produce their fruits over time.

Finally, consider jobs. There is a legitimate concern that Chinese imports produce adverse effects on employment, particularly in lagging regions where competing industries are concentrated (the so-called China shock). This concern goes beyond traditional equity considerations. Localities that experience job losses tend also to exhibit social and political dysfunction: rising rates of crime, family breakdown, opioid addiction, mortality and support for authoritarian populism.

A focus on jobs, however, does not justify support for manufacturing and import protection. It is difficult to see how the jobs lost in manufacturing can be replaced, no matter how much reshoring is accomplished. For nearly a decade, the US has pursued a manufacturing revival, variably through import tariffs (during President Donald Trump's first and current terms in office) and industrial policies (under Biden). Yet manufacturing's share in employment has continued to decline. European countries have experienced similar trends, though from different starting points.

A critic might argue that a more aggressive stance toward Chinese imports could reverse this trend. But such optimism is undercut by the fact that China itself has been losing tens of millions of manufacturing jobs even as it continues to dominate the sector. More aggressive policies may bring some manufacturing back, but few jobs will be created as a result. Automation in manufacturing can no longer be undone.

Good jobs are essential for the middle-class. A good jobs strategy must focus on services such as care, retail, hospitality and gig work, since these will continue to absorb the bulk of future employment. This can be accomplished through a combination of regional development initiatives based on partnerships between government agencies and business, and additional investment in labour-friendly technologies that augment and expand the range of tasks performed by workers without a college education. Both legs of this strategy require government action, but of a very different kind than protecting domestic manufacturing.

China's export machine is a wake-up call for policymakers everywhere. But import barriers are the wrong response and distract from the real priorities. Policy should be driven by clear economic, social and national-security objectives. These typically call for targeted responses focusing on relatively narrow segments of manufacturing. And in the case of jobs, they require a reconsideration of manufacturing's role in generating economic prosperity.

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OUR VIEW

REUTERS

Statistics: IMF's report card need not alarm us

The Fund's criticism of India's macroeconomic estimates is best taken as a cue to further improve the country's statistical framework. Thankfully, remedial work has already begun

Even as we bask in the glory of our 8.2% GDP growth for the second quarter of 2025-26—highest in the past six quarters, fastest among major economies and so on—the International Monetary Fund's (IMF) *Annual Staff Report* has taken some of the shine off. In its report for India, part of its 2025 Article IV consultation, released just a few days before the ministry of statistics and programme implementation (MoSPI) released that cracker of a growth figure, the Fund has retained its 'C' grade for India's national account statistics (or GDP numbers) on a scale from A to D. In the IMF's view, Indian data has "some shortcomings that somewhat hamper surveillance."

That delightfully vague statement would leave most trackers of our macro numbers no wiser about the precise nature of these shortcomings. What is undoubtedly true is that, as with any estimates of macro fundamentals, there is scope for improvement. We need regular revisions of national accounts, price data and other key statistics in accordance with the world's best practices, just as the government must conduct a population census on a priority basis and publish consolidated general fiscal accounts without delay. But what is equally true is that statistical revisions, whether in India or in advanced economies, are par for the course. The more important question, therefore, is whether India's revisions are free of political motives—unlike in Greece and Argentina, both of which were found to have fudged their data. Also, whether we are taking steps to improve our methodology, coverage and transparency. On balance, the answer to both questions is 'yes.' MoSPI has been working hard to improve key macro indicators. The Index of Industrial Production is slated to change. So is the Consumer Price Index; this gauge of retail inflation will not only update its base year from 2011-12 to 2022-23, but also alter its basket of items being tracked on the basis of India's Household Consumption Expenditure Survey of 2023-24. As for GDP estimates, MoSPI has launched several surveys, including one of the services sector that accounts for almost 60% of our GDP but lacked separate estimation. While critics worry about weakly captured informal sector activity and the 'deflator' used by MoSPI to adjust nominal growth for inflation, some progress has clearly been made.

Timely and reliable data is the bedrock of sound policy formulation. India's periodic labour force survey is now done every month, offering a better picture of unemployment, while the survey of unincorporated enterprises provides a clearer snapshot of a large chunk of the economy. Unlike earlier, when informal sector data was picked up only at the time of base revision, it will now be done regularly, helping make GDP estimates more robust. This is not to say that official numbers should not be held up to scrutiny. They must. The deflator deployed to calculate real GDP growth, for instance, needs either fixing or a explanatory note from MoSPI. In recent months, this ministry has done a remarkable job of keeping the public informed. India's political class, regardless of the government in power, must also be given its due. Unlike in the US, where President Donald Trump sacked the commissioner of the Bureau of Labor Statistics over joblessness data, we have not seen the head of a department fired for doing his or her job. Indian data may be imperfect, but the fault is not in our stats as much as in our operational constraints.

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THEIR VIEW

Banking sakhis have a key role in India's financial inclusion efforts

They have taken banking services to rural regions and we now need to strengthen their network

CHARANJIT SINGH
is former additional secretary to the ministry of rural development and advisor, Transform Rural India (TRI)

The job profile of Sarika Arjun Chauhan, a banking correspondent (BC) Sakhi from Barwani district, Madhya Pradesh, offers a shining example of grassroots financial empowerment. As a trained member of a self-help group (SHG), she delivers doorstep banking services to rural Indians—from opening bank accounts and handling cash transactions to Aadhaar seeding. She handles ₹1.5-2 crore worth of transactions monthly and has completed over 62,000 of them worth a cumulative ₹65.15 crore.

Chauhan's work is part of a transformation driven by the Deendayal Antyodaya Yojana-National Rural Livelihood Mission (DAY-NRLM), which promotes financial inclusion by linking SHGs to banks. With over ₹11 trillion in loans disbursed and non-performing assets (NPAs) below 2%, the programme has built a strong cadre of community resource persons, including Krishi Sakhis (for agriculture), Pashu Sakhis (livestock) and BC Sakhis for digital finance.

The need for BC Sakhis is evident in credit distribution patterns. According to SBI Research, metro areas receive 60.6% of bank credit, while rural areas get just 7.7%. States like Tamil Nadu and Telangana exceed the national credit-deposit ratio average of 79.9%, while Jharkhand, Bihar and the Northeast lag. For rural women, banking often means long travel barriers (and lost wages) that BC Sakhis help eliminate.

Launched in 2017 with World Bank support, the BC Sakhi initiative aims to place one BC agent in each of India's 150,000 Gram Panchayats (GPs). These agents foster financial inclusion by documenting financial histories, delivering direct benefit transfers (DBT), offering insurance and channelling rural savings into formal systems.

The selection criteria for BC Sakhis includes Aadhaar enrolment, a clean financial history and smartphone literacy. Candidates undergo six days of residential training at Rural Self Employment Training Institutes, followed by certification from the Indian Institute of Banking and Finance. Impressively, 96.5% of trainees have passed.

Today, over 142,000 SHG women serve as BC Sakhis, offering services like account management, cash transactions, digital payments, loan facilitation, pension distribution, Aadhaar seeding and insurance under Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), Pradhan Mantri Suraksha Bima Yojana (PMSBY) and Atal Pension Yojana. They also extend services beyond banking hours and raise awareness of financial products.

A 2024 Truagrico study highlighted the initiative's impact, from increased savings and better financial planning to reduced fraud and greater trust in digital transactions. BC Sakhis have enabled agricultural loans, business expansion and entrepreneurship. Notably, they have advanced women's financial independence and community standing.

Banks benefit too. BC Sakhis have boosted customer acquisition as well as engagement, expanded outreach and reduced branch footfall. Their role in utility bill payments adds further value. To date, they've conducted over 375 million transactions worth ₹1.42 trillion. During the covid lockdown, they disbursed nearly ₹6,000 crore, proving indispensable. Their success lies in familiarity and trust. Being locals, they connect easily with villagers, offering both formal and informal financial guidance. They act not just as service providers, but agents of financial inclusion. Thus, describing BC Sakhis as 'silent revolutionaries' is no exaggeration.

But challenges remain. In poorer areas, fewer transactions mean lower earnings. The equipment in use is often old and some corporate BCs resist deploying women agents. To address this, banks are urged to create a central BC registry for better data analytics and policymaking. The ministry of rural development and National Bank for Agriculture and Rural Development (NABARD) are exploring a dedicated corporate BC model for women.

To strengthen the initiative, several steps are recommended:

Advanced training in digital banking, cybersecurity, entrepreneurship and financial planning by using blended learning for varied literacy levels; refresher courses on new financial products, tech updates and government schemes; expanded services including micro-insurance, loan processing, utility and mobile payments, and BC training for them to act as information hubs for government programmes; upgraded infrastructure involving the adoption of biometric devices and so on, point-of-sale terminals and improved internet connectivity; structured engagement between BC Sakhis, banks, NRLM staff and communities to build trust and coordination; and revised commission models that reward transaction volume and diversity, with special support for low-income regions like the Northeast and aspirational districts.

Despite some challenges—the digital divide, connectivity issues, security concerns and the need for advanced training—BC Sakhis can be a transformative force. But for this to happen, they must be dynamic and responsive to changing circumstances. It would help India become a developed nation by 2047 and deliver prosperity to rural communities through inclusion.

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Inspector raj rollback: Let's turn this small start into a crescendo

India has begun to clear up a regulatory thicket that should proceed apace to give all our businesses more space to breathe

NIRANJAN RAJADHYAKSHA
is executive director at Artha India Research Advisors.

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The past few months have seen a spate of policy changes aimed at reducing the regulatory burden on Indian enterprises. Here are a few examples. The government has withdrawn 114 quality control orders that were ostensibly put in place to protect consumers but in effect hurt access to cheaper imported inputs for smaller companies, though far too many such orders still remain. The government has notified its four new labour codes covering wages, industrial relations, social security and working conditions nearly six years after they were cleared by Parliament.

Meanwhile, Niti Aayog has reportedly finalized a report that suggests radical changes in the way government agencies oversee the operations of companies, ranging from registrations to inspection, based on a culture of trust rather than suspicion. Several Indian states have been changing their rule books on everything from building bye-laws and working hours for women to regulations on land use. And the Reserve Bank of India has repealed 9,446 circulars to replace them with 244 master directions to the lenders it regulates.

The 1991 reforms dismantled the licence raj, but largely left the inspector raj untouched—the rule of the factory inspector, labour inspector, pollution inspector, tax inspector and so on. Many have draconian powers. In that context, the recent policy changes should be seen more as an overdue start towards deregulation, rather than the completion of the very difficult task of simplifying a tangled mess of rules across levels of government, departments and regulatory agencies—an opening note rather than a crescendo.

The underlying culture has long been one of suspicion rather than trust. When Jaswant Singh took over as finance minister in 2002, he had summoned senior tax officials to tell them that no civilized country conducts tax raids on its own citizens. Not a single tax raid was conducted during his two years as finance minister. There is a lesson there for how the Indian state deals with its entrepreneurs over a wide spectrum of regulations.

Why does deregulation matter? One good place to start is by taking a look at the Enterprise Surveys of the World Bank. These surveys are one of the most comprehensive firm-level data-sets on the business environment across countries. They gather information directly from business owners and top managers, covering a wide range of topics including access to finance, corruption, infrastructure challenges, workforce skills, regulatory burdens and competition.

Take a look at two simple metrics reported in the World Bank's Enterprise Surveys: the average time spent by senior management in dealing with government regulations and the proportion of firms identifying business licensing and permits as a major or very severe constraint. A comparison with some developing Asian economies such as China, Vietnam and Indonesia shows the extent of the excess regulatory burden on Indian companies. Interestingly, this pattern remains unchanged even if one digs one level deeper. The numbers are broadly the same for small enterprises (5-19 employees), medium enterprises (20-99 employees) and large enterprises (over 100 employees). However, larger firms have the ability to hire professionals to deal with various foot-soldiers of the inspector raj. Small firms are less likely to have the resources to do so.

An outsized regulatory burden

Indian businesses report disproportionate licensing constraints and time spent on regulatory compliance.

■ Firms identifying business licensing and permits as a major constraint (in %)

■ Self-reported senior management time spent dealing with government regulation (in %)

Source: World Bank Enterprise Surveys

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Easing most of this excess regulatory burden should hopefully help in dealing with one of the less appreciated issues in India—the problem of 'the missing middle.' Between large established enterprises at one end and tiny suboptimal enterprises at the other, India does not have enough firms in the middle of the distribution. They are the key to robust job creation. The sixth economic census conducted more than a decade ago showed that the average Indian enterprise employed just 2.24 workers. Indian enterprise has a problem of scale and hence of productivity.

A recent report by the International Monetary Fund says that nearly 75% of manufacturing establishments in India employ fewer than five paid workers, compared to 38% of manufacturing establishments in the US. Other research shows that firms that survive in a competitive market tend to grow rapidly in the US, but they stagnate in India. The productivity gap between small firms and large firms in India is more than twice that in the US. Also, small firms are usually young firms in the US, while they are not necessarily so in India. There are a host of reasons why this is so, including lack of access to formal finance. But there is no doubt that regulatory and compliance burdens and the time spent by small entrepreneurs on dealing with it are a big part of the answer as well.

At the core of the deregulation argument is the issue of economic freedom, as Bhuvana Anand of think-tank Prosperiti, which works with several state governments on land market and process reforms, wrote in an article in *Business Standard* last week. The national discourse often implicitly assumes that economic growth falls from the skies. It is enterprises—from the smallest workshop to the largest company—that invest, innovate, trade and employ. The current deregulation initiatives, and perhaps more in the coming months, will hopefully give them more space to breathe.

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What this year's Economics Nobel prize means for India

PRACHI MISHRA

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Two centuries of sustained growth has transformed living standards. In the US and UK, GDP per capita more than doubled every generation, a cumulative twentyfold increase. What accounts for such massive growth? Technological change.

Consider telephones: from rotary dials to smartphones, each leap has been creative. But it's also destructive, as each new phone outmodes its predecessor. This year's Nobel Prize in Economics honours the scholars who decoded this paradox. How did sustained economic growth begin and how did it continue despite the disruption it causes? The answers carry profound implications.

Laureate Joel Mokyr notes that technological innovation alone can't explain economic growth because technological change predates sustained growth. For millennia before the Industrial Revolution, major innovations took place: the heavy plough, printing press, etc. Yet, GDP per capita in England, Sweden *et al* barely budged for four centuries. Mokyr identified the crucial prerequisites.

First, "useful knowledge" must combine prescriptive knowledge (instructions for operating a technology) and propositional knowledge (scientific understanding of why it works). *Second*, skilled mechanics and engineers were needed to translate ideas into economic reality. Finally, societies required openness to change: institutions that let competing interests negotiate and come up with mutually beneficial compromises, unlike the resistance of Luddites, for example, who destroyed textile machinery.

The other laureates, Philippe Aghion and Peter Howitt, created a mathematical framework of creative destruction, where new innovations continually replace older ones to sustain growth. It reveals two crucial insights: creative destruction can generate stable aggregate growth despite firm-level disruptions and moderate market power is essential for innovation. While monopolists can block entry, too much competition can leave little incentive to innovate. Governments must balance support for innovation against the "business stealing" effect. Technology could also bite back: higher pollution and privacy invasions can lead to further innovations or "destructive creation." The model guides practical questions: How should we set R&D subsidies? How do we design safety nets for workers displaced by technological change? The Nobel laureates' message is sobering: 200 years of unprecedented economic growth is brief compared to millennia of stagnation. We must not take progress for granted. Instead, we must nurture the factors that sustain growth.

> **Adapting to technological change is a must for growth but disruption management needs attention**

For India, three critical challenges emerge. *First*, with limited resources, should India aim to innovate at the frontier or adapt existing technologies? Most economies aren't at the technological frontier, yet many experience substantial growth. The bicycle race analogy is instructive: being second, sheltered from the wind, can still mean reaching the finish line in impressive time. Perhaps more important than frontier innovation is the widespread deployment of new technologies, through labour market organization, efficient bankruptcy and skill development. Less glamorous than building AI centres, but likely more consequential.

Second, India must adapt technologies to its unique context. As a labour-abundant country with expanding working-age cohorts, basic economics suggests emphasizing labour-intensive production. Yet, paradoxically, India increasingly adopts capital-intensive technologies, with exports shifting from textiles to engineering goods.

Consider AI's potential. Nearly half of India's working-age population works in agriculture, where AI can enhance productivity. The PM-Kisan chatbot makes direct benefit transfers accessible through voice-enabled information. This approach could extend to the Public Distribution System and other programmes where digital literacy limits access. Technology can be adapted for developing contexts. The challenge is scaling it cost-effectively.

Third, India must address labour market disruptions from technological transitions. Active labour market policies like training programmes, skill development and employment subsidies plus passive policies like unemployment insurance can mitigate the adverse effects of major transitions. Yet, globally, median spending on active programmes is merely 0.3% of GDP. India's spending focuses primarily on active schemes like the rural job guarantee, rather than passive unemployment insurance and other benefits. With over 90% of jobs informal and lacking social security, workers have minimal support between jobs or for reskilling across sectors. The fundamental question isn't whether technological change generates aggregate benefits. It's whether societies can implement complementary policies to ensure equitable distribution.

The Nobel Prize reminds us that sustained prosperity requires more than brilliant innovations. It demands institutional frameworks that harness creative destruction while protecting those it displaces. For India, this means making strategic choices on innovation versus adaptation, ensuring that technologies fit local contexts, and investing in labour markets. The new labour codes are an important reform. Two centuries of growth have transformed humanity, but the next chapter depends on whether we can maintain openness to change and adaptation while managing its inevitable disruptions. Our greatest challenge lies in finding innovative ways to maintain this balance.

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Sanchar Saathi: Demand should drive downloads

Telecom security is a valid public goal but government apps shouldn't be forced upon phones. As with other state-run apps, let its utility drive adoption. But first, address privacy concerns

Soon after its order on keeping chat apps linked to phone SIM cards even for web access to such messaging platforms, India's Department of Telecommunications (DoT) issued a fresh directive aimed at tightening network security further. This one is likely to ruffle even more feathers. DoT has asked smartphone makers to pre-install a government-run cybersecurity app called Sanchar Saathi on all new devices. This app must be placed prominently to catch attention the first time a phone is used. Despatched handsets would have to be loaded through remote updates of software. One wouldn't have flinched had it not been for the order's mandatory nature. Manufacturers seem taken by surprise and left staring at an awkward burden. If phones already in use are also targeted for compulsory installation, the app could acquire all-India reach. Since the app's backbone is a central device registry, this may serve the purpose of ensuring that every phone—identified by its unique IMEI number—is held by its rightful owner, thus reducing the scope for telecom misuse, especially via fake IMEIs. Coercion, however, arouses suspicion, which is reason enough for a rethink.

To be sure, telecom minister Jyotiraditya Scindia has said that it would be possible to offload Sanchar Saathi. This is a choice everyone must have. Asking people to opt out if they don't want it, instead of opting in if they do, may be consistent with 'nudge theory' to promote adoption. But it does little to allay fears of the app's very activation resulting in privacy exposure, given that India's personal data protection regime is yet to take effect, although the government has carved out escape hatches for itself from this law, and the app asks for access to a bewildering range of one's data. One way to reassure the concerned would be to have an independent agency verify that the app does not exceed its stated security brief, nor pry into private spaces. The surest way to soften market resistance, though, would be to let the app's utility lead its adoption curve. As reported, it has already notched up millions of downloads. Voluntary usage has seen other government apps make headway. The facial recognition backbone of DigiYatra helps users breeze through airport security, for example. DigiLocker lets us digitally store and share official documents like Aadhaar; traffic police need no longer be handed over licence cards, as the app lets a verified digital version be shown. The primary pitch of Sanchar Saathi, which means 'communication partner' in Hindi, is the ease with which it allows one to get a stolen or lost phone blocked, killing chances of its misuse. It also lets us report spam and guard against identity theft by checking if mystery mobile connections exist in our name. Those who see value in this package do not need a push to install the app. Its appeal should suffice.

In general, it would be best if state-run apps compete with others for phone space. Manufacturers already have various rules to comply with and should be spared a pre-loading burden. How Apple responds is of particular interest, as it claims to run costly tests on apps before it lets them onto its devices. DoT could argue that it is in every stakeholder's interest to keep Indian telecom networks secure. But it should weigh this point against what its mandate implies for the liberty of businesses and the freedom of phone users to choose apps. For Sanchar Saathi to act as a protective shield, it must win public confidence, not demand it.

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The US economy presents a case for being 'cautiously optimistic'

Indicators suggest weakness but it won't last long and a recovery would be good for global growth

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This has been a bumpy year for the American economy. Although there was a massive boom in artificial intelligence (AI)-related investments, uncertainties caused by US President Donald Trump's tariffs and other polices curtailed growth in the second half of the year, and disruptions to official employment and inflation data as a result of America's longest-ever government shutdown have further clouded policymakers' perceptions. The big question now is what 2026 will bring.

There are three possible scenarios. In the baseline case, the US will suffer a growth recession (meaning below-trend gross domestic product, or GDP, growth) for a few months, followed by a recovery and a gradual decline in the inflation rate toward the US Federal Reserve's 2% target. Think of this as 'the Goldilocks scenario' [referring, i.e., to an economy that's not too hot, nor too cool].

In the second scenario, the American economy experiences a shallow recession for a few quarters, followed by a slower return to growth than in the first scenario.

And the third scenario features a 'no-landing' outcome in which growth remains strong but inflation does not fall toward the Fed's target rate.

The Goldilocks scenario is the baseline because market discipline, good advisors and a still-independent central bank (notwithstanding Trump's periodic threats) have already forced the White House to blink and climb down from the high tariffs announced on 2 April.

Since then, the Trump administration has negotiated various trade deals and frameworks featuring more modest tariff increases (often in exchange for commitments to invest in America). As a result, US and global growth have slowed somewhat, but inflation has risen only modestly.

If there is a strong recovery by the middle of next year, it will be driven by several factors: further monetary easing by the Federal Reserve; fiscal stimulus that is still in the pipeline (most of the recently legislated spending cuts will not occur until after the 2026 midterm election); strong household and corporate balance sheets; easy financial conditions (owing to high equity prices, low bond yields and credit spreads, plus a weaker dollar); and the strong tailwinds from capital expenditure relating to AI.

Moreover, inflation in the US may peak and then start to fall next year as the base effects of tariffs wane, and as technology-driven productivity gains start to reduce costs and unlock new efficiencies.

While the second scenario (i.e., of a short, shallow recession with a slower recovery) cannot be ruled out, it is less likely than the baseline. The effects of tariffs tend to appear with a lag, which means that US trade policies could still push up inflation, thereby eroding real wages and further weakening consumer confidence.

There is already talk of an emerging 'K-shaped economy,' in which high-income households thrive and lower-income households struggle. Business confidence also could take a hit, especially if concerns about an AI bubble lead to a large equity-price correction and softer capital expenditure.

But even in this gloomier scenario, the recession would be short and shallow, because the Federal Reserve would cut rates more aggressively and fiscal authorities may intervene with additional stimulus to support economic recovery.

Finally, the upside, no-landing scenario cannot be ruled out, because some recent indicators suggest that the US economy is more resilient than many previously thought. For example, the apparent slowdown in hiring may be driven by a fall in labour supply—owing to the Trump administration's crackdown on immigration—and early productivity gains from new or recently adopted technologies.

Tight product and labour markets would lift wages and promote overall growth, and core price inflation (excluding food and energy) would remain closer to 3%

In this case, those on the interest-rate-setting Federal Open Market Committee (FOMC) who worry about overheating would have the upper hand, and the Fed may refrain from cutting rates as long as above-potential growth and above-target inflation persist.

That said, this last scenario is not the baseline (most likely) because other recent indicators do point to economic weakness. Moreover, various geopolitical headwinds—like a worsening of Sino-American trade tensions and overall relations, or a new conflict that causes oil prices to spike—could always push the economy into the recession scenario. Fortunately, such shocks have largely been contained, and one must hope that they will remain so.

If the US economy stages a recovery in 2026 and if the Chinese economy remains resilient and maintains growth close to 5%, the global outlook will improve. Advanced economies and emerging markets alike would be on track for stronger growth compared to what we saw in 2025. Even if important downside risks remain, one can be cautiously optimistic heading into the new year.

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THEIR VIEW

Electricity: Empowered markets need good regulation

SHUBHRANSHU PATNAIK

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The power sector has emerged as a key lynchpin of the economic engine that the government is revving up to help drive India's growth in times of geopolitical tumult. The distribution business continues to be a bugbear of the power sector, with snags that curtail the ability of consumers to benefit from modern technology, be it the low cost of solar electricity or smart meters that enable consumers to schedule some part of their consumption (like the use of washing machines) to reduce bills.

Successive governments have tried to address this problem with repeated rounds of financial restructuring and bailouts, beginning with the one-time settlement of dues owed to Central-sector power generators in 2002. A decade later, distribution companies (discoms) again amassed large payables and unserviceable debt, contributing to economy-wide concerns of a 'triple balance sheet' crisis, with debt contagion at risk of spreading to lenders, other financial institutions and power-generation firms. To mitigate this, in 2015, the Ujwal Discom Assurance Yojana scheme was implemented, wherein states took over liabilities of about ₹2.3 trillion by issuing bonds to financial institutions.

The financial overhaul proved inadequate to stem the haemorrhage as distribution losses kept mounting. In 2021, the Revamped Distribution Sector Scheme addressed this issue by making central financial assistance contingent on achieving minimum operational improvements. This outcome-focused approach has begun to show positive results. Average technical and commercial losses have declined from 22% in 2020-21 to around 16% 2023-24. Moreover, there are early signs of improved cash-flows in 2024-25 due to more timely subsidy disbursals by state governments. Sustaining this positive trend will, however, require deeper structural and governance reforms, including greater private participation in urban distribution.

The ministry of power's draft Electricity (Amendment) Bill, 2025, seeks to enable this. It addresses several critical regulatory issues in electricity distribution and proposes other timely reform measures. Key changes include *suo motu* tariff determination if regulated entities fail to file submissions on time, cost-reflective tariffs and the elimination of cross-subsidies for manufacturing enterprises, Indian Railways and metro railways within five years. The bill also proposes Central powers to remove state regulators for wilful violations or gross negligence and faster time-bound adjudication.

While these steps are necessary and give statutory force to principles articulated in rulings of the Appellate Tribunal for Electricity as well as the Supreme Court, they stop short of addressing the core issue—the operational independence of state regulators. Two decades of experience reveal significant challenges to their autonomy envisioned under the Electricity Act. These have manifested as long gaps in tariff orders, persistent shortfalls in cost-reflective tariffs and the accumulation of significant regulatory assets (money owed to discoms by the state but not paid) across states. Achieving genuine independence for state electricity regulatory commissions will require a national consensus and is a worthy reform initiative to pursue.

India's new legislative proposals brighten the outlook but reforms need to go further

One possible approach is to transition from state to regional regulators, with selection committees comprising representatives of concerned states and the Centre. Creating a dedicated all-India regulatory cadre would aid this effort with domain expertise. A consensus on such reforms is not easy to attain in a federal system, but the present political context—with greater alignment between most states and the Centre—makes this an opportune moment.

As for the proposed bill, a key amendment that could be improved upon concerns the permission granted to a distribution licensee to use another licensee's network in an overlapping area of supply. The second licensee is exempt from universal service obligations to large consumers, subject to the state regulator's approval and consultation with the state government. No doubt, shared network access would lower entry barriers for new suppliers and let large consumers procure power competitively without cross-subsidy surcharges or the capital costs of parallel networks.

However, this looks more like a workaround than a clean and transparent structural separation of wires and supply businesses—the direction in which mature electricity markets have moved. It also risks suppliers cherry-picking large consumers without committing to genuine universal service. We need a clear structural separation between the network and supply businesses with transparent tariffs for each, especially for an era of 'green open access,' where consumers procure renewables from resource-rich areas across the country but will also need to rely on the incumbent network for periods when it is not available. This will help businesses pursue their net-zero goals.

Looking ahead, grid modernization, digitalization and climate resilience will demand large investments in distribution—estimated at about $500 billion by 2050. Relying solely on public financing is neither feasible nor efficient. To realize India's Viksit Bharat vision, we must prioritize regulatory independence, separate network access from supplies, enable transparent cost recovery and foster private investment, particularly in urban distribution.

Strengthening these foundations will enable the power sector to play the role it must in India's economic emergence.

MY VIEW | MYTHS AND MANTRAS

Is there an AI bubble? Here is a look at what's brewing

DEVINA MEHRA

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The question I am asked most often these days is whether there is an artificial intelligence (AI) bubble forming in global markets. Rather than offering my opinion, let me tell you some facts.

Yes, I do have concerns. Especially if one looks at the US market. Its move has been very narrow. It has basically been a tech move, and even within that, just a handful of companies have been powering the whole rally. Even globally, the whole equity market move has had a contribution of 70% from technology stocks. Among Nasdaq shares, the biggest returns have come from companies with either no revenues or no profits. And there is this mindset around new technologies, an almost irresistible urge to 'go chase the next new thing.' But it's often just a mirage. Because the real questions are:

How long will this new technology take to succeed? Who will actually succeed? Or, to be specific, which particular technology and which company will succeed? And, most importantly, will even that company make enough of a return on capital employed?

Let us go back to the dotcom boom. Back then, there was this thinking that if the internet will be used by everybody in the world—which turned out to be true—then you cannot go wrong investing in companies that are building the infrastructure for it.

The internet is carried across the world on undersea cables. There was a company called Global Crossing that laid many of these cables. These are still in use, but the company went bankrupt more than 20 years ago. So it is not only about whether a particular technology succeeds. Will it earn a return on the massive amount of money being invested? That's the question.

Coming to AI, large companies in the AI race right now, such as Meta, Google and others, are hiring individuals and buying very small companies with just one or two people at eye-popping figures like $100 million and $500 million.

They are also setting up huge data centres. Now what is a data centre? It is real estate. It is a very substantial investment in buildings and equipment, which depreciate very quickly. As for their running costs, they require a lot of energy.

The cost of being in the AI game is rising. And the dilemma is that if you run a technology company, you cannot afford not to be in the game. But, again, the real question for any investment is: Are you really going to make good returns on it?

Here is one damning fact: when schools and colleges shut down for vacations in the US recently, the usage of many AI models dropped by 50–70%. I am sure if we map it onto school breaks in other regions as well, this percentage will rise even further. The point? These models are mainly used by students for their assignments. That's not exactly a high-paying user base. Moreover, most AI companies are losing money, and not just on an aggregate basis. With every incremental subscriber, their losses go up, not down.

Today's AI race is a cause for concern. Also, tech adoption need not deliver investment success

An additional danger is that this over-investment cycle could spill over to the world of finance. This is visible in two things.

One is the debt being raised, not just by existing mega players, but a number of much smaller players. A *New York Times* article on 10 November titled 'Debt Funding Racheting Up Risks of AI Boom' details some of this debt-raising. For example, Meta has committed to buy $14 billion worth of computing power from a company called Core Weave, which in turn is financing about 55% of its investments via debt. There is a similar arrangement between Microsoft and Nebius, a startup.

By some estimates, the total debt taken on for data centres will cross $1 trillion by 2028. Loads of debt has already been taken against buildings and equipment as security, most of which can be expected to depreciate fast, leaving that much less value to be reclaimed by lenders if it comes to that eventuality.

Then there are also a bunch of financial tangles that you may have seen in the form of infographics. For example, Nvidia and Microsoft funding OpenAI, which gives them business in turn, either directly or through Oracle.

This crisscross of lines between companies looks like a spider's web. But net of all the details, it is a case of capital funding by bigger companies like Nvidia, Meta or Microsoft coming back as revenue for them. So negative fund flows show up only on balance sheets, while boosting revenues and profits in income statements.

In simple terms, Company A invests in the debt or equity of its Customer B. This capital infusion is used to buy goods from A, which boosts its revenues and profit. This type of circular financing is a red flag in general.

But for now, the AI music is still playing and, as Citibank's then head Chuck Prince said before the 2008 blow-up in America's mortgage market, "As long as the music is playing, you've got to get up and dance."

That, in some sense, is the dilemma of all tech companies in the world. While the AI race is on, you cannot opt out of it without protests from your stakeholders, even if the race veers into risky territory.

Let me end with one of my favourite examples of investing in successful technologies. Which were the two technologies of the 20th century that fundamentally transformed how human beings live? One was the automobile and the other aviation. Both sectors have been graveyards for companies. The two have largely been terrible industries to invest in, even though these technologies succeeded so dramatically.

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OUR VIEW

REUTERS

The retail pivot of banks has seen lots of friction

Grievance data from RBI's Ombudsman Scheme report reveals rising discontent—much of it traceable to a major retail thrust by private sector banks. Remedial measures are a must

Soon after assuming office at the Reserve Bank of India (RBI) almost a year ago, Governor Sanjay Malhotra had flagged the central bank's growing concern over the banking sector's disregard for customer service, especially the scant resources that banks earmark for timely redressal of grievances. The 2024-25 annual report of the Integrated Ombudsman Scheme (IOS), a framework designed for complaint handling, offers details and analysis of the sector's receipt and resolution of complaints. It shows the scale of the problem that needs to be tackled. At a broad level, the IOS platform received 1,334,244 complaints during 2024-25, a rise of more than 13.5% over 2023-24. How lightly the banking industry appears to take customer service is reflected by the fact that over 87% of them came from individual customers. Significantly, most related to loans and advances, with disgruntlement over credit cards coming second and both categories making up over 46% of all gripes. Rising discontent, with many grievances left unaddressed, reveals a weakness that must not be allowed to persist.

The sector's retail services account for most of last fiscal year's grievances. Retail customers are far more numerous in general, but rapid expansion in this segment over the past few years has had an effect on complaint data sliced by the nature of bank ownership. Private sector banks notched up the highest number, accounting for over 37.5% of the grouses. This turns on its head the popular perception that public sector banks (PSBs) lead the field in customer apathy and deficient service standards. Complaints against PSBs shrank by close to 9% from the previous year. The reason for this switch can be traced to the private sector's particularly sharp pivot to retail growth once corporate credit began to slow down. Private banks have not just been hyperactive in the origination of unsecured small-ticket loans, but have aggressively enrolled credit card customers, many of whom are debtors with nothing put up as collateral. All-out drives by lenders to sign up people are often at the expense of proper loan appraisals or assessments of creditworthiness. Friction tends to arise or worsen when loan repayments fall due and collection agents use underhand methods. Confusion over dues is another fallout of hasty or faulty on-boarding processes.

There is a lesson in all this for RBI and its regulatory framework. The justice system for retail customers, as revealed by the central bank's ombudsman scheme, exposes gaps in the treatment of retail customers by regulated entities and points to a crying need for remedial measures. A four-fold increase in complaints against credit bureaus also demonstrates today's lop-sided design: most of these bureaus accept whatever banks tell them to adjust their ratings of individual customers, even if there might be a dispute. This is because these entities are beholden only to the banks that pay their fees, relegating those who suffer rating cuts to a secondary position in their hierarchy of importance. Typically, the banking industry still treats retail customers primarily as a source of deposits, deserving of limited service, and this flies in the face of its effort to convert this cohort into a reliable source of revenue. Depositors shifting their attention to other asset classes should come as a wake-up call for private banks. They may have to contend with lower margins if this trend strengthens, as it well might.

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THEIR VIEW

Putin's visit is an opportunity to recalibrate relations with Russia

New Delhi and Moscow need to look beyond the past in a rapidly evolving geopolitical context

KANICA RAKHRA
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This week's visit to India of Russia's President Vladimir Putin has drawn New Delhi's long relationship with Moscow into the spotlight. The India-Russia bond has been strong and steady, as evident in the fact that it has outlasted many shifts in global geopolitics. Looking at the cooperation between the two, whether it is on defence materiel or navigating past twists and turns in the global order, India and Russia have understood each other's requirements and managed to support each other in their time of need. But is the relationship ready for a new wave of geopolitical shifts?

The 1971 Indo-Soviet Treaty of Friendship and Cooperation paved the way for India-Russia relations where both could benefit from bilateral ties. Moscow supported India in multilateral forums with its veto power and New Delhi bought its defence equipment from the Russian Federation (or Soviet Union before it split). The relationship also had soft-power elements, with Indian movie actors finding popularity in Russia and the latter being a popular destination for Indian medical students.

In the 2000s, Russia's support for the India-US nuclear deal as well as for India's membership of the Nuclear Suppliers Group assisted New Delhi in its negotiations at various levels. This led to a new dawn in the relationship between the US and India, making space for an enhanced global role for New Delhi. But this new role was not to be at the cost of its ties with Russia.

Even though India's ties with the Group of Seven (G-7) countries—the US, UK, Canada, France, Germany, Italy and Japan—have expanded significantly in the recent past, these nations were unable to convince India to speak against Russia in the context of Moscow's actions in Ukraine.

India's foreign policy has maintained a balance in its engagement with different nation-states, where a third party does not determine its relationship with any of them. If India's engagement with Saudi Arabia is not determined by the latter's relationship with Pakistan, ties between India and Russia should not be held hostage to India's engagement with the US or Russia's growing ties with China.

Russia is still etched in Indian minds as our one steady friend in the world. However, it is important to bear in mind that the Russia imprinted in Indian thought is a Russia of the past.

For more than a decade, Russia has been facing challenges and adapting to the world around it. Moscow was removed from the G-8, which was quickly converted into the G-7 in 2014 after Russia's annexation of Crimea. Since Russia embarked on a full-scale military operation against Ukraine in 2022, it has faced many hurdles, including Western sanctions and a loss of access to European and American markets, which until then had been integrated with the Russian market. Moscow, however, was able to garner some support from the Global South on the issue of pressure from the G-7.

Additionally, Russia has considerably expanded its relationship with China into different arenas, from military and diplomatic to cultural and economic. Moscow continues to face pressure at multilateral forums even as it tries to navigate its economy through multiple storms. The Russian Federation has also evolved its relationships with different powers in Asia and Europe to deal with a geopolitical landscape in flux.

Nostalgia is an important element in relations, but it should not act as a deterrent in finding pathways for the future. While Russia's support had been valuable to India, a continuation of past policies may not suffice anymore.

Half a century ago, India was a newly independent state that was looking for support, economic and political, from an established global power; but today, India is poised to become the world's fourth largest national economy. New Delhi thus seeks its own place in the global order on its own terms. Russia, once the second pole in a bipolar world, was India's perpetual helper; today, it seeks assistance in evading sanctions. Moscow is also reinventing itself and seeking a new role in the comity of nations.

As India and Russia navigate new geopolitical realities, the mutual engagement may need to span scientific collaboration, academic exchanges and people-to-people connections, where understanding each other and breaking free of past baggage would be a key factor in finding new pathways.

The India-Russia Inter-Governmental Commission on Trade, Economic, Scientific, Technological and Cultural Cooperation provides space for the expansion of relations in many fields. A new entity, it hopes to expand the relationship in a direction that benefits both countries in equal measure.

The Russian President's visit this week comes in the backdrop of India's external affairs minister S. Jaishankar's visits to Russia in August and November 2025 and the opening of two new Indian consulates in Russia.

With wide-ranging talks on the bilateral agenda, this visit may provide the impetus required to plug gaps in understanding between the two nations and identify areas and means of mutual cooperation that could yield fruitful results for both in today's context of geopolitical dynamics.

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THEIR VIEW

Capital deepening has weakened and our productivity has stalled

Mobilizing labour and capital isn't enough. India must make more efficient use of both for sustainably higher GDP growth

SAUMITRA BHADURI
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India's challenge of sustainable growth

Capital deepening is uneven and no longer accelerating while total factor productivity (TFP) has remained stubbornly stagnant.

Capital deepening (quadratic trend); Capital deepening (in %); Total factor productivity (quadratic trend); Total factory productivity contribution (in %)

0.94; 0.08; 1.02; 0.29; 1990; 2023

Note: All calculations are done by the author. Source: Penn World Table 11.0

GOPAKUMAR WARRIER/MINT

BLOOMBERG

India is at the threshold of one of the most promising economic decades in its modern history, yet the hard arithmetic underlying growth reflects a more fragile situation than our headline GDP figures suggest. Economists apply the Sala-i-Martin framework to break growth down into its core components and ask a simple-yet-powerful question: How much of the rise in output per worker can be attributed to the use of more capital (a single factor of production), and how much can be attributed to India becoming more productive on the whole? The results from India's growth decomposition between 1990 and 2023 reflect the emergence of a two-pronged challenge: capital deepening is now uneven and no longer accelerating, while total factor productivity (TFP) has remained stubbornly stagnant.

Trendlines demonstrate that India's capital deepening has followed an inverted-U path: it increased steadily through the 1990s and early 2000s, peaked around the mid-2000s, and then gradually declined—consistent with a slowdown in India's investment cycle after 2011. By contrast, TFP exhibits a shallow rise in the early reform years, a long plateau and then a noticeable downward bend after the mid-2010s: this indicates that productivity gains have not been continuous. Both curves reveal that neither capital deepening nor TFP is on an upward long-term trajectory, which reinforces the concern that India's growth engines are weakening rather than strengthening.

The long-run growth arithmetic shows that from 1990 to 2023, India's output per worker grew at a median rate of 4.71% per year. On paper, this is a strong performance. But the decomposition shows something critical: TFP contributes only 1.19 percentage points, while capital deepening contributes 1.91 percentage points; the residual part, which measures labour-quality shifts, structural changes and also measurement noise, adds less than 2 percentage points. These figures tell us that our economy remains driven predominantly by resource accumulation rather than productivity, a pattern characteristic of early-stage development but potentially inadequate for India to sustain 7–8% annual growth over the long run.

This is not an unusual outcome for a developing economy with a rapidly expanding labour force, since it implies that capital deepening is occurring at a rate that is higher than growth in output per worker. More workers are entering the market every year, which implies that the capital stock must grow faster simply to maintain the same ratio of capital per worker. But the worrying part is that this engine is now cooling. India's investment rate, once near 35% of GDP, now hovers around 30%. Bank credit to industry has grown only modestly, infrastructure investment faces execution gaps and private capital expenditure remains cautious.

These macro patterns reflect why the contribution of capital deepening has not translated into faster output-per-worker growth.

The second and more structural problem is our stagnant productivity growth. With a contribution of around 1.9 percentage points, our TFP is far too low for a country that aspires to high-middle-income status by 2047. Productivity improvements require not just factor accumulation but also deep institutional reforms: eliminating frictions in land and labour markets, improving contract enforcement, reducing logistics costs and radically improving human capital. India's TFP stagnation is visible in manufacturing, where output has grown but productivity hasn't accelerated meaningfully; and also in services, where traditional high-growth segments are maturing. The plateau is particularly concerning because the phenomenon of 'catch-up growth'—the ability to absorb and implement global technologies—should theoretically drive TFP up faster in a developing country.

Meanwhile, financial behaviour and capital allocation trends further complicate this picture. India's recent public-offer boom, with a record-breaking ₹1.8 trillion mobilized in 2024, reflects market enthusiasm but has not catalysed broad-based investment. A large part of these offers comprise offer-for-sale transactions, wherein the funds flow to existing shareholders instead of financing new production capacity. Investors are taking part in equity markets, but so far it has not become a driver of productive capital formation.

Gold imports, crossing 780 tonnes last year, tell another story. High household gold demand signals limited trust in financial instruments and continues to divert household savings away from productive capital. Every tonne of gold imported represents capital not invested in machinery, technology or infrastructure. In the growth-accounting framework, this matters: weaker domestic savings reduce the pool available for investment and ultimately makes capital deepening harder.

Yet, while India's situation is one of strategic urgency, it is not a sign of an impending slowdown. In fact, the unusual clarity provided by the decomposition of growth makes policy priorities unusually clear: To sustain 7–8% real GDP growth for another decade, we must both revive capital deepening and unlock TFP growth.

The first requires an investment renaissance. Easing India's remaining infrastructure bottlenecks, stabilizing policy signals for long-gestation industrial projects, accelerating insolvency resolution and enhancing state government execution capacity will help. India's infrastructure push has been a bright spot, but private investment must rejoin the cycle. Strategic public investment in green energy, semiconductor fabrication, advanced manufacturing and logistics corridors can crowd in private capital.

Unlocking TFP is harder but more essential. Judicial reforms, GST simplification, quality improvements in public education and greater competition in key markets—especially energy, logistics and digital commerce—can all raise productivity. Reducing logistics costs from 13-14% of GDP to global levels near 8% would alone shift India's TFP path. Human capital is equally critical: India's demographic dividend will turn into a burden if labour-force entrants lack the skills needed for a technologically evolving economy.

While India has accomplished remarkable growth through mobilization of labour and capital, the next stage of development requires something deeper: efficiency. What growth accounting data tells us is unambiguous: capital deepening is weakening and TFP is stagnant. Both challenges must be tackled head-on for India to achieve a sustainably higher growth path. The arithmetic is easy; execution is the real challenge.

05 Dec 2025

THEIR VIEW

Big Tech meets Big Telecom: Regulators must stay alert

AARTHI SIVANANDH

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India's telecom giants are reshaping how millions access artificial intelligence (AI). When Airtel partners with Perplexity or Jio bundles Google's AI tools into its data plans, it creates a new architecture of power, data flow and risk that existing regulations aren't designed to handle.

AI-telecom bundling involves pre-installing or subsidizing AI services—assistants, search tools, content generators—through authorized telecom providers, either free or at reduced cost. These arrangements give AI companies instant access to countless users while telecom firms gain a new revenue stream and stickier customer relationships.

But this convenience comes with two big complications. *One*, opaque commercial arrangements between telecom firms and AI providers; and, *two*, unknown limits on access to customer behaviour data. When your mobile network bundles an AI assistant, questions multiply. Are AI models training on your conversations and phone usage? Where does liability fall if things go wrong? What is the regulator's role in balancing customer protection with commercial rights?

Data is a major concern. Telecom firms hold longitudinal data-sets tied to accounts, devices and usage patterns, while bundled AI can access photographs, location traces, call records and device telemetry. When combined, AI analysis can reveal sensitive attributes—location patterns that suggest religious observance, browsing habits that imply political views and video analytics that offer biometric templates.

The bundling architecture creates continuous data-sharing pathways between telecom services and AI providers, often without granular informed consent. India's Digital Personal Data Protection Act mandates specific, informed consent for each processing purpose. Yet, many platforms frame training toggles in altruistic terms like "improve the model for everyone" to obtain perfunctory user permission while obscuring privacy implications.

Google retains conversations with its Gemini chatbot to train its machine learning systems, unless users opt out. For users aged 18 years or older, chats are kept by default for 18 months. ChatGPT also uses conversations for training unless one opts out. Anthropic has moved from a non-training posture to using consumer chats for model-training by default, unless users opt out. When consent is buried in the fine print or bundled with essential services, it's not truly voluntary.

India's recently released AI governance guidelines offer a foundation. They emphasize transparency, fairness, accountability and safety, principles that translate well to telecom bundles. But principles need teeth. Regulators should require telecom firms to separate consent for core services from optional AI features. Training AI models on customer data should require explicit opt-in, not buried opt-out. Commercial relationships influencing AI output must be disclosed clearly at the point where consumers make decisions.

A recent market study by the Competition Commission of India identified three critical barriers facing AI start-ups: data availability, cloud computing costs and talent. Telecom-AI bundles exacerbate the first barrier dramatically. Large AI firms gain ready access to vast data volumes and financial capital, creating competitive advantages over new entrants. When a telecom service with millions of subscribers partners exclusively with one AI provider, it creates 'network effects'—the service becomes more valuable as more people use it, making it nearly impossible for rivals to catch up. If an AI provider's algorithm favours its related entities through increased visibility or advertising exposure, it distorts competition, restricts consumer choice and creates hidden preferences that shape customer decisions and market behaviour.

> **QUICK READ**
>
> Telecom services joining hands with AI firms to offer bundled packages involve opaque data-sharing arrangements that could put more than user privacy at risk.
>
> Without regulation mandating transparent commercial ties and shared liability, such bundles risk entrenching monopolies and exposing sensitive user data to AI firms.

Telecom Regulatory Authority of India (TRAI) regulations don't address ancillary services that telecom companies bundle with their core offerings. The Consumer Protection Act fails to adequately cover common AI problems like misinformation, algorithmic bias or stereotype reinforcement.

Liability attribution in case something goes wrong is murky. While India's data protection law places responsibility on the data fiduciary, global frameworks adopt joint and wide liability across the AI supply chain. Indian regulators must affix responsibility where it is due, whether it is a domestic player or foreign, given the prevalence of cross-border AI deployments through telecom partnerships.

TRAI should extend service quality and consumer protection standards to AI providers whose services are bundled with telecom offerings, following precedents like the Reserve Bank of India's outsourcing rules for financial services. There must be shared oversight responsibilities between telecom operators and AI providers. Technical safeguards matter too: Encryption in transit and at rest, environment segregation between network data and AI services, documented retention limits and genuine data minimization and storage protocols should be built into permits for bundling.

These arrangements will shape how we mature as an AI-ready nation. Get it wrong, and we entrench monopolies, erode privacy and leave consumers without recourse when AI systems fail. Get it right, and India can demonstrate how innovation can be balanced with protection.

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Why Indian startup patents are dying even before they are born

Patent filing has largely become a cynical marketing exercise that says little about real innovation

PRAVIN KAUSHAL
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At first glance, the Indian startup ecosystem appears to be in the midst of a historic intellectual-property (IP) boom. Patent filings by DPIIT-recognized startups have crossed 13,000 since 2021, trademark filings have exceeded 44,000, and every pitch deck seems to carry the familiar phrase: "Patent filed." This surge may look like an innovation renaissance. But the shine wears off if one looks beyond the filing numbers. Fresh Lok Sabha data confirms what many insiders have whispered for years: a large share of Indian startup patents never reach examination stage and are not granted. Many others are quietly withdrawn or abandoned—dying far before they are born.

Between 2021 and 2025, startups filed 13,089 patent applications. Yet only 2,174 patents were granted. Barely 1 out of 6 filings survived the journey. Even more telling, nearly 500 startup patent applications were withdrawn or abandoned early, often because filers did not complete specifications, nor respond to further actions needed.

The pattern is similar for trademarks: startups filed 44,517 trademark applications, but over 1,300 were abandoned—another indicator that filings often serve more as brand optics than as part of a disciplined IP strategy.

The patent boom hides a crisis of intent: They have become a marketing tool—not a marker of genuine invention. A provisional patent application costs little and can be filed quickly to create the appearance of a breakthrough innovation. It can help a founder make a pitch to investors. But once the funding round closes, priorities may shift—and the hard work of turning provisional filings into real patents rarely happens. This is how hundreds of patents die each year: not in the crucible of scientific scrutiny, but in the silence of procedural neglect. Four forces drive this behaviour:

Capital first, commitment later: Startup founders often file patents to strengthen valuation narratives. Filing a provisional application is seen as a fast, affordable way to strengthen a fundraising narrative. When execution demands arise—detailed prior art searches, drafting costs, legal responses—enthusiasm fades.

Branding over technology: Trademark filings have ballooned because building a consumer-facing identity feels more urgent than investing in research. This mindset works for direct-to-consumer or internet startups, but not for a knowledge economy.

Patent office bottlenecks: India faces examiner shortages, long pendency periods and inconsistent technical expertise. Improvements have been slow.

A weak R&D culture: India's overall R&D spend remains below 1% of GDP. Most startups lack dedicated research teams, technical drafting expertise, prior-art assessment systems and time for iterative processes, making a serious pursuit of patents difficult.

When patents become decorative rather than functional, the national innovation system suffers. Low-quality filings dilute the pool of meaningful IP. High abandonment rates signal weak follow-through. And investor-driven filing sprees create an illusion of technological progress that doesn't translate to global competitiveness. If this goes on, India risks weakening its emerging reputation as an innovation hub.

What India must do: Shift incentives from filing to follow-through: tie government benefits—subsidies, fast-track examinations, startup credits—to patent grants, renewal or commercialization, not just filing; a single high-quality granted patent is worth more than 10 empty filings; expand examiner capacity and domain expertise. India needs more technically specialized patent officers—particularly in AI, biotech, semiconductors, climate-tech and advanced manufacturing—to raise grant quality and accelerate pendency resolution. Strengthen R&D within startups: offer co-funded grants, tax benefits and innovation-linked incentives for startups that create formal R&D teams, conduct original work or collaborate with research institutions; promote academia-industry co-patenting. Joint patents with IITs, agricultural universities and national labs could lift the technical standard of filings and build long-term research assets.

As our innovation culture evolves, depth must replace decoration. We need a mindset shift. Not patents as pitch-deck slides. Not filings as vanity metrics. But patents as real intellectual assets, tied to real research, real products and real progress. A patent filing boom must signal innovation that can be counted upon.

QUICK READ

India's high number of patent applications with little follow-up by Indian startups is a sign of how these have become a marketing tool to project an innovative image that can attract investors.

India should shift incentives to reward quality over volume, expand examiner capacity and encourage research by startups to save the country's emerging reputation as an innovation hub.

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MY VIEW | THE LAST WORD

The tussle between affordability and public goods is easy to lose

Affordability is a potent political issue in the US as in India but using cash transfers to address it threatens vital public goods

INDIRA RAJARAMAN
is an economist.

ISTOCKPHOTO

It finally happened. Effective 13 November 2025, President Donald Trump of the United States of America exempted 225 agricultural items, fresh and processed, from tariffs termed 'reciprocal' but actually unilaterally country-specific. The new zero-tariff list is product-specific, not differentiated by country.

For Indian exports on the new list, tariffs came down to zero from 50%. They cover a wide range from fruits and nuts like mangoes and coconuts to processed foods like coffee and tea extracts (*masala* tea powders) and even vegetable waxes. In value terms, Indian agricultural exports to the US were valued at $1 billion in the pre-tariff era, roughly one-sixth of total agricultural exports by value.

The precipitating factor was not trade negotiations with the concerned countries, but recent election outcomes in the US to the posts of mayor and governor in assorted cities and states, in which affordability (read: tariff-hiked prices) was a major issue. It was the key platform on which Zohran Mamdani won his bid for mayor of New York City.

Fiscal revenue was the motivator of the earlier 'reciprocal' tariffs imposed by the US, contrary to announced reasons. In an informal conversation with press representatives on 14 November, the day after the tariff reductions, the US president is reported to have said tariff revenue would (still be enough to) enable a $2,000 payment to low-income American households to be announced next year.

Cash support to poor households is where the political needle universally points when it comes to combating affordability. It eases the budget constraint on basic private goods (food, transportation, housing). What about public goods: why do politicians think people will not agitate for those?

Just two days prior to the tariff announcement, a 43-day shutdown of the US federal government had finally ended, not because the key issue of affordable healthcare (subsidies for health insurance) had been resolved, but because air travel had been crippled by a lack of air-traffic controllers, who as federal workers were not receiving salaries during the shutdown and were increasingly absenting themselves from work on sick leave.

Monitoring the safety of air space is a classical public good, either available to all or available to none, and so it has to be publicly provided by the government of the day. It is an essential public good/service, a necessary complement to air travel, which is a private good bought and sold in markets.

This recent US government shutdown will be remembered not just because it was the longest ever, but because it pointed unerringly to the importance of public goods in shaping political processes—in this case, the actions of people's political representatives. In a choice between losing the healthcare subsidy in place and the restoration of essential public goods, the latter deservedly won the day—although the agreement reached is only an interim one going up to the end of January 2026. President Trump has now had second thoughts on the healthcare subsidy, so a final agreement covering the whole fiscal year may not be far off.

What of public goods in India: are they ever an issue for the electorate or their representatives? Delhi and the rest of north India in general suffer from world-renowned levels of air pollution every November, fuelled by assorted factors. Private solutions like air purifiers do not explain the lack of generalized public pressure for clean air. The Supreme Court decision to permit fireworks for Diwali in Delhi was not protested.

Public goods did not feature as an issue in the recent Bihar state elections, where, as in other states, the winning edge for the incumbent coalition is thought to have been a cash transfer to women (₹10,000 each to 10 million beneficiaries), with subsequent layers upto ₹2 lakh promised for an income generating self-employment project. That is a large commitment for a fiscally challenged state. With the new cash transfer, Bihar joined 12 other states that make cash transfers to women at an aggregate cost of 0.5% of GDP (PRS report on state finances for 2025-26).

However, the generally high standing of Bihar's winning leadership (over a 20-year period of changing coalitions) stems from its earlier record on public goods such as law and order, roads and public health. Some of that became remarkable only because it started from a pathetically low base. Whatever, the electorate seems to see those public goods as already wired in, and therefore not reducible or erasable.

QUICK READ

Cash support for the poor is where the political needle universally points when it comes to combating affordability. But the fiscal outlay reduces funds available for public goods.

The electoral discourse needs to cover the trade-offs involved in grand promises of cash transfer schemes for voters to recognize that such spending has a broader downside to it.

But public goods call for continuing revenue expenditure, not just initial capital spending, which can be incurred and then forgotten. Poorly maintained roads collapse and lead to rising fatalities. Unfilled police vacancies lead to deteriorating safety in public places. Maintenance manuals for sewage pipes are given the go-by without the requisite budgetary allocation, resulting in sewage contamination of drinking water. Vacancies in pollution control departments allow unmonitored construction and industries to spew pollutants into the air and leach toxic contaminants into groundwater. The disease burden goes up as a result, without a concomitant expansion in accessible health facilities.

The fiscal trade-offs between public goods and cash transfers must enter the electoral discourse if people wish to see a durable improvement in their well-being.

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OUR VIEW

AFP

Energy transition goals should not be too rigid

Moving to cleaner electricity is a highly complex challenge that calls for optimal costs and a broadly equitable market. Some flexibility in target setting would ease the country's path

With rising solar and wind capacity in India's electricity system, these clean sources have crossed the one-third mark. Given the vagaries of weather, however, a key challenge lies in ensuring the delivery of reliable supplies on schedule. In this context, the Central Electricity Regulatory Commission, the central power regulator, recently proposed that electricity generation from wind and solar sources be treated at par with reliable conventional sources like coal and gas when it comes to departures from scheduled supplies. In its draft order, it has set out a soft escalation scale for deviation penalties. These are quite low right now, but will rise to the level levied on conventional supplies by 2031 if the proposal is adopted. Currently, it is mostly coal-fired plants that step in with extra supplies to meet shortfalls. With the deviation leeway for renewable energy (RE) shortening, these plants will earn more for helping keep the system stable. In effect, with this proposed intervention, the regulator is seeking to unravel and account for the true cost of RE.

The new norms would push RE developers to invest in advanced forecasting systems or even battery storage units to avoid penalties. The government, pressured by its target of setting up 500GW of non-fossil-fuel capacity by 2030, has predictably suggested that the regulator defer its stringent rules as it would deter investments. Not only would larger sums need to be invested by RE players, this could combine with greater project risks to raise power tariffs. Worse, it comes amid such a large pile-up of solar capacity that bulk electricity buyers—state distribution utilities, i.e.—are holding back on signing contracts for supply in the hope that prices will soften further, among other reasons. Meanwhile, new RE projects are faced with challenges of transmission network access that are taking time to resolve. The conundrum of how to level the field for all power generators was perhaps an inevitable part of our energy transition. In July this year, the government cut back its full waiver on inter-state transmission charges for RE as a step towards that aim, reducing a special incentive for renewables.

As we forge ahead with plans to decarbonize the country's grid, much depends on our assessment of economic priorities, the maturity of technologies and the enabling environment. Targets and outcomes need to be set and measured on a broad template. If states choose to reduce the pace of their purchases of green electrons, the Centre should review its RE capacity target. Besides, we need better integrated planning and execution to ensure that enablers like inter-state transmission systems come up in a timely manner. Note that the green transition poses yet another conundrum at the consumption end. With the objective of raising the industrial use of renewables, the Centre has mandated minimum consumption obligations for select industries. However, some find these too steep. India's steel industry, for example, has argued that the supply and economics of it do not justify a mandate set at 33% of captive usage for the current fiscal year, rising to 43% by 2030. For target reviews, we could take a cue from Europe, which has long spearheaded green policies. Early last month, EU member states met to scale down an earlier-set target of reducing emissions by 90% from 1990 levels. It's time we reviewed our aims appropriately too.

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OUR VIEW

AFP

IndiGo crunch: Prepare aviation for a re-takeoff

The airline's market dominance and sub-par regulation are both to blame. Initiate antitrust scrutiny and fix the structural shortcomings of this vital sector, aircraft scarcity included

It is apparent that IndiGo has used its dominance of India's air travel market to blackmail the authorities into giving it relief—albeit temporary—from compliance with tighter rules on night landings and how long and late into the wee hours pilots and crew can be put to work. In the process, it has penalized the vast majority of air travellers. With the airline's market share above 60%, its bulk cancellation of flights left passengers stranded and let rival operators fleece fliers with steep fares until the government stepped in to cap fares. This has exposed a regulator powerless to enforce its fiat in the face of determined resistance by a dominant player. This cannot be allowed to stand. Antitrust action suggests itself. Stiff penalties must be levied. If IndiGo shows further obstinacy, it should face the threat of being split up to reduce market concentration. That said, we must enable greater rivalry in Indian skies through various means. Efforts to develop and build a medium-haul passenger aircraft should be stepped up to deliver us from the global duopoly of Boeing and Airbus that has spelt long wait times for the delivery of such planes.

India's revised flight duty time limits were issued in January 2024 by the Directorate General of Civil Aviation (DGCA). Pleas by airlines pushed their implementation forth to July and November 2025 in two stages. Carriers that were making their crews work longer hours than the new norms would permit had sufficient time to hire personnel to keep operations running smoothly. The rules were tweaked to ensure that passenger safety was not compromised by any gaps in concentration on the part of overworked and sleep-deprived pilots. No airline had complaints on this score. Yet, both IndiGo and Air India had opposed the curtailment of a pilot's night landings to two per flight-duty period, arguing that modern equipment made such limits redundant. They also suggested that the DGCA replace its night curbs with a modern fatigue-risk management system that models real data to optimize flying schedules for pilots and planes. From the perspective of aircraft makers and the International Civil Aviation Organisation, this demand holds merit. The DGCA should have conceded it. Another lapse on the regulator's part has been its failure to track the progressive readiness for rule compliance achieved by airlines—particularly by the dominant carrier.

However, there is no getting around the fact that the big problem in Indian civil aviation is structural: IndiGo's outsized share of air traffic. How soon can we expect competition to keep airlines in check? Since it takes anywhere between five and seven years for new aircraft orders to be met, expanded operations by rivals cannot solve the problem in the short-run. Alas, the world just does not have enough planes to meet rising demand for air travel. China has seized this opportunity by launching its Comac 919 competitor to the Airbus A320 and Boeing 737 Max. Given India's forecast of rapid growth in air traffic, we must double down on the project to build a similar plane in collaboration with Brazil's Embraer. In the interim, the full weight of regulation must come to bear on the market's biggest carrier—including an antitrust probe. Aviation is a service that's vital to the economy. To secure its future, we could begin by levying a fine on IndiGo that deprives it of profits from retaining longer hours for pilots till February 2026, with an additional penalty for the chaos created last week by its neglect.

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THEIR VIEW

IMF's C grade: Why doubts over our rapid growth are misplaced

The rating relates to measurement tools that haven't kept pace with India's fast-evolving economy

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Every quarter's gross domestic product (GDP) data release cycle sees a familiar question resurface: Can we trust India's GDP numbers? The question has been raised often enough to become a ritual. This time, attention was also drawn to the grading embedded in the latest International Monetary Fund (IMF) Article IV assessment of India, with the economy's 8.2% growth in the second quarter of 2025-26 placed in contrast with the 'C' rating assigned to our national accounts statistics.

This rating has been picked up by many to cast doubts on the validity of India's growth numbers and hint at inflated figures. Opinions on India's economic reality cite the IMF's C grade as evidence of a disparity between what the data suggests and what pundits believe is the lived experience of the average Indian. However, delving into the actual assessment reveals a degree of nuance that is often missed by critics.

The IMF's scorecard is not accusing India of inflating its numbers; it is signalling that our statistical machinery hasn't fully kept pace with the structure of the modern economy. In other words, the concern is less about credibility and more about completeness. And that has consequences for how we interpret the readings.

Driven by a host of structural reforms, incentive programmes, targeted welfare schemes and a rapid push to scale digital as well as physical infrastructure, the Indian economy today is markedly different from what it was a decade ago. A large part of growth comes from sectors that do not fit neatly into legacy statistical frameworks. The evolution of digital services, platform work, new types of software-as-a-service exports, medium- and high-tech manufacturing, informal retail and new consumption patterns, which are now layered with formal digital payment rails, no longer map cleanly onto traditional survey designs.

This has contributed to the 'discrepancies' that critics point to. When the composition of the economy shifts faster than the instruments used to track it, limitations in measurement are inevitable. However, it would be flawed to argue that the current numbers are biased upwards, as experiences from other developing countries favour different odds.

In most developing economies with large informal sectors, rapid technological change, incomplete data reporting and mismeasurement usually results in an underestimation of GDP. India fits that profile. A significant portion of the workforce remains engaged in informal activities. A portion of activity that is getting digitized may not be getting captured. Also, household-level economic activity is rising and evolving faster than survey frameworks can document. A recalibration of base-year weights in line with the new economic structure is currently underway.

For now, that means our current GDP estimates may not fully reflect the breadth of new economic activity. This isn't an abstract theoretical consideration. Other countries have already lived through this phenomenon. In Ghana, for example, a major statistical overhaul in 2010 changed the base year and expanded coverage, resulting in an increase in the size of the economy after the revision. The World Bank flagged the revision as a clear example of how outdated methods distort economic reality: the 'new' economy was not new; it was simply previously unmeasured. In Kenya, rebasing revealed that the economy was bigger than previously thought.

Similarly, Asian economies that conducted frequent rebasing, such as Bangladesh, China, Hong Kong, Indonesia and Malaysia, saw their economic data keep pace with the evolving dynamics of their economies. When informal activity is widespread, sectors evolve quickly, the data architecture lags behind the economy and outdated national accounts are therefore more likely to understate reality until a methodological overhaul plugs gaps in activity recognition.

This is precisely the tone reflected in IMF's diagnosis of India's national accounts statistics. Its language is about coverage gaps, classification alignment and framework modernization, not credibility concerns. Other metrics such as fast-growing rural consumption, rising discretionary spending (particularly lifestyle purchases) and increases in durable consumption even among the bottom 40% of households point to a higher standard of living today than a decade ago. This would not be the case if our GDP numbers were simple overestimations.

So, what does all this mean for the debate on India's growth numbers? Our fundamentals have shown resilience despite the uncertainties that have loomed in the past two years. A GDP rebasing would ensure that the statistical framework reflects the economy as it operates today. When external observers assume overstatement or manipulation, the vocabulary shifts to transparency and trust, which isn't the case here. The lived economy has moved first; the statistical system is catching up. The gap between the two is being misread as evidence of exaggeration rather than evidence of structural change. India's growth story does not rest on creative accounting, and that distinction matters.

These are the author's personal views.

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THEIR VIEW

The monetary policy panel fired a bazooka in support of growth

In its zeal to support growth, the committee may have overlooked the possible consequences for its mandate of price stability

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PTI

"Baptism by fire," is how D. Subbarao had described his initial months as the 22nd governor of the Reserve Bank of India (RBI). Subbarao took charge in September 2008 in the shadow of the collapse of investment bank Lehman Brothers that led to the 2008-09 Global Financial Crisis and brought the world economy to its knees. In hindsight, his baptism was a relatively brief affair. Coordinated action by central banks saw the world economy recovering by mid-2009.

Contrast that with the trials of Sanjay Malhotra, appointed the 26th governor of RBI on 9 December 2024. Thanks to the shenanigans of the 47th President of the United States, Donald Trump, there seems to be no end to Governor Malhotra's 'baptism by fire'! Just days before his first Monetary Policy Committee (MPC) meeting in early February, President Trump fired his first salvo, signing three executive orders levying tariffs on Mexico, Canada and China.

By the next MPC meet in early April, Trump had fired his 'Liberation Day' bazooka, levying 'reciprocal tariffs' on most countries, including India. There's been no let up since. Tariffs have been raised from 25% to 50%, exemptions have been granted selectively (arbitrarily?), our oil imports from Russia have come under fire, as also our exchange rate management. Meanwhile, US arm-twisting on an elusive US-India trade deal continues.

It is against this background that Governor Malhotra chaired his sixth and last MPC meet in 2025. But if the MPC had any anxieties about how the actions of a whimsical man in the White House could affect us, Governor Malhotra's statement, just six days short of the anniversary of his first year in office, gave no hint of it. On the contrary! The T (tariff) word does not appear even once in the policy statement. And, despite past GDP and inflation estimates being way off the mark, the MPC is surprisingly confident (some would say, overconfident) and upbeat.

Consider. Assuming the MPC had wrestled with the all-important question of whether an economy that grew 8.2% in the last quarter, and is expected to grow well this year and the next, needs any support, what explains its somewhat puzzling response? That growth needs support: not just a rate cut of 25 basis points that typically takes three to four quarters to work its way through the system. But also, immediate and extraordinary liquidity support: open market purchases of ₹1 trillion in December and a three-year dollar-rupee buy-sell swap of $5 billion. All this in the background of both 'resilient' growth—an upwardly revised GDP growth estimate of 7.3%, up from 6.8% in October, and system liquidity averaging a surplus of ₹1.5 trillion.

To be sure, the MPC had given a hint of its thinking in its October policy announcement, when it stated, "The current macroeconomic conditions and the outlook has opened up policy space for further supporting growth." But the question it ought to have asked itself is not whether there is 'space' for a rate cut. Rather, whether there is a *need* for a rate cut. Does the balance of risks justify a further rate cut when the impact of the demand boost from the 100-basis-points reduction in the repo rate this year and CRR (cash reserve ratio) cut is yet to play out fully?

Remember, a depreciating currency adds to inflationary pressures: this year's fall in inflation is primarily due a fall in food and fuel inflation, partly due to a high base for food inflation and soft fuel prices. These could just as quickly reverse. Core inflation, meanwhile, has hugged the 4% mark for most of the year. To claim that core inflation excluding gold is closer to 2% is hair-splitting.

As Chair of the US Federal Reserve Jerome Powell once remarked, "Monetary policy should not be on a pre-set course." Members of the policy rate-setting committee are expected to make decisions based on their "assessment of the data, its implications for the economic outlook and the balance of risks." The key words being 'assessment' and 'balance-of-risks.' And this is where the puzzle deepens.

While all MPC members work with the same data, one would expect individual assessments to vary. Unless they are victims of group-think. This is entirely possible—nay, probable—in the case of RBI officials who would understandably find it difficult to disagree with the governor. Yet, going by the unanimous vote, not one of the external members seems to have any qualms that a further rate cut and liquidity bonanza could be an overdose, endangering RBI's primary mandate of price stability.

Like chief economic advisor V. Anantha Nageswaran, who admitted he wasn't losing any sleep over the rupee's depreciation, and former prime minister Manmohan Singh, who confessed as much *vis-à-vis* the antics of the stock market in 1992, it seems fair to surmise that MPC members aren't losing any sleep. Despite all the 'unknown unknowns' in the macro space! That is good news. We do want our policymakers to sleep well. But when seasoned stock market observers describe the policy as "everything the market wanted," it is perhaps time to worry. Are the interests of the market the same as that of the person on the street? More importantly, should RBI work for the welfare of all Indians or only the market?

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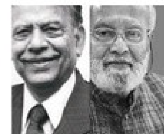
THEIR VIEW

Justice: Assign alternative dispute resolution a key role

VIJAY L. KELKAR & PRADEEP S. MEHTA



are, respectively, vice president of Pune International Centre and secretary general of CUTS International.

India's courts are overburdened' is a no brainer. As of July 2025, there were more than 52.4 million pending cases, including 46 million in subordinate courts, 6.3 million in high courts and 86,723 in the Supreme Court, according to law ministry data placed in the Rajya Sabha on 31 July. To these dazzling numbers, one can add an equivalent number of matters pending in our tribunals and administrative machinery. It is a delight for lawyers, whose numbers too are rising, thanks to special law universities dotted all over the country. What is the way forward to reduce this burden?

Ordinary disputes can take years, even decades, to reach a conclusion. This backlog erodes public confidence, raises the cost of doing business and imposes an intolerable burden on citizens. Alternative dispute resolution (ADR)—which covers arbitration, mediation, conciliation, negotiation and the use of Lok Adalats—is not a cure-all, but it is one of the most practical ways to deliver timely resolution and justice.

Lok Adalats illustrate ADR's potential at scale. National Lok Adalat campaigns, held under the Legal Services Authorities Act, have swiftly disposed of millions of cases. In September 2024 alone, over 12.5 million cases were settled nationwide, according to National Legal Services Authority data.

Despite this success, ADR's reach remains uneven. Many litigants do not know that mediation and conciliation are options. Concerns about enforceability have persisted: until recently, mediated settlements lacked statutory backing unless converted into a court decree. The Mediation Act of 2023 now provides enforceability and confidentiality, but implementation remains uneven.

India's experience with arbitration shows how the promise of ADR can falter in practice. The *White Industries vs India* (2011) case illustrated this problem. An Australian company, after winning an arbitral award against a state-owned enterprise in India, spent nearly a decade under International Criminal Court rules to have it enforced. Prolonged judicial delays forced the company to invoke the India-Australia Bilateral Investment Treaty: an international tribunal held that India had failed to provide an "effective means" of enforcing arbitral awards, a finding that dented India's reputation as an arbitration-friendly jurisdiction.

More recently, the Supreme Court's 2024 judgement in *Delhi Metro Rail Corporation Ltd vs Delhi Airport Metro Express Pvt Ltd* has again raised concerns about excessive judicial intervention. Despite the arbitral award being upheld through multiple rounds of litigation, India's apex court entertained a rare curative petition, effectively reopening a settled commercial dispute. By re-examining the merits of the case and revisiting factual findings of the arbitral tribunal, the court blurred the boundary between limited judicial review and substantive re-adjudication.

It would help fulfil India's constitutional promise of accessible and affordable justice

Globally, however, ADR has become integral to justice systems. In the US and UK, courts often require mediation early in civil cases, with penalties for refusal. In the commercial realm, Singapore and Hong Kong stand out as arbitration hubs, backed by modern laws and effective institutions. The Singapore International Arbitration Centre handled 625 new cases worth approximately $11.86 billion in 2024, with over 90% being international.

India has made progress but still lags global leaders. Unlike Singapore's coordinated ADR system, supported by modern statutes and integrated institutions, India's framework remains spread across multiple laws such as the Arbitration and Conciliation Act of 1996, the Legal Services Authorities Act of 1987 and now the Mediation Act of 2023. The new Act is a landmark, but enforcement remains uneven, awareness limited and court referrals inconsistent. By contrast, the Singapore Mediation Centre (SMC) has handled over 6,500 mediations worth $15.6 billion, with a 67% settlement rate and over 90% of cases resolved in a single day (SMC statistics, 2023).

Closing this gap requires a multi-pronged approach. *First*, we must operationalize the Mediation Act with detailed rules on confidentiality, limited review grounds and speedy enforcement to build confidence. *Second*, courts must institutionalize early triage by directing small-value commercial, family, consumer and property disputes to mediation, while reserving full judicial access for public interest, criminal and constitutional matters.

Capacity building is vital for people to appreciate the use of ADR as a swifter way forward. Technology can also be transformative. Online dispute resolution (ODR) platforms can offer fast, low-cost redressal for small-value and cross-border cases, provided they protect due process, confidentiality and enforcement. ODR must integrate offline support centres in rural and underserved areas, so that digital justice does not become another form of exclusion (Niti Aayog's ODR Policy Plan, 2023).

For effective judicial reform, one among many measures would be to move ADR from the margins to the mainstream. That will require policy reforms, professional standards, tech platforms and public education. The rewards are significant: fewer clogged courtrooms, lower costs for litigants, faster relief for citizens and a system closer to the constitutional promise of accessible and affordable justice. If implemented with care, ADR can transform not just statistics, but the lived experience of justice for millions.

Anushka Kewlani of CUTS contributed to this article.

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MINT CURATOR

Soft-pedalling AI regulation is like playing with fire: Perilous

Governments have thrown caution to the wind for economic gains

PARMY OLSON
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Rishi Sunak is among those who've shifted their stance on AI safety. AP

Former British Prime Minister Rishi Sunak once thought artificial intelligence (AI) so risky that in 2023 he organized the world's first AI Safety Summit, inviting policymakers and longtime AI doomer Elon Musk to talk up guardrails for the boom sparked by ChatGPT. Two years on and his view has softened considerably.

"The right thing to do here is not to regulate," he said last month, saying companies like OpenAI were "working really well" with security researchers in London who tested their models for potential harms. Those firms volunteered to be audited. When I said they might change their minds in the future, Sunak replied, "So far we haven't reached that point, which is positive." But what happens when we do?

Sunak's U-turn from once saying Britain should be the "home of AI safety regulation" to wanting no legislation at all reflects a broader shift happening in governments around the world. Behind it is an urge to capitalize on tech that could revitalize stagnant economies and a sense that strict rules aren't needed without clear evidence of widespread harm.

But waiting for catastrophe before regulating is a gamble when new technology is spreading so quickly. ChatGPT may be the fastest-growing software of all time, regularly used by 10% of the global population just three years after launch. It may also be reshaping our brains. Its owner OpenAI has been sued by the families of multiple people who've had delusional spirals or become suicidal after spending hours on ChatGPT. AI is meanwhile wreaking havoc on school homework, entrenching stereotypes, sparking a novel kind of dependency and engaging in artistic theft.

All of this has faded into the background amid a tech-hype cycle that even former safety advocates have jumped on. Sunak, for one, has taken advisory roles at AI companies Anthropic and Microsoft, and while he has pledged his salary to charity, those relationships will be valuable should he leave politics. Musk, who fretted about AI's existential risks, has gone quiet on the subject since founding xAI, the firm behind chatbot Grok. But throwing caution aside in a chase for uncertain economic benefits may come back to haunt governments.

Both the West and Asia seem to have entered this age of regulatory leniency. The US went from issuing an executive order under President Joe Biden to build safer AI in 2023 to banning that order under Donald Trump. The current administration is fast-tracking data centres and chip exports to beat China, and trying to block state-level AI laws so tech businesses can thrive. Silicon Valley billionaires such as Marc Andreessen have committed tens of millions of dollars to lobbying against any future AI restrictions.

The UK has a track record of creating quick and sensible tech regulation, but it looks unlikely to crack down on Generative AI. Europe's digital privacy rules were once a template for other governments, yet the so-called Brussels effect looks unlikely to trouble AI.

China is no exception to this *laissez-faire* trend. Its Communist Party has rolled out policies to help domestic AI companies flourish. Despite strict rules requiring social media firms to register their algorithms to prevent social unrest, similar standards only apply to chatbots or AI tools that generate images or videos. These businesses must label deepfakes and test their tools to make sure they don't generate illegal or politically sensitive content.

But mass-market consumer chatbots are only a slice of China's AI market. The biggest AI sectors are in industrial automation, logistics, e-commerce and AI infrastructure. Companies working on this get generous R&D tax deductions, VAT rebates and lower corporate tax, according to a 2025 research paper by Angela Zhang, a professor of law at the University of Southern California and an authority on Chinese tech regulation.

China's softer approach to AI firms is down to the Communist Party also being a major customer for their tools, particularly for surveillance tech like facial recognition. Beijing has too much invested in AI to smother its development and US export restrictions on chips and a nationwide economic slump have pushed China towards growth over regulation. That "offers little protective value to the Chinese public," Zhang argues. She and others have warned of AI-enabled disasters sparked by China's historically lax approach to hazards, from AI-designed pathogens to electrical grid and oil pipelines disruptions.

The prevailing wisdom among governments is that AI companies should be left to self-govern.

But unintended consequences often arise when technologists start off with the best intentions for humanity. Self-regulation works, until it doesn't. ©BLOOMBERG

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GUEST VIEW

Aviation market failure: We require visible institutions

RAJAT KATHURIA

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Last week was yet another education in how fragile markets truly are. When one private airline faltered, schedules collapsed, weddings were disrupted, families struggled, students fought to reach exam venues and businesses scrambled. A logistical nightmare became a dark reminder of something even more profound: markets, especially concentrated ones, can turn predatory in a crisis unless they're regulated well.

Let us look at the symptoms. Airfares shot up overnight. A ticket that cost ₹6,000 a few days earlier was suddenly ₹40,000 or more. Hotels around airports quietly doubled rates as stranded passengers looked for overnight rooms. It is all demand and supply, say market purists—as supply responds, markets will settle. Meanwhile, greed smells an opportunity in markets dominated by a few and a crisis becomes a bonanza for those who can raise prices and a nightmare for those who have no choice.

Try telling someone who has missed an exam or a wedding that prices send signals and that intervention distorts markets. Nobel laureate Milton Friedman's famous quote, "There is no free lunch," does not get more ironic. Who is feasting on the free lunch? In the real world, especially in sectors like aviation, markets do not resemble textbook models. They are rigid, capital-intensive and profoundly uncompetitive, with high entry barriers. While you may start a dog escort service and compete with other platforms offering the same, starting an airline is an entirely different undertaking. Aircraft, pilots, engineers, ground crew and safety approvals require more than price spikes as incentives to trigger fresh supply. When supply is not contestable, price hikes are not signals, but penalties. So when someone tells a stranded passenger that this is how a market works, one can offer a better turn of phrase: this is how a market exploits.

The consequences of market failure can be brutal. During the global financial crisis, a former prime minister famously quipped that markets need morals. Without them, they will fail. Unfortunately, morals in markets are 'endogenous'—they need to be incentivized by a culture of regulation and enforcement. In other words, markets need independent and credible regulation: morals will follow. And yet, regulating complex markets is as hard as getting them to be competitive in the first place for various reasons, including the political economy.

Consider Big Tech. In the last decade or so, we have witnessed their genius, innovation, speed to market and mind-boggling stock market performance. Of the world's top ten listed companies, seven are digital. What began as a marketplace has transformed into infrastructure. Platforms are not mere markets anymore: they are public exchanges, advertising displays, news distributors and social spaces all rolled into one. Big Tech has become, well, *big*—perhaps too big—and on occasion it behaves like a law unto itself. The industry's algorithms determine how commerce is conducted, including airline pricing, and more often than not these reinforce societal biases around gender and race, though that is another story for another day. For now, suffice to say that regulators are often behind the curve. By the time they understand a technology, it changes.

> **The Invisible Hand fails all too frequently for us to risk weak regulatory systems prone to capture**

Enforcement, where it exists, is slow. Legal challenges are persistent, but tech firms have the smartest lawyers around.

The problem with regulation may not always be intent, since regulators are thoughtful and principled, but capacity. The state needs specialist multidisciplinary skills if it is to effectively govern sophisticated markets. Economics, law, data science, behavioural psychology, to name a few, along with honesty, must inform their toolkit. Without it, we risk regulatory capture.

Schumpeterian capitalism often treats regulation as an enemy of markets. This view is misleading. A market without rules is not free but lawless. Joseph Stiglitz, a Nobel-winning economist, has made a similar point about international trade. He argues that its current rules favour rich countries because they wrote them. And when rules cease to matter, the outcome is the same: the powerful gain and weaker countries suffer. The same applies within domestic markets. When there are no rules, or when governments step back in the name of *laissez-faire*, powerful firms sharpen their advantage. They can raise prices in the name of demand and supply. But this is opportunism. Such markets compensate dominance, not innovation, and favour size over creativity. Airfares rose not because costs did, but airlines had the power to—with fare caps imposed only later. Morals, unfortunately, are a footnote in the regulatory toolkit. They only work if regulation has teeth.

So what is the point? Let me bank on Sir Humphrey Appleby's quip on regulation from the *Yes, Prime Minister* series. He said regulation is what governments do when they do not know what is happening but are determined to stop it. It was satire, of course, but drives home the argument. Too often do we regulate after the damage is done. We improvise rules because our institutions are not ready for their purpose. The lesson from Sir Appleby's cynicism is that real regulation is the antithesis of a panicked gesture. It sets boundaries through rules, honed by skills and supported by insulation from political and commercial capture. When monopolies grow, we need countervailing forces. We cannot outsource fairness to the Invisible Hand. We need visible institutions.

These are the author's personal views.

MY VIEW | IT MATTERS

AI unpredictability: An opportunity for Indian IT firms

SIDDHARTH PAI

is co-founder of Siana Capital, a venture fund manager.

Enterprise technology has long rested on a basic assumption: determinism. When a system gets identical inputs, it must yield identical outputs. Business and tech leaders rely on this expectation. Banks can reconcile millions of financial movements and telecom operators can bill subscribers accurately because the software they use behaves in a perfectly predictable manner. This is true across enterprises.

Determinism is not a trivial engineering attribute: it gives regulators assurance, auditors clarity and businesses stability. It is an unspoken contract between organizations and their digital systems. Historically, that contract has been upheld. Large language models (LLMs), however, have begun to stretch this long-standing assumption.

The LLMs of AI did not descend from the deterministic lineage of classic enterprise systems. They emerged from probability theory, pattern recognition and statistical learning. An LLM knows that in English, 'good' is more likely to follow 'very' than, say, 'hippopotamus.' But ask the same LLM the same question twice and its responses may vary even if it didn't hallucinate. It may generate 'cold' after 'very' rather than 'good.'

Use the same model on two identical machines and minor differences can appear. Even if the system's 'temperature' is set to zero (which instructs it to choose the single most likely next word), minor variations may appear since an LLM generates text one token (a few letters, not always a full word) at a time. A tiny difference in the underlying probability distribution can lead it to pick a different token, which influences the next token, and so on. But this violates the deterministic principle: that a machine must always act in the same way.

Modern LLMs depend on massive quantities of floating-point computations executed in parallel across thousands of processing units. Billions of small mathematical operations are done just to generate 'good' or 'cold.' The order in which these occur can shift subtly, based on how the hardware schedules tasks or manages memory at that moment. Floating-point arithmetic is sensitive to ordering. In isolation, each discrepancy is microscopic. But a barely perceptible variation can cascade into a sentence meaningfully different from an earlier one.

Software layers add to this drift. Inference engines combine operations, reorder computational steps and adjust memory access. These optimizations run through processor 'kernels' (small programs), which are engineered for throughput, not for guaranteeing reproducibility. When inference engines alter or reorganize kernels to better exploit the hardware, they also change the sequence of computations, leading to varying floating-point math and output variation. Optimization paths can diverge.

> **The challenge of getting AI models to behave with consistency is waiting to be tackled**

The challenge heightens when LLMs run across multiple processing units. Distributed inference requires these units to exchange partial calculations and the timing and sequencing of these interactions can have tiny discrepancies. For enterprises accustomed to deterministic software, such behaviour is erratic. But it is a natural outcome of how AI works.

Is it possible to control or limit this unpredictability? Yes, within boundaries. Determinism on a single machine is achievable. It requires fixing random seeds, eliminating sampling-driven randomness, freezing the entire software stack and using deterministic computation paths wherever available. The trade-off is reduced performance. Deterministic kernels and rigid execution paths rarely match the speed of highly optimized, non-deterministic alternatives. But in regulated industries, slower but reproducible behaviour is preferable to faster but inconsistent outcomes.

Achieving determinism across multiple machines is more difficult. Every element of the technology in use must match precisely. With strict engineering discipline, this can be achieved, though it could be significantly costlier.

Determinism across heterogeneous hardware is unattainable today, as each hardware family does its floating-point arithmetic in its own way. Their kernels, compilers and memory architectures differ. No current software abstraction can harmonize these discrepancies. Over time, the industry may adopt more reproducible standards, but at present, expecting flawless cross-hardware determinism from LLMs is unrealistic.

For many consumer-facing use cases, non-determinism is harmless. Chatbots, creative assistants and ideation tools lose nothing if their output varies: indeed, variation often enhances them. But once LLMs are integrated into enterprise decision flows, inconsistency is a liability. For example, a compliance model must consistently produce the same justification for the same case, just as an insurer cannot provide different responses to customers with matching profiles. Engineering teams also rely heavily on determinism. Debugging requires reproducible failures. Software regression testing depends on stable baselines. Safety assessments need consistent behaviour.

Enterprises do not need to abandon AI to maintain their reliability standards. They simply need to treat AI as a governed system rather than an enigmatic oracle. Standardized hardware, frozen environments and reproducible inference pipelines will help their cause. Controlling non-determinism is not optional: it is an important step towards making AI truly enterprise-ready. Perhaps this challenge could be taken on by Indian IT service companies.

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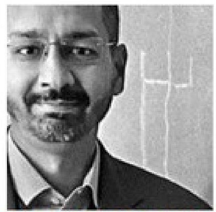
THEIR VIEW

The IndiGo fiasco must serve as a wake-up call for Indian boards

They must monitor risks and resilience—especially if a breakdown could have severe consequences



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Large corporations are not governed for profitable quarters alone, but for business continuity. And when a company that carries a majority share of national air traffic suffers a system-wide breakdown, questions must be asked beyond operational factors. In particular, of board accountability.

True, boards do not run a business's daily operations. But, in the case of IndiGo, the board's role mustn't escape scrutiny. New safety regulations had been notified well in advance. Staffing implications were evident. Software changes were scheduled events. Seasonal congestion was predictable. These were not random events that collided, but known pressures that converged. Boards exist to examine precisely this kind of convergence risk. Their mandate goes beyond reviewing earnings or expansion plans. It includes testing whether the firm's management has built operational depth, surplus capacity and crisis-readiness.

IndiGo's experience raises fundamental questions. Was staffing resilience examined once it was clear that safety norms would tighten? Were contingency protocols assessed before large-scale IT deployment? Were communication systems stress-tested? Did the company's directors receive regular, unfiltered indicators of operational fragility? If they did, did they press the management into urgency mode?

The airline's breakdown in communication with passengers during its worst phases of flight disruption also suggests an absence of oversight. Airline systems displayed operational status that diverged from airport data. Information integrity in this modern age of over-communication has become vital, a hygiene factor. Boards that treat it as a branding detail miss its economic and reputational consequences.

The organization's front-line staff carried the visible cost of deeper weaknesses. These employees became the public face of decisions they did not take and failures they did not design. Boards exist to prevent burdens from cascading downward when problems originate much higher up.

One assumes that institutional investors and analysts who track this scrip would ask tougher questions of the management. But these are questions the board itself should have asked long before these disruptions occurred.

Was workforce depth reviewed by the Nomination and Remuneration Committee ahead of the revised duty-time rules? Was staffing presented to the board as an operational risk rather than a human-resource variable? Did the Risk or Audit Committee receive regular indicators on crew utilization and schedule fragility? Were system-wide software deployments examined for operational impact at the board level? Were customer-facing information systems stress-tested for failure scenarios and peak-load conditions? And did the board evaluate business continuity with the same seriousness as fleet expansion? Or were risks informally discounted on the assumption that promoter influence, regulatory access and the use of political capital would keep operations going smoothly?

In India, corporate scrutiny often stops at the CEO's office. In promoter-led enterprises, it often stops earlier. In such structures, the management rarely has full strategic authority and independent directors have less of a say anyway. Boards may exist in form, but their role in shaping risk mitigation plans, questioning operational design and preventing an over-concentration of power is limited.

In more mature markets, failures of this scale typically result in sustained board-level examination. In India, attention tends to dissipate once operations stabilize and headlines move on. That reflex has consequences. It converts disruption into an episode rather than an institutional lesson and allows governance weaknesses to persist.

Sectoral concentration magnifies responsibility. A business with a market share larger than all other players combined in an important sector must play a different role in society than a regular firm. Continuity, transparency and risk containment become public obligations.

What unfolded at IndiGo should trigger institutional consequences. Boards must begin to assess resilience with the same seriousness as they assess growth. Apologies do not suffice.

Airline boards routinely monitor exposure to fuel price volatility and foreign-exchange risk arising from dollar-denominated leases and maintenance contracts. More active directors would insist on stress-testing supply chains for aircraft parts and engines, cybersecurity vulnerabilities in operational systems and dependence on outsourced ground services. Weather volatility, airspace restrictions, geopolitical flux, airport capacity constraints and regulatory changes must also be treated as top-order risks.

Of course, regulators also carry a share of responsibility. Aviation regulation has long been oriented towards aircraft safety and price competition, but appears not to cover organisational strength. The IndiGo episode offers a lesson: organizations that operate public utilities, like airports, ports and expressways, must be governed as such. How well they are managed matters to more than just shareholders.

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THEIR VIEW

Indian cities can be expected to lead a boom in gas consumption

A global softening of LNG prices and new domestic plans should catalyse greater use of this relatively clean source of energy

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BLOOMBERG

India's recent commitment to purchase 10% of its liquefied petroleum gas (LPG) imports over the course of a year from the US to meet the country's cooking-fuel needs heralds a wider policy approach. It marks the diversification of our petroleum product purchase basket away from traditional proximate sources in West Asia. The move comes amid ongoing negotiations between India and the US that seek to bring greater parity in trade between the two countries. While it remains to be seen whether the supplies work out cheaper, how do these gel with our medium-to-long-term energy priorities?

Broadly, any move away from our traditional suppliers must have strong commercial underpinnings, be it directly or indirectly by way of trade offsets in other sectors. From here on, we can expect an expansion in India's hydrocarbons trade with the US, especially since the latter has recently approved the setting up of many LNG export terminals.

Natural gas, however, remains a minor source of energy in India, at a little under 6% in our energy mix, while it accounts for a quarter of the global energy cauldron.

As much as natural gas purchases from the US will provide a strong negotiating handle, higher domestic consumption offers multiple co-benefits. These include a cleaner energy mix, savings in the national energy bill and enhanced energy security.

This is especially so since emissions from natural gas combustion are 20% lower than from diesel or petrol and 50% lower than coal's. Also, in energy equivalence terms, the landed price of LNG is 20% lower than that of crude oil. However, higher taxes and mark-ups by intermediaries raise the supply price at the consumption end in some cases. Secondly, domestic piped natural gas offers the convenience of being available 'on tap,' in contrast with LPG, a competing fuel, that requires an elaborate supply chain for filling and delivering cylinders.

On the supply side, there is cause for cheer on the domestic as well as the overseas front (the latter beyond US markets). Domestic prospects have vastly improved in the near term, thanks to recent gas finds in the Andaman Sea. Meanwhile non-US supplies are also expected to rise, given developments in European markets, which are weaning themselves off imports from Russia and setting up LNG terminals to source gas from the US. This switch-over process has also meant that vast gas discoveries in Russia lie stranded. Coupled with an American LNG export thrust, the global market for natural gas looks over-supplied in the medium term, with prices expected to soften.

Hence, going forward, natural gas imports from the US augur well for India, though this needs to be understood from a gas utilization perspective. How do the country's consumption sectors stack up in this regard?

The future scope of gas utilization in India's electricity sector is limited. Both coal-based power and renewable electricity are cheaper to produce. A role for electricity from gas-fired plants is at best limited to meeting peak demand or supplying it during off-solar hours. The latter is a diminishing role, since storage technologies such as batteries and hydro pumped storage facilities are scaling up to plug gaps in renewable supply.

In the case of fertilizer production, another major consumer industry, gas demand has saturated. Until new urea plants are conceived, we will not see incremental demand for gas as an input. In the near term, cheap urea imports are an option to cover shortfalls.

The potential for growth in consumption lies in other industrial sectors and city gas distribution (CGD); the latter includes gas used by household kitchens, commercial/small industries (within urban agglomeration limits) and transport systems. In the case of industry, consumption could rise provided there is climate-agenda driven impetus for this cleaner fuel to displace dirty fuels like fuel oil, naphtha, coal and pet coke. So far, this shift has been modest. Judicial action in the NCR of Delhi has helped mitigate sulphur and nitrogen oxide emissions by getting old diesel vehicles off the streets. More recently, Bombay high court directed the state to address pollution arising from transportation fuel use within Mumbai urban limits. A judicial nudge, hence, is a factor that could raise gas utilization. From a commercial standpoint, carbon markets, once implemented, could boost prospects of gas utilization by industries.

A softening in global LNG prices in 2026 would make gas more attractive, and given the low utilization rate of our LNG import terminals (currently below 50%), there is significant space for greater gas absorption if demand strengthens.

The CGD sector has seen feverish growth. Piped gas for cooking and compressed natural gas (CNG) for transportation have grown at a compound annual rate of 8% and 20% respectively over the last three years. CNG offers a low-carbon alternative to petrol and diesel, which dominate the country's transport sector. While electric mobility has taken large strides, the upfront cost of battery-run vehicles, range anxiety and patchy access to charging infrastructure remain adoption barriers.

Gas consumption for cooking, though, could see a growth spurt. The Petroleum and Natural Gas Regulatory Board (PNGRB) has signed agreements with various companies to connect 120 million homes by 2032 with piped LNG. These firms are laying out supply infrastructure within urban precincts with high population densities. This will displace a vast number of LPG connections and may reach rural areas too over time, where homes are served by LPG cylinders under the the PM Ujjwala Scheme. While only 15 million homes have been connected thus far, its rollout could gain pace.

For the long term, a recent PNGRB study indicates that broadly, gas demand is expected to rise two-and-half times by 2040. Further, the CGD sector, which currently accounts for only 20% of consumption, is expected to become the largest consumer of gas, rising to 45% during this period.

These are the author's personal views.

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OUR VIEW

PTI

Customs reform: Boost India's competitiveness

That our customs duty regime is slated for a rejig is good news. In a world of trade flux, its guiding principle needs to be defined clearly: let's focus on stepping up our ability to compete

We welcome finance minister Nirmala Sitharaman's announcement at this year's HT Leadership Summit that her next reform would be of India's customs duty regime. This is vital to boost competitiveness and trade diversification amid today's tariff turmoil, with the US walling itself apart. It would be best not to limit the exercise to easing procedures and revising customs duty rates. The reform agenda must cover the entire gamut of non-tariff barriers from quality and technical standards to inspection delays, registration riddles and more. India is a vast market. If Indian companies can compete with the world's best at home for a slice of the consumer spending pie, they would be able to rival foreign businesses in global markets. If the guiding principle of a customs rejig is clearly identified as making the economy more competitive, rather than shielding local industries that vie to be labelled critical or 'infant' in their pleas for tariff protection, it would help policymakers steer clear of special interest lobbies.

A good precedent for import duty reform was set by Yashwant Sinha as finance minister in the Vajpayee government. He cut India's peak tariff, compressed a wide dispersal of rates into tariff bands and pushed them closer together over successive budgets to take the average effective rate down to about 7%. Since then, our tariffs have lost their anchor in any tariff band and careened across the spectrum like particles in zig-zag motion. Our rates were raised and lowered to shelter and nurture specific sectors, with industries using tariffed products as inputs lumped with a higher cost burden that hurt their export efforts. The goal now should be to set low and uniform duties that do not distort value generation at any stage of production. A standard rate of 5%, say, could be applied to imports. This would help sectors emerge that do not exist right now but could be brought to competitive scale by new entrants, aided perhaps by industrial-policy incentives if they need to be nurtured. Right now, our framework is bent on keeping a set of manufacturers cushy behind tariff barriers while granting them duty-free access to some vital parts from abroad. This way, these inputs are unlikely to ever be made in India, while an equal-duty regime would let us discover what could well be churned out locally. With world trade in flux, Indian barriers reduced to a common level could turn our comparative advantage dynamic, since equal exposure to global rivalry would help us spot export openings and push us to sharpen our edge.

Of course, exposing Indian producers to external competition is not a silver bullet. Local enterprises need access to talent, technology, energy and logistics at par with foreign players. We have made some progress on logistical efficiency; customs reform could improve upon that. However, investment in human talent and intellectual property remains skewed and stunted. This is something we must address in mission mode, especially our R&D deficiency. The cost of capital matters too, as does the rupee's value, so all efforts must run alongside sound fiscal and monetary policies. Trade may be in a spot of trouble globally, as with other aspects of globalization, but we can bet that its logic will eventually prove hard to resist. And for rapid economic growth, we still need export success to play a major role. This may be just the right moment to align our policy settings for an export thrust over the next two decades.

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MINT CURATOR

Governments are losing trust: Can sound policies reverse it?

Good macro management could suffice. Keep inflation in control

CLIVE CROOK
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Social spending increases trust but only if it's not inflationary. REUTERS

Across much of the industrial world, trust in government is low and declining. Why is this happening and why exactly does it matter? An unusually thorough new study looks at these questions and finds answers that are somewhat unexpected and, in one way, more disturbing than you might have guessed.

The fact of diminished trust is hardly a revelation, least of all in countries such as the US, where anti-establishment populists have turned politics upside down and elite expertise has become not just distrusted but disdained. Last year, a survey found that fewer than one is six Americans expect Washington to do the right thing "nearly always" (1%) or "most of the time" (15%). At the turn of the century, such measures for the US were more than twice as high. Across the Organization for Economic Cooperation and Development, many other countries (including the UK, Netherlands, Spain, New Zealand and Chile) have also seen trust decline. But in others (such as Finland, Ireland, Portugal and Mexico) trust has increased. Levels of trust, as opposed to rates of change, also vary a lot. These widely differing patterns make it possible to examine causes.

On the face of it, the collapse of trust seems like a phenomenon of social psychology—a perspective that tends to highlight a confluence of cultural and technological factors. Social media, disinformation and misinformation, echo chambers, epistemic bubbles and whatnot are often taken to be responsible. This view is mistaken, according to a study by Michael Boskin, Alexander Kleiner and Ian Whiton, all of Stanford University. Their paper adds to a body of research that says straightforward economic factors are what count. Looking at 34 countries between 2007 and 2023, they find that per capita GDP, debt, social spending, unemployment and inflation all have pronounced effects on trust in government. In their analysis, the interactions and trade-offs among these measures largely explain the outcome, leaving non-economic factors to play "only a supporting role."

Overall, an increase in per capita GDP (in real, after-tax terms) of $1,000 corresponded to a rise in trust of 0.2 percentage points. The effect of higher social spending was greater: An increase of $1,000 per capita is associated with a 1.4 percentage-point increase in trust. Higher inflation and unemployment both reduce trust, as you'd expect: each increase of a percentage point reduces trust in government by 1.6 and 1.0 percentage points, respectively. Half a century ago, economist Arthur Okun coined the "misery index," the sum of the rates of inflation and unemployment. Evidently, misery means distrust and inflation is especially likely to induce it.

More important are the trade-offs involved. With other things equal, trust rises when social spending goes up. If higher spending coincides with a period of high unemployment and spare economic capacity, it's likely to cut joblessness without pushing inflation up. The net effect, thanks to jobs strength, would then be an even bigger improvement in trust. But if it coincides with full employment and no spare capacity, it will likely drive up inflation—most likely by enough to yield a net reduction in trust. The authors surmise that this is what happened in many countries, especially the US, once the recovery from the pandemic was well under way.

So, sound macroeconomic management—not the same as 'big' or 'small government'—promotes trust and the main test of it is low unemployment and (especially) low inflation. But there's another more unsettling implication: Declining trust will be self-reinforcing if, as seems likely, it makes sound macroeconomic policy more difficult. A vicious circle of macro mismanagement and declining trust is plausible. Inflation expectations are anchored by the credibility of policymakers' commitment to keep prices in control. If that weakens, low inflation is harder to achieve. And this risk isn't confined to central bank decisions. Fiscal policy is equally implicated. Rising debt arouses distrust in its own right; at a certain point, it also calls into question the government's preference for low inflation (because higher inflation reduces its debt in real terms). Higher inflation means less trust; less trust makes higher inflation more likely. Trust in government requires good government; good government requires trust in government.

The good news in this study is that restoring trust might be more straightforward than cultural revolution and/or technological stasis. Plain old sound economic management—with a particular emphasis on keeping inflation tame—might suffice. The bad news for countries like the US, which have seen trust in government fall precipitously, is that sound economic management is now a lot more difficult than before.

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OUR VIEW

AFP

Malhotra at RBI's helm: India's Goldilocks era?

The RBI governor can look back on his first year in office with satisfaction. But challenges abound and are likely to increase. So here's hoping the rest of his term will be just as good

"Uneasy lies the head that wears the crown," wrote Shakespeare in his play *Henry IV*. The English playwright was talking about a king by that name, not of any central bank governor. In any case, even the Bank of England was founded only in 1694, almost a century after that play was written. A latter-day dramatist tempted to say the same of the head of a central bank would not be too far off the mark, though, whether it is about Jerome Powell, chairperson of the US Federal Reserve, who has had to face the prolonged ire of President Donald Trump, or anybody else with this unenviably difficult job. What about the 26th governor of the Reserve Bank of India (RBI)? Ever since techie-turned-bureaucrat Sanjay Malhotra took charge on 11 December 2024, one event after another has rattled the certainty that helps frame monetary policy. The first meeting of RBI's Monetary Policy Committee (MPC) chaired by Governor Malhotra was held just days after President Trump fired his first trade salvo, levying tariffs on two of America's closest allies, Canada and Mexico, apart from archrival China. The second meeting followed Trump's Liberation Day announcement of 'reciprocal' tariffs.

There has been no let up since then. Each of the next four MPC meetings was held under the shadow of either steeper US tariffs or threats of fresh levies. The rupee, meanwhile, has weakened dramatically. Its slow depreciation has given way to a sharp drop over the past year from ₹84.83 per dollar on 9 December 2024 to ₹90.10 on Tuesday, even as foreign institutional investors pulled a king's ransom out of India's stock market in 2025—an estimated $18 billion. Despite this endless drama and a much-awaited trade deal with the US proving elusive, Malhotra can look back on his first year in office with satisfaction. As an inflation-targeting central bank, RBI is mandated to maintain price stability—specifically, to keep retail inflation in a 2-6% band—while keeping in mind the objective of economic growth. Under Malhotra's watch, we have had the best of both worlds. Inflation has steadily declined while growth has held firm. RBI now expects to close 2025-26 with 2% inflation for the year and an economy that is 7.3% larger. Granted, RBI has repeatedly got its estimates of both variables wrong. But these errors only led to positive surprises. Growth has been stronger and inflation weaker than it had forecast. The net result? As Malhotra noted in his last policy statement after this month's MPC meeting, we are experiencing a Goldilocks moment. This is no mean achievement. It comes in the backdrop of slowing global growth, with advanced countries like the UK and Japan stuck with low or negative growth and above-target inflation.

In fairness, though, some credit for India's neither-too-hot-nor-cold scenario must be shared with three other entities: the government, which appears to have given him a free hand after its calls for monetary easing weeks before he took office, the institutional strength of RBI, and last but not least, the element of luck. In a world of variable uncertainty and a variety of economic challenges, it matters more than we like to think. As Napoleon is said to have asked once, "I know he's a good general, but is he lucky?" India needs Malhotra to not just be a good RBI governor, but a lucky one as well. We wish him all the best for the rest of his term in office.

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THEIR VIEW

Adventure deposits: A banking idea whose time may have come

Depositors attracted by capital markets may be ready to bear some risk for larger interest earnings

MADAN SABNAVIS
is chief economist, Bank of Baroda, and author of 'Corporate Quirks: The Darker Side of the Sun'

Consider these five seemingly unrelated though connected characteristics of our financial markets. *First*, the debt market is one largely for higher rated companies. If the rating of a bond or debenture is not AA or AAA, it is hard to find investors. *Second*, those who cannot access the bond market can still borrow from banks (so we have financial inclusion). *Third*, almost all bank lending, except when it is specified as being unsecured, is backed by collateral; hence lower rated units can borrow on this strength. *Fourth*, banks also invest in securitized assets, where a pool of assets is segregated by seniority for sale to other investors; asset pooling is not new. *Last*, a green ecosystem has emerged where banks raise 'green deposits' for deployment in green lending, just like how green bonds enable the same.

Can all these characteristics be put together to create a new kind of deposit product that is guided by the market and addresses the needs of borrowers that lack good ratings? There does exist a market for 'junk bonds' or sub-investment grade debt instruments. This is not a market for 'losers,' but one that lets lower-rated companies raise funds from investors ready to accept higher risk for better returns. These bonds typically offer higher rates of interest. According to S&P, the trailing 12-month default rate for speculative-grade debt was about 4% for the past two years and averaged 4.8% as of August 2025. This is a higher return than what better rated bonds offer and seen as compensation enough for the risk taken.

This idea can be mimicked in the banking space. The pricing of deposits and loans can be fixed in advance. Deposits used for financing loans below investment grade can be rewarded with higher returns. Therefore, a one-year deposit that presently offers 5.85-6.6% can be elevated by 200 basis points, with this premium passed on to such deposit holders. To this, we could add the bank spread based on risk assessments and other accompanying costs, much like how loans are priced above the MCLR (marginal cost of funds-based lending rate) today. Theoretically, if the net interest margin of banks is 3% and the deposit premium is 2%, the special lending rate could be 10.85-11.6%, which is 5% above the usual deposit rate. If the bank would like a bigger margin for such loans, the final lending rate can be upped accordingly.

At the practical level, such deposits, which could be called 'adventure deposits,' would be used for lending to, say, BBB or BB rated firms. The deposit's guaranteed return would be equal to the savings deposit rate until it is deployed for special lending. Once a tranche of deposits is lent, the deposit rate would be determined based on a pre-decided formula as described above. The return for the first period, which can be a quarter, would go by the formula. However, there would be quarterly repricing, depending on the performance of the pool of such loans. In a way, this would amount to market-determined pricing.

If some loans are not serviced on time and the bank must set aside a provision to cover it, this could be adjusted within the bank's total interest earnings available for distribution to deposit holders, with adventure depositors taking a slight hit. At an extreme, if loans are written off, then these deposit holders would get even lower returns. As the entire pool is very unlikely to fail all at once, there would always be better returns for adventure savers. This is the advantage of loan diversification.

The adventure-deposit approach uses three concepts. The first is deposits linked to a specified class of loans. Second, loan pooling, as seen in asset securitization. Third, variable interest rates on deposits, much like the floating-rate bond offered by the government to individuals, based on the performance of the adventure pool of loans.

The idea can turn out to be a win-win solution for all concerned. While banks will have to bear the pass-through of higher-cost deposits, they would also be able to attract more funds for lending and improve their overall performance. As these loans are collateralized, there would be no material change in the way credit evaluation is done. From the perspective of lower-rated borrowers, this would still be a good option, as such loans would be cheaper than those taken from non-bank financial companies and fintech firms. Deposit holders would be better off with higher returns and also assured that sub-investment grade loans are backed by collateral. For such deposits, perhaps coverage by deposit insurance would have to be withdrawn, since depositors willingly bear some risk for better rewards.

Adventure deposits make sense in today's low-interest-rate environment that favours borrowers over deposit holders. Savers have been shifting to capital-market instruments and thus showing a greater risk appetite. This makes the introduction of market-linked deposits a tempting idea. It would mimic what is being done by mutual funds, which deploy the money of investors across equity and debt instruments to deliver consistently higher returns. Bank deposits could do with innovation too. At the very least, the idea of adventure deposits should offer us some food for thought.

These are the author's personal views.

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GUEST VIEW

Private credit: Set to shed its high-risk, high-cost image

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India's private credit market has experienced remarkable growth in the first half of 2025, reaching $9 billion across 79 transactions, nearly triple the volume in the preceding six months. This surge has been led by a landmark $3.1 billion transaction by a large Indian corporate, representing the largest onshore private credit deal in Indian history. The infrastructure sector has emerged as the primary beneficiary of this capital influx, followed by real estate and healthcare. This expansion reflects the growing significance of private credit.

It bridges India's funding gap: The emergence of private credit in India can be traced to a confluence of factors that have created substantial opportunities for alternative lending, including regulatory restrictions on regulated entities from lending to specified business sectors. Traditional lenders have faced liquidity constraints, while financial sector crises, notably those involving IL&FS and DHFL, have left a lasting impact on conventional lending channels. These disruptions created a significant funding vacuum that private lenders have sought to fill.

The evolution of India's regulatory framework: The development of a legal framework has been instrumental in the industry's rise. In January 2025, the Reserve Bank of India (RBI) issued a master direction on non-resident investment in debt instruments, liberalizing rules to enhance the participation of foreign portfolio investors (FPIs) in private credit and structured finance. These directions allow FPIs to invest in Infrastructure Investment Trusts and Real Estate Investment Trusts through both the general and voluntary retention routes, which is a significant shift from the earlier framework. This enhances flexibility and broadens participation in the sectors of infrastructure and real estate. FPIs can now also invest in government securities with no minimum residual maturity.

Distressed asset opportunities: The regulatory framework has also evolved to facilitate investments in distressed assets. The Securities and Exchange Board of India (Sebi) introduced Special Situation Funds as a distinct sub-category under Category I AIFs in January 2022. These funds target investments in financially distressed assets or those undergoing resolution, including stressed or non-performing loans, security receipts issued by asset reconstruction companies and securities of entities subject to insolvency proceedings under the Insolvency and Bankruptcy Code (IBC). Further, the IBC (Amendment) Bill of 2025 envisages comprehensive reforms to create a more creditor-friendly regime while laying out a group insolvency framework and stricter timelines; IBC reforms could also fill gaps that led to some controversial judicial interventions. These changes, combined with the flexibility of private credit, can reshape India's distressed asset ecosystem and create a more efficient and investor-aligned market.

Regulatory changes have fostered credit competition. This should give private credit a chance to shine

Environmental, Social and Governance (ESG) integration standards: Investors increasingly demand robust corporate governance and sustainability standards in deal structures, with regulatory frameworks now supporting ESG-compliant private credit investments. Borrowers are expected to adopt global best practices, including enhanced compliance with anti-bribery laws, anti-money laundering protocols, counter-terrorism measures and sanctions. Sebi's Business Responsibility and Sustainability Reporting framework mandates the top 1,000 listed companies to disclose ESG metrics, including greenhouse gas emissions, water usage, waste management and governance safeguards. In June, Sebi also introduced a framework for ESG debt securities, including social bonds, sustainability bonds and sustainability-linked bonds, creating new avenues for ESG-focused private credit investments.

The outlook: India's private credit market is projected to expand to $27.5 billion by 2031. Its competitive advantage lies in the speed of execution, flexible structuring and willingness to finance complex transactions that banks may find challenging due to regulatory constraints. But their legal and regulatory framework must evolve to address emerging risks.

Competition in the field of private credit is intensifying as RBI considers permitting banks to engage in acquisition financing. This would enable banks to finance mergers, acquisitions and leveraged buyouts, directly competing with private credit funds in high-yield transactions. Banks' access to lower-cost deposit funds and established corporate relationships could increase competitive pressure. The proposed liberalization of the external commercial borrowings (ECB) regime will change the financing landscape further. RBI's reforms aim to reduce minimum maturity requirements, expand eligible borrower and lender categories and streamline approval processes, making foreign currency borrowings more accessible and cost-effective for Indian corporates. Enhanced ECB flexibility could provide cheaper alternatives to domestic credit, especially for large-ticket requirements where currency hedging costs are manageable.

Ultimately, the entry of Indian private and public sector banks to acquisition financing, coupled with RBI's regulatory liberalization, will create a more competitive funding ecosystem for India Inc. Intensifying competition will work to the benefit of borrowers as they will have access to diverse and cost-effective financing solutions. Hopefully, this will enable private credit to shed its image as a high-risk and high-cost option.

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THEIR VIEW

Green Revolution 2.0: Climate action in the food sector

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India's food sector employs millions and is a major contributor to its economy. Food processing alone is valued at over $300 billion, reaching hundreds of millions of households daily. Globally, food and agriculture form a multi-trillion-dollar system, spanning farmland, fertilizers, cold chains and retail outlets. Even small shifts in production methods can reshape national emissions and future business costs.

The environmental burden is substantial. The Food and Agriculture Organization estimates that food systems are responsible for about one-third of global greenhouse gas emissions. Land-use changes, fertilizer use, livestock and transport all contribute to the planetary burden. Large Indian companies depend on these upstream activities, yet need not always report their emissions. A growing body of analysis argues that firms need a clearer picture of hidden emissions.

The case for deeper accounting is strong, but companies face real obstacles. Measuring farm emissions is difficult because the underlying science is complex. The Greenhouse Gas Protocol's land sector guidance spells out the uncertainty in land-based accounting. Soil carbon levels change with weather, soil type and farming practices. Livestock emissions vary with fodder quality and breed. Most tools rely on broad estimates rather than detailed measurements, producing wide ranges of error that make company boards cautious about hard targets.

Meanwhile, consumer signals remain weak. Sustainable choices often matter less at checkout counters than price and taste. Bain & Company found Indian consumers express a strong interest in sustainability but rarely act on it when price gaps appear. Uncertainty over relying on green pricing premiums makes companies hesitate to invest in cleaner supply chains.

Working with suppliers compounds the challenge. Most Indian farms are tiny and many farmers lack credit, efficient irrigation or reliable advice. Academic reviews show that the adoption of new practices remains slow unless governments or buyers share costs. Upgrading supply chains means influencing millions of producers that face daily risks more urgent than carbon emissions.

Despite these constraints, there are strong commercial reasons to start now. Climate impacts already affect the supply of dairy, cereals, spices and other produce. Volatile weather disrupts procurement, raises input costs and threatens quality. Companies that secure resilient supply systems will gain an advantage in the decades ahead.

Large buyers and lenders are shifting expectations too. Many international food businesses, commodity traders and financial institutions now demand evidence of emission management across entire value chains.

> **Private firms could forge a pragmatic path to decarbonize Indian food production with public support**

The Science Based Targets Initiative recently issued norms for forests, land and farming, giving companies clear guidelines for measuring and reducing emissions from crops, livestock and land use. Firms that don't show progress risk losing contracts or favourable financing terms. In a sector built on relationships and stable supply, credibility matters.

The path forward requires steady reform, not a sweeping overhaul. Companies can start with actions that improve efficiency and environmental outcomes together. Reducing energy use in processing plants, shifting to renewable power, improving cold-chain efficiency and cutting transport waste would lower both costs and emissions.

The next step would involve focused trials in key sourcing regions. For rice, this could include practices like alternate wetting and drying, a water-saving practice documented by the International Rice Research Institute to cut methane emissions while reducing irrigation needs. For dairy, better animal feed, improved livestock health and managed manure systems can raise productivity. There are many such low-risk options with clear benefits.

Firms can improve emission measurement via partnerships with research institutions and agricultural centres. Shared monitoring using satellite mapping and standardized records can avoid duplication and reduce disputes over baselines. When multiple firms source farm produce from the same districts, such cooperation with farmer support can reduce everyone's costs.

Policy can accelerate these efforts. Government agencies could publish emission standards for Indian crops, create open satellite-based land-use datasets and expand extension networks. These steps would give companies consistent baselines and help farmers adopt better practices. Public procurement programmes, including state nutrition schemes, could reward suppliers who document cleaner production.

A national framework to reduce emissions within private supply chains would also help. Clear rules on baselines, verification and permanence would help avoid future disputes over progress. With well-designed standards, transitions can be tracked well.

India's food sector is vast, essential and deeply linked to the environment. The science behind climate risks is robust and the economic argument for resilience strong. Climate-friendly steps must also take note of industry concerns, so that a realistic path can be adopted. But the direction is clear. Value chains that are cleaner and more stable will give companies an edge in a world of rising climate risks and green expectations.

With measured steps and the right public support, greening India's food system can become a practical business strategy rather than an abstract ideal.

THEIR VIEW

Beyond tariffs: The dos and don'ts of an India-US deal

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A US trade delegation reached India this week with the aim of concluding a long-anticipated trade agreement. Coming close on the heels of Russian President Vladimir Putin's visit to New Delhi that resulted in a five-year India-Russia economic programme to diversify trade and strengthen an energy partnership, an obvious question arises: How would ties with Moscow impact India's US engagement? At last week's HT Leadership Summit, foreign minister S. Jaishankar exuded confidence in a firm assertion of India's "strategic autonomy" and "freedom of choice" in its global partnerships. Similar steadfastness will be needed to avoid the pitfalls of what the US is likely to push for.

To be sure, any deal with the Donald Trump administration won't be about long-term gains, but a short-term reprieve for India's exports to the US of textiles, garments, shrimp and agricultural as well as food products, all of which have borne the brunt of Washington's 'reciprocal' and punitive tariffs that add up to 50%. These tariffs are widely acknowledged to violate the rules of multilateral trade—rules that have been found to be ineffective in holding a member accountable for its breach. Ironically, where 165 members of the World Trade Organization could not succeed, a legal challenge in the US by several small importers has raised the possibility of some relief.

The US Court of International Trade and Court of Appeals has ruled that President Trump had no legal authority under the International Emergency Economic Powers Act to impose reciprocal tariffs. The ball is now in the US Supreme Court. At hearings last month, the US top court seemed unpersuaded by the government's argument that the Act allows the president to regulate imports by imposing tariffs. Its judgement is awaited. If it strikes down the tariffs, it would necessitate a rollback by the US administration to the original tariff levels of 3-3.9% that India was facing on most goods, given its most favoured nation status, except for auto, steel and aluminium exports, which were facing 25-50% tariffs on 'national security' grounds. What happens to US agreements already concluded, including with the EU and UK? PIIE, a US-based think-tank, notes that there could be an unravelling of those agreements and possible retaliation.

Given that a US Supreme Court ruling could come any day, India's government may want to bide its time a bit more and wait for the dust to settle before it acts. Lessons can be drawn from the experience of US agreements with Vietnam, Malaysia, Cambodia and Thailand, each of which was pushed to reduce barriers for US goods, adopt American regulatory and safety standards for cars, medicines, food and industrial products, and make regulatory changes to give US firms easier market access. These agreements also mandate cooperation with the US on export controls, investment screening, critical minerals and supply-chain security, thereby tying their long-term industrial plans to US strategic priorities. As a result, market access was exchanged not for a balanced trade deal, but for closer alignment with US rules.

> **Washington has not just been thrusting unfair deals upon others, its tariffs could yet fail judicial scrutiny**

Malaysia and Cambodia have signed binding agreements that include these obligations, while Thailand and Vietnam, still at the framework stage of negotiations, have committed in principle to such an alignment. Here is a sample of clauses that show how Malaysia and Cambodia ceded sovereign policy space in their deals with the US:

Both countries are required to impose equivalent restrictions on a third country if the US imposes restrictions on goods, services and companies owned or controlled by third-country entities "to address a shared economic or national security concern."

Both countries have also agreed to not impose bans or quotas on exports of critical minerals or rare-earth magnets to US firms and committed to develop their rare-earths sector in partnership with US firms, assuring the latter extended mining licences and guaranteed supplies.

Malaysia has also agreed to limit its foreign-exchange intervention to combating disorderly or excessively volatile exchange rate movements.

Additionally, most American agreements, including those with other countries in Asia, Latin America and Europe, have commitments to not impose taxes on digital trade with the US. Cambodia's agreement requires it to "consult with the United States before entering into a new digital-trade agreement with another country that jeopardizes essential US interests."

Apart from these, various deals signed by countries with the US also embed stiffer provisions related to labour, environmental and governance standards. While India has agreed to cover labour and environmental issues in its trade deal with the UK, the US demands seem disproportionate and thus reflective of an unabashed attempt to dilute the comparative advantage and efficiency of its trade partners through stiff standards.

These are examples of provisions that infringe the economic and strategic autonomy of US partners, constraining their freedom to pursue independent trade, investment and industrial policies.

Let us bear in mind that the starting point of Washington's asks is its imposition of tariffs that have been challenged within the US. This tool of leverage would significantly weaken if the US Supreme Court sounds a death-knell for these barriers. Negotiations with the US should keep this in view.

These are the authors' personal views.

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| OUR VIEW

REUTERS

China must lift its yuan to push up consumption

China's eye-popper of a trade surplus is a sign of its export resilience but its economy suffers from weak internal demand. It should slowly let its currency strengthen to enlarge imports

Rarely does China's stated national priority align so well with what the world wants of the People's Republic. Yet, Beijing is not really letting it happen—to the world's dismay and its own people's loss. This needs to change, starting with China letting its yuan appreciate a whole lot more than the 3% it has risen against the dollar since the start of 2025. As reported this week, China's trade surplus topped $1.1 trillion over the first 11 months of this calendar year—a record figure. No doubt, this is a sign of China's export resilience. Despite a near 20% decline in exports so far this year to the world's largest market, thanks to US President Donald Trump's 47% tariff on imports from China, its shipments continue to make waves as its merchandise storms other markets. Clearly, Trump's shake-up of global trade has not deprived the country of its status as the world's factory. Other countries, however, have grown anxious as they watch their domestic industries lose market share both at home and abroad to cheap Chinese goods.

That may not have mattered much if China's export thrust were limited to sectors like electric vehicles, solar power modules and battery storage, where its comparative advantage could help decarbonize other economies. But China seems bent on selling the world everything from garments to advanced machinery, leaving little space for others. Beijing has long spoken of boosting the internal half of its economy's 'dual circulation' model. Such a shift, policymakers said, would ease its over-reliance on 'external circulation'—exports and the supply chains behind them. This talk did not translate to action. First, covid intervened. Then, China saw its property bubble burst, with indebted real-estate firms going bust. While it boasts of robust manufacturing, its uneven emergence has left its financial sector stunted. The vast bulk of people's savings were parked in home ownership, so battered real estate spelt a negative wealth effect that took a toll on consumption—which was exactly what it needed to drive up. Retail stimulus measures have tried to achieve this, but with weak results so far. Its GDP growth has struggled to rise above an annual 5%, about half the rate of its boom phase and deflationary pressures still haunt several sectors. While China's tech advances are notable, especially in AI, domestic demand remains limp. Signs of public discontent, meanwhile, may have turned Beijing cautious on reforms. If it enlarges pensions and liberalizes its rigid *'hokou'* registration system to give citizens access to state benefits wherever they choose to move, it would let people spend more freely.

What would work best is a macro-level fix. China's current account surplus, at 2% of GDP, is only about half the size of its trade surplus, thanks to a services deficit. But it also means it's exporting capital to that extent. Some of it has long been going into foreign sovereign bonds, its stash of which was enlarged by a cheap-yuan policy and could plausibly be weaponized (against, say, the US). But a win-win approach would be to let its currency appreciate and spur import demand for its people to lead better lives. Its yuan has strengthened by 3% against the dollar over the year. But since February, the dollar index has fallen by 8%, which means the yuan has effectively fallen against a basket of non-US currencies. This makes 'internal circulation' harder to achieve. Getting people to consume more is the flip-side of a better balanced current account with the rest of the world.

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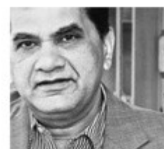
THEIR VIEW

Investments in REITs and InvITs could drive India's infra build-up

Let's aim to unlock $1 trillion in global funds that can go into these trusts in support of our long-horizon development goals



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Our ambition is clear. By 2047, when India marks 100 years of independence, it must be a developed nation: A Viksit Bharat. This means moving from a $4 trillion economy to $30 trillion. To achieve this, per capita income must grow eight times, GDP nine times and manufacturing 16 times. None of this is possible without a modern physical ecosystem that delivers fast logistics, efficient energy, reliable transport and sustainable urbanization. All of these depend on large-scale capital investment in infrastructure, making its creation the fulcrum of India's long-term economic transformation.

The next phase of growth will depend on how effectively we mobilize long-term capital and leverage innovative financing instruments. Among these, REITs (Real Estate Investment Trusts) and InvITs (Infrastructure Investment Trusts) stand out as models that channel investment into income-generating assets. InvITs focus on infrastructure such as roads and power networks, while REITs focus on commercial real estate—helping unlock capital, support new development and broaden investor participation.

The vision of Viksit Bharat requires a financing architecture capable of supporting large-scale infrastructure for logistics, power, transport, digital connectivity and urban utilities. REITs and InvITs provide a structured and scalable pathway to mobilize this capital. Globally, REITs and InvITs form a $3 trillion market led by the US, Germany, and Japan. India has the scale to lead this market. It is already among the world's leading infrastructure investment destinations, but must be bolder and more ambitious.

India currently has 27 registered InvITs across nine sectors with assets under management of ₹7 trillion, which is minuscule compared to its potential. We should target $1 trillion or ₹90 trillion. This requires urgency and discipline, beginning with overcoming challenges that slow us down.

The first challenge is valuation. Over-optimistic assumptions and uneven portfolios can reduce the attractiveness of these trusts. Fiscal pressures led sponsors to front-load trusts with physical assets without clarity on future expenditure or stability, weakening confidence. Such assets going into REITs and InvITs must rest on realistic assumptions, operational clarity and transparent long-range planning.

The second barrier is the public sector gap. Of the 27 InvITs in India, only two are public-sector sponsored, even though about 70% of infrastructure is built by public entities. Railways and warehousing could readily monetize or unitize their asset bases. While some entities have scaled their InvITs, others have not added assets fast enough.

Thirdly, in some cases, public sector entities retained operational control after forming InvITs, limiting independent price discovery and diluting governance. When the buyer and seller are controlled by the same sponsor, investor confidence weakens. Once assets move into a REIT or InvIT, trust management must be fully independent with professional rather than public-sector investment managers.

The fourth challenge is the absence of a predictable pipeline. Though the National Monetisation Pipeline articulates intent, actual transfers of assets into InvIT-like structures remains limited. The shortage is not of capital, but of prepared assets and efficient structures.

To move forward, we need a clear agenda.

First, determine sectoral contributions to trusts and create multiyear pipelines immediately. The targets are $250 billion worth of assets from power transmission and renewables, $200 billion from roads, $150 billion from logistics and digital infrastructure, $200 billion from urban utilities and metro systems and $200 billion from commercial real estate and brownfield portfolios.

Second, ministries should focus on preparing pipelines, resolving approvals and ensuring clean structures, rather than influencing commercial decisions. Investors will invest only if platforms are run professionally and transparently.

Third, states must adopt unified, time-bound asset monetization frameworks. Municipal bodies should pool revenue-generating urban assets such as bus terminals, metro systems, water treatment plants, parking facilities and commercial markets into city-level REITs and InvITs, allowing cities to raise long-term capital without adding debt.

Fourth, India must commit to a stable tax and regulatory roadmap for REITs and InvITs, while avoiding retrospective changes. Reliable currency hedging mechanisms are critical to attract global institutional investors and unlock larger pools of long-horizon foreign capital.

Fifth, India must move from one-off transactions to a platform strategy by creating large sectoral REITs and InvITs with recurrent asset infusions and the scale required for global indexing. This will build long-term confidence and create vehicles for sustained growth.

Sixth, domestic participation must expand. Today, foreign investors account for over 50% of institutional investments in InvITs, while domestic institutions such as mutual funds, pension funds, banks and insurers contribute only 7%. India should raise this to the 20-25% range, while retail participation near 5% has room to grow.

Seventh, India must ensure a large, predictable multiyear asset pipeline, especially from the public sector, so that capital can flow into ready platforms, supporting growth and investor confidence.

The message is clear. India can become the world's top REIT and InvIT market, but only if ministries and institutions act with urgency. India's 21st century story will be defined by the infrastructure it builds and the confidence it inspires. The world is ready to invest. We must seize this opportunity.

These are the author's personal views.

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GUEST VIEW

IndiGo: Legal remedies exist to address any abuse of dominance

The airline's market grip must be undone if Indian skies are to be kept open and fair to everyone

DHANENDRA KUMAR
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In the bustling skies of India, where air travel has become the lifeblood of a rapidly growing economy, a single airline's dominance can destabilize the entire nation. December 2025 will long be remembered as the month when IndiGo, India's undisputed aviation giant, triggered the country's worst ever flight crisis with its disregard for regulation. In the past few days, this air carrier, boasting a fleet of over 350 aircraft and a domestic market share of around 64%, descended into chaos amid the cancellation of thousands of its flights that left tens of thousands of Indian passengers stranded. Families got separated, business executives lost deals and medical evacuations had to be re-routed. The sight of women and children in distress became routine.

Meanwhile, flight fares rose astronomically and hotels too jumped into the fray. What began as a routine implementation of fatigue-mitigating crew rest rules snowballed into a historic aviation disaster. It is a stark reminder of the perils of aviation dominance in the world's third-largest market for air travel services. Fortunately, the government acted with exemplary swiftness, running trains, capping fares and providing temporary relief from rules.

The rules being implemented were the Directorate General of Civil Aviation's (DGCA) revised Flight Duty Time Limitations (FDTL), the second tranche of which was rolled out on 1 November following a Delhi high court directive to reduce pilot fatigue and enhance safety. These rules capped night landings by pilots, extended mandatory rest periods and tightened flight time restrictions—measures long overdue for safety in an industry plagued by overworked crews. While smaller carriers like SpiceJet and Akasa Air adapted with minimal hiccups, IndiGo's failure to comply is a reflection of its arrogance and abuse of market dominance.

At the heart of the fiasco lies IndiGo's alleged procrastination. According to reports, the airline lobbied for exemptions until late October, diverting resources from roster overhauls and software updates needed for the new FDTL regime. It transpires that back in August, a Parliamentary panel had cautioned against letting airlines bypass these new rules for pilots. In a report to the Parliament, the Standing Committee on Transport, Tourism and Culture stated that India's aviation sector was approaching "a critical inflection point" due to a mismatch between the growth of aircraft fleet, which was rapid, and the enrolment of pilots and manpower for air-traffic control, which was slower. The sector was nearing a dangerous tipping point, driven by pilot fatigue, an air-traffic-control overload, human resource shortages and rapid business expansion.

As a *Mint* editorial observed, it is apparent that IndiGo had used its market dominance to blackmail authorities into giving it relief, albeit temporary. While the DGCA issued IndiGo a show-cause notice and is working to enforce its regulations, it is relevant to place the case under the lens of India's competition regime. With the airline in control of nearly two-thirds of the market in a near-duopoly scenario, there is little doubt over its dominance, although due process would have to establish it. Anti-trust laws provide that stiff penalties, as stipulated under Section 27 of the Competition Act of "up to 10% of the average turnover for the last three preceding financial years" may be considered for "abuse of dominance" by an enterprise. 'Dominance' and 'abuse' may have to be examined under a procedure laid out in Section 26 of the Act.

One section relevant for all dominant undertakings, though, has gone relatively unnoticed and has not been used so far in India. This must also be brought to the table. According to Section 28 of the law, the Competition Commission of India may—notwithstanding anything contained in any other law in force—direct the division of an enterprise in a dominant position to ensure that such an enterprise does not abuse its dominance. The mechanism for such a division has been elaborated upon in various sub-sections of Section 28(2).

There are several instances around the world where such action has been taken. Major US examples of dominant undertakings being broken up by anti-trust authorities include Standard Oil in 1911 and AT&T in 1982; the latter case resulted in the creation of smaller regional telecom operators popularly referred to as 'Baby Bells.' Other examples include Korean Air's acquisition of Asiana Airlines and Lufthansa's investment in ITA Airways.

IndiGo's market share in India, its control of airport slots at key metros, its network reach and disregard of DGCA directives could all be examined to see whether it dominates domestic air passenger services and has been guilty of 'abuse.' The possibility of it being split into two or more airlines could also be looked at as a solution.

Ultimately, this meltdown demands a reckoning. Aviation isn't just another business. It's the connective tissue of our growth story. This is not a question of punishment, but of a sustainable re-takeoff. Regulators must enforce rules strictly, prioritizing passenger convenience and safety over scale. Watchdogs like the DGCA and CCI must ease the airline's market grip. Only then can we speak of open skies.

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ISTOCKPHOTO

A carbon market offers benefits we should seize

While a robust carbon-pricing mechanism will take time, effort and capital to put in place, we can expect it to catalyse climate action and give India a chance to lead the Global South

The feeble outcomes of this year's UN climate summit, CoP-30, held at Belém in Brazil were a reflection of today's geopolitical realities. The US does not recognize the threat of global warming, while several other large economies like Russia, China and India are in no mood to embark on a roadmap to phase out fossil fuels. This does little to counter nature's response to the rise in heat-trapping carbon and methane emissions, seen in all kinds of environmental disasters like forest fires stoked by drought and increasingly heavy rainfall and floods. Earlier this week, the EU's Earth observation service Copernicus noted that for the first time, a three-year average from 2023 to 2025 is about to exceed the 1.5° Celsius cap on warming (above the pre-industrial level), after which the planet faces irreversible damage.

Hopes of slowing our descent into climate disaster are largely pinned on advances in clean technology. Displacing high-emission fossil fuels for energy has been made easier by solar panel costs dropping 90% over the past decade and battery storage costs softening more recently. For industry, a key breakthrough includes a process that eliminates the release of carbon into the air while converting natural gas to hydrogen, which can be used as a fuel. India has been an early adopter of clean-tech, thanks to enabling policies designed to decarbonize electricity supply. As a result, renewables account for half our generation capacity. But the challenge gets far steeper from here on. For industries to emit less, they must invest in clean equipment in a manner that yields profits. Two months ago, the government set legally binding emission targets for a handful of energy-intensive sectors. These goals are premised on profits arising from efficiency gains and carbon prices in the domestic market. While casting this net wider would call for large sums of capital, doing so will help develop a robust carbon market, which in turn would incentivize going green and the deployment of a wider range of clean technologies to that end. Globally, fragmented markets mean prices vary widely across the world. In Africa, for instance, carbon credits sell for about €3 per tonne, while they cost 25-28 times more in Europe. In India, such credits earned via green electricity are priced at $2-5 per tonne. Carbon capture earns credits too; the use of a charcoal-like substance called biochar to do this can yield substantial earnings.

All of this offers India an opportunity. New Delhi could nudge the Global South to invest in carbon markets, deepen them and promote avenues for credit creation that could be turned into earnings. Solar panel expansion across Africa's landmass, for example, could generate valuable credits in time to come. With some deft diplomacy, investment pacts with African countries may also help us secure access to rare earth minerals that are critical to clean-tech industries like electric vehicles and batteries. A collective approach to green goals could enhance the Global South's bargaining power, be it getting the rich world to provide climate finance or obtaining better exchange rates and terms as fractured carbon markets begin to converge. An equitable process of convergence could also ease the burden on companies that export goods to destinations like the EU, which plans to levy a border tax on carbon embedded in some products from next year. Climate progress may remain a story of fits and starts, but its direction is clear and the mechanism of market pricing can help us along.

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Labour codes: The state must do what it has promised

HIMANSHU

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India's government finally announced the implementation of the four labour codes passed by Parliament about five years ago, starting 21 November 2025. These four, namely the Code on Wages of 2019, Industrial Relations Code of 2020, Code on Social Security of 2020 and the Occupational Safety, Health and Working Conditions Code of 2020, were meant to rationalize 29 old labour laws by replacing them with new codes, as recommended in a 2002 report by the second National Commission of Labour set up in 1999. The objective was to simplify labour laws and make them effective—for the benefit of workers as well as employers.

Reforming these laws has been part of the governance agenda of every successive government since 1991, when India's economy underwent broad reforms in various other domains. Given the multiplicity of labour laws enacted since independence, the idea of revising them was also to make them enforceable (or justiciable) and reflect the contemporary reality of changing labour relations. The four labour codes may be a step in that direction, but their effectiveness would critically depend on their enforcement on the ground.

The fact that it took the government about half a decade to even announce the codes' implementation can be taken as a comment on its commitment to genuine reforms in this domain. A lack of will to implement its own commitments made in the four codes has been apparent over the years. Take the Code on Wages. It promises a national floor level minimum wage (NFLMW) applicable to all workers in the country. This is not a new measure. It was proposed in 1991 by the National Commission on Rural Labour (NCRL) and has been operational since 1996. Given inflation, the minimum wage was being revised upwards regularly until 2017, when it was fixed at ₹176 per day. Since then, however, the government has abandoned the practice of revising the NFLMW.

The Code on Wages also requires the government to set up an expert committee to determine minimum wages. The last time this panel was created was in 2017 under the chairpersonship of Anoop Satpathy. In the report it submitted in February 2019, the committee recommended a NFLMW of ₹375 per day (or ₹9,750 per month) for July 2018. In current prices, adjusted for inflation, it would be ₹529 per day (or ₹13,760 per month). Yet, not only did the government not revise the NFLMW after 2017, but even refused to acknowledge or implement the Satpathy Committee report's advice.

Currently, minimum wages in all Indian states are lower than the levels recommended by the expert group. There are 310 million workers registered on the government's E-Shram portal. By the Centre's own data, 94% workers reported getting less than ₹10,000 per month, which is lower than the inflation-adjusted minimum proposed by the Satpathy panel. Wages under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), a safety net for the poorest of our workers, are also lower than the expert group's NFLMW in almost every state, with current payouts at around ₹250 for a day's work in Bihar and Uttar Pradesh. Governments are not just India's largest employers in the organized sector, but also a source of income for millions of rural wage workers through MGNREGA. Adoption of the labour codes will first require minimum wages being paid to people in government employment, be it in the formal or informal sector.

QUICK READ

Now that the implementation of India's four labour codes has been announced at long last, government sincerity will finally be tested. We must track how it improves the lives of workers.

For a start, the state can show its commitment to the welfare of workers by granting everyone in its employment social security, minimum wages and other such benefits that have long been due.

The Code on Social Security is another example. Over 6 million workers, almost all of them women, are in state employment as anganwadi workers, mid-day-meal workers, ASHA workers and so on. Most of them are not treated as full-time workers, even though their time commitments are often greater. Classified as honorary workers, they do not get minimum wages. In many states, they get only about one-third of the minimum. Most of them are also deprived of social security provisions of the kind outlined by the code on this subject. They are eligible neither for maternity leave nor other statutory benefits.

Since labour is also a state subject of legislation, the absence of corresponding rules by state governments further compromises the promises made on paper to workers. But a far more serious problem is that financial allocations to meet new obligations under the labour codes are yet to be made. Even the institutional and infrastructural requirements mandated by these codes are still to be put in place. Provisions for gig workers, who form one of India's largest groups of people at work today, are also yet to see actions aimed at their fulfilment by the government.

While reforming India's labour laws has been a long-standing demand, the four labour codes that have lately drawn so much attention and commentary appear to be more of an academic exercise to rationalize what exists on paper than a commitment to provide a level playing field to all workers, protect their rights and ensure their social security and well-being. Merely declaring the codes' implementation is unlikely to be of any help without the enabling institutional and financial structures that must accompany them. To show its commitment to the codes, the government should act as a model employer. It should ensure that all workers in state employment—especially the poor and voiceless—are duly granted minimum wages and social security in accordance with official guarantees.

IndiGo jolt: Is the megacorp becoming the new state?

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Under India's new economic order, consumption has become a dependency, mediated—beyond choice—by ownership of infrastructure. Last week, at Mumbai airport, I saw IndiGo's embattled yet intact front-line. Yet, real authority was up in some cloud that no individual seemed able to override.

A generation ago, you were courted by multiple companies vying for your money. Today, you sit within an ecosystem where opting out is costly, inconvenient and often practically impossible. Be it insurance renewals, broadband service packs or credit card rewards, you are trapped. Legalese aside, the choices on offer are hardly volitional. It happens when scale, technology and capital converge faster than regulation.

In India, the social implications feel more acute because the private sector is running systems once expected of the state. Telecom coverage, digital-payment rails, data distribution, identity-linked credit and logistics networks are all public goods. They offer extraordinary convenience but lock citizens into corporate interfaces that resemble those of a passport office more than a marketplace.

When switching costs turn prohibitive, loyalty is indistinguishable from captivity. An exit is not a right but a loss. You can raise your voice or plead, but the system need not listen. An uneasy question then arises. Has private-sector ascendancy left Indian consumers weak? We are witnessing a new form of dependence. It does not stem from scarcity, as it once did, but from abundance delivered through a single gatekeeper.

Competition exists, but substitutability does not. Consumers no longer choose between providers but adopt bundled lives across telecom, media content, shopping, travel and payments. Leaving involves too much friction. So you optimize your routines around a single platform ecosystem by renewing subscriptions, aligning payments and syncing deliveries. You gain orderliness but lose spontaneity. Even the recommendations you get are motivated.

What once made consumers powerful has receded as India flirts with a *chaebol* or *zaibatsu* model. South Korea created *chaebols* or large conglomerates to accelerate its industrialization. Japan's *zaibatsu* emerged when private capital filled gaps in state capacity. We increasingly seem to have an 'industrial-commercial complex' in India that controls not only markets, but the conditions under which they function.

Old-world industries look jaded. Digital infrastructure has taken the place of steel plants. Data centres have replaced textile mills. Supply chain coordination is the new management mantra. A mega-corporation is one that owns payments, data and identity integration.

India can afford such concentration, provided we create supporting conditions that are yet to fully materialize. These include interoperability mandates, consumption portability and firewalls between platform ownership and marketplace participation where this enables more rivalry. Without these, we could find ourselves at the mercy of monopoly power all around.

QUICK READ

When switching costs turn prohibitive for consumers, loyalty is the same as captivity. Has the ascent of private-sector providers of crucial services left us weak and dependent?

Sure, we need big businesses, but the test of empowerment is whether consumers can walk away painlessly. Value-delivering corporations often differ from those we simply can't do without.

End-to-end consolidation has a paradoxical effect on the consumer experience. In the short term, customer value improves sharply as prices fall and convenience rises. Ordering, paying, streaming, scheduling—all this becomes easier. However, the character of the experience changes. What once came from competition now comes from standardization. When a single platform defines what 'good service' means, it is no longer an aspiration but a template. Can templates be allowed to evolve without consumer inputs? Let's think about that.

A customer experience that is uniform and predictable may also be non-negotiable. If what's valuable to a business is caged, loyalty becomes just a computation. This raises the uncomfortable question of whether convenience cramps our agency as individuals, and if so, at what point?

In India, convenience comes bundled with a loss of privilege. If you leave a platform, besides access, you lose the accumulated privileges of delivery tiers, cashback currency, subscription parity and stored identity authentication.

It turns out that we, as consumers, have traded agency for efficiency, optionality for reliability and diversity of providers for consistency of experience. And power rarely flows back to people once it is ceded.

We are at a pivotal moment. India has what it takes to build the world's most open commercial ecosystem in the world, as we did with UPI by enforcing interoperability, making consumer data portable and setting up regulatory firewalls that separate infrastructure from commerce. But we may just as easily drift into a future where a few corporations dictate the operating system of everyday life.

Does India need mega-corporations? Of course it does. Our country is too large and ambitious not to seek the benefits that arise from large-scale operations. The question is one of public accountability. The difference between empowerment and dependence is whether consumers can walk away painlessly. We must decide whether we want value-delivering corporations or ones we simply cannot do without.

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Tech's promise: An upside-down enlargement of the leisure class?

Elon Musk's vision of a jobless future full of leisure and wealth for ordinary folks upends all we know about human history

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AFP

Last month, Tesla's chief Elon Musk made some predictions at a US-Saudi investment forum (and repeated them on a podcast with Zerodha co-founder Nikhil Kamath). Whether one finds these predictions bold, startling, utopian, insane or frightening depends on one's views on human nature and society and the world as we understand it. I find them frightening, yet banal. Bad ideas, even frightening ones, have a tendency to keep reappearing.

"My prediction is that work will be optional," Musk said. "Assuming there's a continued improvement in AI and robotics, which seems likely, then money will stop being relevant at some point in the future." Humanoid robots, Musk said, would become "the biggest industry or the biggest product ever, bigger than cellphones or anything else, because everyone's going to want one." Then came the cherry on top. "AI and humanoid robots will actually eliminate poverty," Musk added. "There is basically one way to make everyone wealthy, and that is AI and robotics." All this is expected to take place within the next 20 years.

Let's not spend too much time here pondering the future of work in a world of AI and robots. These prognostications have been appearing for some years now. Robots (driven by early AI) came first. In *Rise of the Robots* (2015), Martin Ford showed that machines could undertake many physical tasks: make coffee and burgers, stack and unstack warehouses, drive vehicles and even do some types of surgery. Experts estimated that more than half the industrialized world's work could soon be done by robots. Ten years later, there is a flood of alarmed studies on the possible job impacts of AI, which, among other things, can write books, music and computer code (all of which require higher-level cognitive skills than moving or manipulating objects). This time, well over half the jobs in the industrialized world are supposedly in danger of extinction. And if Musk is correct, something close to all jobs may disappear.

Let's also pay no more attention here to some of the most significant economic and social implications of a future in which jobs and money are both irrelevant. Let's not dwell on the fact that such a society must have some form of universal basic income (UBI), which must be paid for by owners of the means of production, the very same class that is known for rigging national tax policy in order to pay the least. Let's forget that there will be mass unemployment (even if it is gradually imposed through shorter work weeks of four, three and eventually zero days). Let's not think of the inevitability of mass protests and perhaps revolution as a reaction to unimaginable levels of inequality. Let's also forget one of the more important lessons of history: that ordinary people do not rebel against poverty (if it is shared), but inequality. And let's not quibble about the fact that these imaginings pertain only to the developed world; it will be a while yet before 'everyone' in India can even think of wanting a robot. All these are subjects worthy of whole shelves of books.

Let's focus instead on the idea that this leisure society is something to be desired. In this Muskian vision (can we call it Elongate?), ordinary people will spend their unlimited leisure time playing games and cultivating hobbies (like gardening). It is implied that they won't be unhappy or dispirited without work or purpose because leisure is what makes people truly happy. Age-old obsessions with power, status and recognition will disappear because their idle minds and bodies will become indolent with the pleasure of leisure. All the necessary work will be done by machines directed by an industrious capital-owning class and their techno wizards while the 'working class' will become, without work, a joyful and wealthy 'leisure class.'

QUICK READ

Musk predicts that work will become optional as artificial intelligence advances and humanoid robots come to pervade the world. All this, he argues, will eliminate poverty.

We needn't buy his forecast to agree that the labour market faces an upheaval. Nor can we take seriously any utopian vision articulated by anyone with a vested interest in it.

This is a radical view of capitalist society, not only different from all that we have learnt from Marx, Weber and numberless intellectuals, but an upside-down perspective from the originator of the idea of a leisure class. Thorstein Veblen was an American economist, sociologist and philosopher who in 1899 published a book called *The Theory of the Leisure Class*. It was a genuinely original work which continues to be studied more than a century later. Veblen argued that the capital-owning class was primarily interested in "conspicuous consumption" (a term Veblen coined that has become part of the language) and "conspicuous leisure" (this was well before Facebook became the means of inducing vacation envy). In this version of society, ordinary people work hard so that rich people could enjoy unproductive, wasteful and leisurely lives. Written during the gilded age of 'robber barons' like Andrew Carnegie and John D. Rockefeller, Veblen's critique of unbridled capitalism hand-in-glove with the state should ring a bell for those who follow contemporary India.

The Muskian view of ordinary people as wannabe moochers just waiting for an opportunity to benefit from the work done by others is reminiscent of another right-wing vision of ordinary people as looters living off the ingenuity and hard work of superior men. The latter is, of course, the thesis of the libertarian bible *Atlas Shrugged* by Ayn Rand. There are differences between the two visions. In Muskworld, the state is absent. It nonchalantly looks away while the basis of its power and status is taken over by corporations. In Randworld, the state is the enemy, as it imposes regulations seemingly for no other purpose than to curb the genius of Atlas giants.

An upheaval awaits the labour market, for sure, and no one knows how things will turn out. But let us not be seduced by the simplistic utopian tales being spun by those who stand to gain the most from this upheaval. People have complicated desires (yes, even ordinary people) and reality is messy. Strap in for a wild, unleisurely ride.

12 Dec 2025

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Big Pharma's 'patent cliff' is a golden opportunity for China

Licensing pacts could help US drugmakers as their patents expire

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Chinese firms can gain from deals struck with Western pharma majors. ISTOCKPHOTO

For pharmaceutical firms, watching lucrative patents on their top-selling drugs expire has long been part of the business cycle. There's enormous pressure to find ways of covering the shortfall. For the first time, China has something to offer. Its prolific biotech companies are in the mix as a potent remedy for the upcoming so-called 'patent cliff' facing the industry.

A new blockbuster drug can generate tens of billions of dollars a year when it first goes to market. Each therapy typically gets two decades of patent protection. However, when that period is over, competitors are allowed to release generic or biosimilar medicines. It's great news for patients. But the loss of exclusivity can decimate revenue. Over the next five years, about $314 billion in sales are expected to be affected.

The expected losses will peak in 2028, the year that Merck's patent expires on its top-selling cancer drug Keytruda. Drugmakers learnt painful lessons from the last revenue cliff, which began around 2010 and lasted about four years. Driven by the loss of patent protection for a number of branded anti-depressants, anti-psychotics, and painkillers, it resulted in a period of muted sales growth.

To avoid a similar fate, Big Pharma has been going after promising targets to replenish pipelines. There is so much revenue to replace that the shopping spree has extended to a phenomenon not seen during the last patent-cliff cycle: A surge in licensing agreements with Chinese companies to take their experimental therapies worldwide. The dealmaking has been frenzied, with seven of the top 10 biggest agreements since 2020 happening this year.

Cancer research and licensing has traditionally been an area of dominance. However, over the past two years, metabolic disease and immunology deals have accelerated, pointing to a widening of China's innovation ambitions, according to Alison Labya, senior analyst at GlobalData.

It's impossible not to see parallels with the auto industry. For decades, both sectors in China were stuck playing catch-up. Homegrown carmakers were churning out vehicles as per blueprints from their foreign partners at a time biotech firms were copying 'me-too' drugs from abroad. That era is over. Chinese EVs now offer best-in-class technology, while their pharma counterparts are holding their own in early-stage research and development (R&D).

The similarities end there. Automakers are striding confidently into the world, selling their wares so successfully that even allies have imposed effective tariffs. However, medicine is a far more tightly-regulated industry. Chinese drugmakers still have a long way to go in later-stage work such as overseas trials, regulatory submissions and bringing products to the international market. In the meantime, partnering with legacy firms is the best strategy.

There are valid worries about rising regulatory risk in the US, home to many Big Pharma members, in spite of a one-year trade truce. I have written before about China's dominance of the production of foundational ingredients to make medicines. There is a need for Washington to try to decouple in specific areas deemed to be of national security concern. However, this applies to supply chains of certain commoditized materials behind everyday necessities such as antibiotics—not to the kind of novel therapies that could result from Chinese innovation.

Recently, US lawmakers unveiled another defence authorization legislation, an annual bill that must be passed by Congress to approve military spending. This year, it is particularly notable because it includes a revised version of the Biosecure Act, which could restrict federal contracts with Chinese biotech firms. Due to strong industry opposition, the Act failed to be included in last year's legislative package.

This watered-down version does not name any firms specifically. But it does allow the US Department of Defense to include companies on a roster called the 1260H, which alleges they work with the People's Liberation Army. The larger question is whether Wuxi AppTec, which provides outsourcing services to the cream of Big Pharma (the TSMC of biotech), might be added. Inclusion on the 1260H list doesn't come with any immediate penalties but carries reputational risk. Because the contractor works with dozens of the world's biggest pharma companies, being added would disrupt supply chains. But again, this firm isn't in the business of developing its own treatments.

With the patent cliff arriving, global pharmaceutical giants are looking for new acquisition and licensing candidates. China remains a ripe target. Legitimate research breakthroughs shouldn't be stifled by geopolitical concerns. They should be commercialized and made available to people who need them.

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THEIR VIEW

Factor market reforms could set the stage for India's next big leap

Bold moves on land, power and capital would enable the country to emerge as a globally competitive manufacturing hub

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AP

India's strong GDP performance, kept up even in a period of global uncertainty, reflects structural strength built through consistent policy reform. As India moves towards becoming the world's third-largest economy, the key challenge is not the pace of growth, but ensuring that this momentum is sustainable, productivity-driven and inclusive. In this context, the next major frontier for India's economic transformation lies in accelerating factor market reforms.

Significant progress has already been achieved. The implementation of GST 2.0 marks a major milestone in India's indirect tax architecture. Rationalization of slabs, correction of inverted duty regimes and simplified technology-enabled compliance are reducing friction for businesses and stimulating consumption. Over time, if the GST Council considers bringing fuel products under the GST regime, it would represent a structural inflection point that dramatically lowers logistical costs and improves India's export competitiveness.

Similarly, the notification of four labour codes represents a decisive step toward modernizing India's labour market. The consolidation of 29 laws into a coherent framework simplifies compliance, promotes formalization, introduces a unified definition of wages and strengthens worker protection. Widespread implementation across states, ideally in a time-bound manner, will determine the extent to which India can unlock the full potential of labour reforms.

With labour and tax reforms advancing, the next phase of economic stewardship must focus on the core factors of production—land, power and capital—that determine the economy's long-term trajectory of growth.

Land reforms: Land remains one of the most constrained resources in India's development journey. Initiatives under the National Industrial Corridor Development Programme are promising and the expansion of plug-and-play industrial parks will be vital. Some of the key land reforms that can be undertaken include:

First, alternative public-private partnership (PPP) models for industrial development. For instance, government land can be developed via an equity model, wherein the developer builds the park and sub-leases plots to industries, while the government holds a maximum equity stake of 49%. Another option is a revenue-sharing model, where a private developer and the government form a special purpose vehicle (SPV) for a project that develops industrial infrastructure and sub-leases it to industries. In all these models, the industrial park developer would get full freedom to run and manage such a park efficiently.

Second, encourage states to streamline land conversion, zoning, building permits and environmental clearances under a unified digital window for enhancing the ease of doing business. While the Business Reforms Action Plan that promotes competition among states covers reforms related to land administration and land use, the Central government may consider incentivizing states by linking these reforms to their financial assistance and additional borrowings.

Power reforms: India's energy transition requires not just expanding generation capacity, but also ensuring cost-competitiveness, reliability and grid stability. The next wave of power reforms must address these key issues.

First, high industrial tariffs, driven by cross-subsidization, remain a major barrier to India's manufacturing competitiveness. Promoting cost-reflective tariffs and transitioning to direct benefit transfers for targeted consumer categories can lower tariffs for industry while improving cost recovery for discoms.

Second, augmentation of India's transmission and distribution (T&D) infrastructure is crucial. Policy reforms should include streamlining right-of-way (RoW) rules to enable faster land acquisition and strengthening project financing by providing viability-gap funding.

Third, India's transition to a renewable-heavy grid demands strong storage solutions. Establishing pooled storage at the substation level can improve resilience and reduce costs.

Finally, India needs unified policies across states that promote the consumption of renewable power by industry. The country must address issues such as changes in time-of-day tariffs, grid-support charges on large-scale open-access solar power and night-time banking of solar power generated in the daytime that increase industrial power bills and create uncertainty.

Capital market reforms: India's ambitions require deep capital markets to enable finance beyond bank credit. Yet, corporate bonds account for only around 18% of GDP, far lower than South Korea's 80% and China's 36%. Most issuances remain concentrated among corporates with AA ratings and above, limiting access to finance for mid-size and growth-stage firms that generate the bulk of jobs. Deepening the corporate bond market requires (a) expanding mandatory market borrowing beyond top-rated companies and (b) encouraging prudent fund allocations by insurers and provident/pension funds to high-quality but lower-rated bonds.

Trust-based governance: Ultimately, factor market reforms will be most effective within a regulatory environment grounded in trust, predictability and transparency. India has made notable progress in reducing compliance burdens and decriminalizing minor offences, and that momentum must continue. The High-Level Committee for Regulatory Reforms announced in the Union budget for 2025-26 has identified several such reform measures. Implementing these will be key. A shift in favour of risk-based regulation, predictable regulatory calendars and wider adoption of single-window digital clearance systems will be essential. Coordinated Centre-state action will determine how effectively India can raise the share of manufacturing in GDP from 17% to 25%.

India is at a critical juncture in its development. Global supply chains are being restructured, capital is seeking resilient investment destinations and a transition to clean energy is reshaping industries worldwide. With bold reforms in land, power and capital, supported by a high-trust regulatory environment, India has an opportunity not only to become the world's third-largest economy, but to emerge as a globally competitive and innovation-led manufacturing hub.

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OUR VIEW

REUTERS

Mexico buckles: How far will America's writ run?

Mexico's tariff hikes reflect US concerns over Chinese designs. As US-reliant countries fall in line with Trump's reset, autonomy must underpin India's economic emergence. Here's how

America's greatness, or at least the White House version of it, gets costlier for others by the day. The blow taken by India's auto exports to Mexico, whose tariffs are set to more than double next year, could also be ascribed to that project. When Mexican President Claudia Sheinbaum unveiled her plan to raise barriers in September, a shield for local industry was the stated aim, but her real anxiety was clearly a review of the US-Mexico-Canada Agreement (USMCA) due in 2026. Recall how US President Donald Trump rattled Mexico and Canada with threats within days of taking office. In April, his 'reciprocal tariffs' spared them both; today, they face an effective rate of under 10%, thanks mostly to how deeply integrated that trade bloc is. With US-bound exports making up 80% of Mexico's total, worth a third of its GDP, its vulnerability was obvious. Sheinbaum had no option but to respond to Trump's grouse over Chinese exporters using Mexico as a launch-pad for the US market. Before Trump could tighten the USMCA's 'rules of origin' or slam US gates shut, she had to act against Asian supply chains seen as running rings around his goal of reviving American factories behind tariff walls. Whether he can bend Canada to his will is far less clear, but America's latest National Security Strategy suggests that the US views North America as its fortress all the way to the North Pole.

As an economy moulded by US demand, Mexico is plainly a special case. Trump's jigsaw of geopolitics, however, has other major pieces that dare not defy his contours of how they fit in. Across the Atlantic, Europe's fear of Russia has played a role in the EU's acceptance of a lop-sided trade deal with America, a price paid for Uncle Sam's security. Further east, a swathe of countries has lined up behind America's snappy plan for "eternal peace" in West Asia. As for the Indo-Pacific, Japan's recent deal with the US tilts trade and investment flows the latter's way, *à la* Europe. Similar patterns are visible in US dealmaking with Vietnam, Malaysia and Thailand; for US favour and tariff relief, they must grant America not just uneven market access, but also the authority to reset rules in ways that place US interests above their own sovereignty. China, of course, has held its own in this fraught scenario. But how far will the US imperium go?

In India, we face a test of strategic autonomy only to the extent a US-loaded deal could yield us economic benefits that outweigh this solemn national pledge, the odds of which look dismal. A trade pact with America should represent a clean bet on mutual gains, that's all. Yet, the emergence of India's economy must rely on an export thrust in trying times. To cover all bases, we must look east and aim to compete globally, instead of merely seeking 'complementary' markets. For success free of trade winds that may shift on foreign whimsy or assertions of power, we need to sell stuff that's either cost competitive or unique in markets that value it. Since we must count on our very own market for offtake that assures us economies of scale, domestic demand must not threaten to plateau once middle-class consumption reaches saturation. Internally, therefore, we should invest heavily in affordable healthcare and education to steadily expand the base of Indian buyers as we go along. As we move to close gaps in infrastructure, catch up on logistics, ease regulatory friction and rethink import policy, let's also guard against weak upward mobility letting us down. A self-deal to that effect is all it takes.

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MY VIEW | GENERAL DISEQUILIBRIUM

Some ghosts from 2025 will haunt us in 2026 as well

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As the year draws to a close, tradition demands that General Disequilibrium provide a perspective on the year gone by. However, in the spirit of bygones being bygones, it might be instructive to dwell on some of the issues that raised their ugly heads during the year and are likely to keep popping up in some form or another during the new year.

The ignoble gong for 'most dangerous trend of the year' must go to the stubborn conflicts that have refused to settle for a peaceful resolution, despite global intermediation and mass decimation of life and property. Many of these conflicts are likely to continue well into 2026. During his first papal tour overseas, Pope Leo XIV told a gathering of Turkish authorities, civil society delegates and members of the diplomatic corps at Ankara that, piecemeal, a third world war is being waged. "We are now experiencing a phase marked by a heightened level of conflict on the global level, fuelled by prevailing strategies of economic and military power... The future of humanity is at stake. The energies and resources absorbed by this destructive dynamic are being diverted from the real challenges that the human family should instead be facing together today, namely peace, the fight against hunger and poverty, health and education, and the protection of creation."

On one side, there is the unrelenting Russia-Ukraine war in which thousands of young lives continue to be snuffed out daily, not to mention the widespread destruction of habitat, irreversible damage to the environment and long-term harm to economic or productive energies. Israel continues to wage a cruel and unjust war on Gaza's hapless, defenceless citizens by blithely violating ceasefire agreements. Across the Red Sea, Sudan has been in the throes of a deadly civil war between the Sudanese Armed Forces and Rapid Support Forces since April 2023, a conflict that has claimed close to 21,000 lives in 2025 and displaced over 12 million people. A global seam of bloodlust and wanton hostility seems to have seeped across many national boundaries—Myanmar, Yemen, Ethiopia and Somalia, among others.

While the demon of war and bloodshed is proving to be indomitable, the ghost in all our machines—artificial intelligence (AI)—will acquire ubiquity during the coming year by either making or breaking fortunes. Doubts and suspicions have started surfacing over whether 2026 will usher in a sobering morning for the AI euphoria that has sent capital markets into bullish territory over the past few months, disregarding the dampening effect of US President Donald Trump's tariff tantrums. As reservations and misgivings arise, an uncertain and indistinct pall now hangs over the capital markets globally.

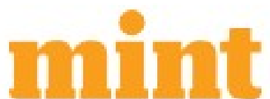
Brutal conflicts and AI excesses are likely to continue but let us hope for a painless shift to normalcy

Many tech companies have rushed herd-like to build massive AI infrastructure, the desperation resembling a gold rush. Every tech company is in a tearing hurry to stack up AI infrastructure and cash in on what is viewed as an inevitable future revenue source. There is only one problem in this desperate scramble: a substantial part of this capital expenditure is being financed by borrowing billions of dollars. According to some reports, Microsoft, Amazon, Meta and Google alone are estimated to have spent $350 billion as capex during 2025. But here's the nub: OpenAI's commitment to spend $1.4 trillion over the next eight years sits uneasily with its $20-billion revenue projected for 2025. This, and many other similar examples, have spooked markets. Apprehensions that many of these companies may not be able to generate revenues commensurate with their borrowings have multiplied after independent surveys showed that enterprise investment in AI has had no significant impact on bottom-lines so far. This has sparked off a nervousness about the likelihood of a meltdown resembling the dotcom bust.

What has added to the fears are two other factors. First came statements from OpenAI chief executive Sam Altman and Google chief Sundar Pichai cautioning markets about an irrational AI boom. Second, the word 'circularity' has cropped up a lot in AI discussions, indicating that companies have invested in each other in an incestuous loop that multiplies risks to systemic stability. For example, chip-maker Nvidia has committed a $100-billion investment in OpenAI, with the money being used to buy processing units from Nvidia. OpenAI's circularity touches other tech companies as well, like Oracle and AMD. Competitor Anthropic flipped back the investment it received from Microsoft and Nvidia as payments for Azure cloud and chip purchases. If any one piece of this domino topples, it could bring down the entire chain.

But a counter-narrative also has emerged. Many analysts feel that even after an AI bubble bursts, there will be value available in the rubble and that an industry shake-up will throw up more efficient and productive AI companies. For instance, writing in the *New York Times*, bond-trader-turned-professor Mohamed A. El-Erian argues that though some tech companies will definitely lose after the bubble bursts, mankind would be left better off overall from the benefits of AI's "transformative power."

It is now certain that bloody wars and big investments in AI technology will continue well into 2026. Hopefully, Russia will heed global demands for a long-term ceasefire. Likewise, let us pray the AI meltdown has a soft landing, without displacing too many jobs and deepening an economic crisis. After all, hope is all we can do.



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MY VIEW | MUSING MACRO

Rupee stability can no longer count on capital inflows

AJIT RANADE

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India presents a macroeconomic paradox today. GDP growth is among the fastest in the world, inflation is nearly zero and the fiscal deficit is in check. Yet the Indian rupee is Asia's worst-performing currency. Foreign portfolio investors have pulled out $17 billion and net foreign direct investment (FDI) all but evaporated in 2024-25. What explains this disconnect? A careful examination reveals an uncomfortable truth: strong domestic fundamentals alone no longer guarantee external confidence.

Recall that India is possibly the only large developing Asian economy that has run a consistent trade deficit for decades. Unlike China, Japan, Korea or most Asean peers, India imports more than it exports, particularly energy, electronics, gold and machinery. Textbook economics would treat this as a structural vulnerability. Yet for more than 30 years, India turned it into a strength, powered by foreign investor faith in its long-term trajectory. Despite chronic trade deficits, India has attracted nearly $1 trillion in FDI since the early 1990s. Our reserves of foreign exchange are among the world's largest. Global investors have been betting big on our growth prospects, investing in projects or buying stakes in high value companies, enthused by a supportive policy environment, a predictable democracy with strong institutions and an economy capable of delivering sustained high returns.

This is now changing. Net FDI fell from some $40 billion in 2020-21 to about $350 million last year. Two reasons explain this reversal. First, outbound investment by Indian corporates has surged as they seek global footprints and diversify their markets. This is not a bad signal *per se*: it signals India Inc's confidence and integration into global value chains. Second, foreign investors have been cashing out. High-profile exits—Citibank, Allianz, Ford, MG Motors, Hyundai's stake in Ola, Whirlpool, Holcim, BAT and others—reflect a big shift. Many of these investors entered India when market penetration was low and consumer aspirations were rising. But over time, intense competition, regulatory uncertainties and changing global strategies have pushed some of them towards the exit. Repatriation has surged: foreign companies are selling assets, booking profits and reallocating capital to other markets, especially the US, which is now the world's most attractive FDI destination.

Foreign portfolio investors have also pulled out big money this year: the dollar returns on India's stock market (MSCI India) underperformed other emerging markets (MSCI Emerging Markets) by the widest margin since 1993. The reasons are many: US tariffs, the absence of a trade deal with Washington, stretched domestic valuations and better opportunities elsewhere.

India must shift its economic model. We need to rely on our export earnings, not on foreign investments

No wonder the rupee has weakened by more than 5-6% in nominal terms and by nearly 9% in real effective terms. This does not reflect domestic macro instability or inadequate intervention by the Reserve Bank of India (RBI), but a sharp drop in external financing.

With unreliable foreign inflows the new structural reality, we must address our widening trade deficit with a new strategy. We can no longer depend on volatile capital flows to offset the current account deficit. India must strive to transition from a trade-deficit model to a trade-surplus one over the next decade. Note that China's trade surplus has crossed $1 trillion dollars, giving it a strong cushion.

The world's undergoing a new phase of industrial policy realignment, with massive subsidies in the US and Europe pulling capital into advanced economies now. India's attraction of FDI now faces structural headwinds that it did not a decade ago. Foreign investors are insisting on protection through investment treaties. Hence, we need a bold strategy.

First, boost merchandise exports, especially in electronics, machinery, chemicals, garments and automobiles. *Second*, deepen and widen service exports by building on IT and AI, and moving significantly into projects, design, business services, tourism, education and global capability centres. *Third*, integrate more deeply with global supply chains, rather than staying partially insulated behind tariff barriers. *Fourth*, negotiate high-quality trade agreements, particularly with the US, EU and key Asian partners, and also join trade blocs such as RCEP. *Fifth*, reduce energy import dependence via hydrogen plus solar.

If we turn our trade deficit into a surplus, it will transform our currency dynamics. If we earn more from exports than we spend on imports, we'll gain resilience against the whims of global capital and rupee stability.

In the near term, we face other pressures. Oil prices are likely to remain benign, thankfully, but gold imports could cost dollars. Unless exports scale up dramatically, the rupee will remain vulnerable. The question is not merely why the rupee is wobbly, but whether we are ready to shift our economic model from one that depends on attracting foreign capital to one that generates foreign earnings through exports.

High growth and low inflation are worthy of celebration. But they cannot, by themselves, anchor a currency. Stability requires a stronger external foundation. If India wants the rupee to reflect its domestic strength, it must urgently address the structural imbalance in its trade account. The long-term solution is not more RBI intervention or temporary capital inflows. It is a strategic national commitment to becoming a net exporter of both goods and services.

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OUR VIEW

REUTERS

Say no to the overuse of drugs as well as patents

The judiciary did well not to let Novo Nordisk extend its exclusive right to sell semaglutide. In general, we need cheap generics. But we must also curb the misuse of weight-loss drugs

It is welcome that the Delhi high court has rejected Novo Nordisk's effort to extend its patent on specific formulations of the blockbuster drug semaglutide, sold as Ozempic to treat diabetes and as Wegovy for obesity. In 2013, India's Supreme Court had set a precedent on patent 'evergreening' by way of offering it in a different form; it dismissed Novartis's claim that its new variant of Glivec (effective against leukemia) deserved a separate patent from its original formulation since it offered better bioavailability and therapeutic efficacy without back-up evidence. For drugs, India now follows product patents in line with World Trade Organization norms, but does not indulge Big Pharma the way the US and EU often do by allowing patent extensions on flimsy grounds. The original molecule of Ozempic lost its patent monopoly last year and its specific formulations will go off-patent in March 2026. The court has let Dr Reddy's make and export a generic version of semaglutide to markets where the drug has no patent shield, while barring sales in India until that point. This is how it ought to be. India is a relatively poor country that cannot let drugs stay expensive for too long, as patent rollovers ensure, and must let generic-drug rivalry drive down prices to the extent possible. Letting Novo Nordisk's injectables rule our market longer could set a precedent that other pharma players could exploit to keep vital medicines out of popular reach.

Mounjaro, Eli Lilly's brand of another weight-loss drug called tirzepatide, was launched this March. In just over half a year, it had toppled GlaxoSmithKline's antibiotic Augmentin as India's largest selling medicine by value, with sales reported at ₹100 crore in October. This reveals huge demand for drugs that promise to help people knock off weight. India is also the world's diabetes capital, with type-2 diabetes estimated to afflict 100 million people, with millions more pre-diabetic. Considerable numbers are obese as well. Drugs like Mounjaro and Ozempic combat both diabetes and obesity, which share afflictions such as metabolic syndrome and elevated insulin resistance. The two have been observed to be beneficial in treating both conditions. Beyond clinical cases, though, many people may be drawn by the slimming potential of the 'GLP-1 agonists' of these drugs. GLP-1 stands for Glucagon-Like Peptide-1 and an 'agonist' is a chemical that plugs into a cellular receptor to create a response. In this case, such activation can suppress appetite, raise the sensation of satiety and reduce calorie intake.

Given the widespread practice of drugstores selling prescription medicines like over-the-counter drugs, we can assume that significant extra demand for GLP-1 drugs could arise from would-be slimmers outside the ambit of formal treatment for specific conditions. Fitness is not just a major lifestyle concern, but also a driver of much commerce in the name of wellness. If these drugs gain currency as a tool to bypass the need of discipline for a prudent balance of calorie intake and expenditure via exercise, the sale of these drugs could zoom once they go off patent and generic rivalry crushes market prices. For genuine patients, we need such medicines available cheaper. As of now, they are quite costly. But we must also ensure the sign-off of doctors through proper 'Rx' rule enforcement and promote awareness of their possible side-effects, some of which could be harmful. In general, the risk of mass-market drug misuse should refocus our attention on retail regulation as much as public education.

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MY VIEW | EYE ON AI

Google's 'firebombs' have set off two races that are reshaping AI

Its integration of Gemini with old services and leaps of hardware have reset the dynamics of rivalry

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It was a far better thing that Google did than it had ever done. So might future historians write of the moment this tech behemoth, long criticized for a lack of singular focus, quietly ignited two existential contests to reshape the tech landscape in 2026 and beyond.

These are the Two Races of 2026, officially declared not by proclamation, but by two 'firebombs' thrown by Google. They target two tech giants that appeared almost unassailable till recently: the king of frontier AI models and the monarch of AI hardware. The ensuing battles for intelligence supremacy and silicon sovereignty are now the true market drivers, overshadowing the usual concerns about an AI market bubble or cyclical demand.

Google vs the frontier-model king: The target of Google's first firebomb is the ecosystem of closed proprietary AI models led by OpenAI. Just a few quarters ago, the latter was celebrated for its breathtaking growth and ability to take on the reigning champ of search. Yet, with a single act of execution, Google has changed the competitive dynamic.

Google's 'firebomb' was its seamless integration of Gemini with its existing services to sustain its dominance over a sprawling, billion-user ecosystem. It's not about competing with a standalone chatbot, but about making its model ambient. Its token processing—the true measure of AI operational scale—grew 140 times over 18 months, a figure that underscores the sheer volume of AI woven into its existing products like Search, Android, and Gmail. Rather than compete for chatbot subscribers, Google is leveraging its entire user base, making it nearly impossible for a newcomer to reach users with rival AI Agents. Competitors are left trying to build new browsers and 'canvases' from scratch, while Google already owns the basic interfaces of digital life.

But this is not merely about Google's dominance. The greater peril facing closed-source giants like OpenAI is the tsunami of open-source AI from China. While Google is a fearsome direct rival, the long-range threat comes from the efficiency and cost advantage of the open source movement, particularly in the East. Chinese research has extensively adopted a 'mixture of experts' architectural method, enabling multiple teams to explore diverse paths to model efficiency. Multiple open-source models have been achieving parity with proprietary giants across various domains, delivering solutions at a fraction of the cost. Closed-model businesses now face an accelerating global wave of free-AI alternatives.

Google vs the monarch of silicon: The second 'firebomb' was dropped directly on hardware major Nvidia. For years, its GPUs drove the AI revolution, but this dominance is being challenged by the concept of vertical integration championed by Google. The latter's firebomb is its commitment to proprietary, purpose-built silicon. The specifications of its latest Ironwood Tensor Processing Unit are not a threat to be ignored: they are a direct challenge. The chip boasts 4,614 T-flops of peak compute power and 192GB of high-bandwidth memory, showing Google's ability to engineer hardware optimized exclusively for its models. This move will drive down costs and secure a strategic proprietary advantage over its rivals.

However, this war goes beyond the skirmish between Google and Nvidia. Google's success is a shot in the arm for the inhouse chip design teams at every global giant, including Microsoft, Amazon, Meta, Tesla, Huawei and Alibaba. They recognize that the pursuit of custom silicon is no longer an optional investment, but an existential necessity. The promise is not only material cost savings, which can be staggering over time, but the competitive edge of a whole-stack solution. By tuning proprietary models for custom chips and vice versa, these firms could gain significant product and service advantages that general-purpose hardware can't offer. This second race has become a global sprint for hardware self-sufficiency, initiated by the undeniable success of Google's early lead.

The AI future has been thrown open: Sam Altman has already issued a 'Code Red' alert within OpenAI, while Nvidia's concerns were evident in its unusual backhanded compliment to Google in a tweet. The two races set in motion by Google will define how 2026 will play out. These are battles of hyper-innovation that may or may not displace the current leaders, but put them under pressure. And there will be many more product and model announcements in 2026 than we had this year.

Given the rapid evolution of technology and highly focused nature of the players involved, which company will ultimately prevail is unknown. However, the one certainty is that the massive spending required to fight these two wars—for intelligence and silicon—promises a stable boom for adjacent sectors that supply the computational infrastructure for AI model development and chip building.

AI doomerism is a thriving industry as we near the end of 2025, and with some reason too. But we should note that model improvements are not stalling, despite proclamations by sceptics. And the world's largest cash-rich companies are in a chip war—or an unparalleled competitive race with nobody expected to admit defeat for many years.

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MY VIEW | STATISTICALLY SPEAKING

Passive governance is a legacy that's proving difficult to shed

The IndiGo crisis spotlights our failure to replace reactive regulation with a pre-emptive model enabled by real-time data

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PTI

Last fortnight, I was in Bengaluru, where, along with hundreds of other passengers, we saw IndiGo shuffle flight schedules like a pack of cards. Travellers across the country faced delays of up to 12 hours. The airline, controlling above 60% of India's aviation market, had collapsed. What unfolded was not just an airline management crisis —subsequent developments suggested that the company had strategically deployed industrial action against an air-safety regulation.

The incident points to a deeper malaise of what might be called passive governance: a state that waits for problems to manifest rather than anticipating and preventing them.

What is passive governance? It is not a lack of governance: it is a style of governance marked by delayed reaction and minimal proactive engagement. It often involves governments or regulators stepping in after a crisis unfolds, focusing more on managing the fallout than on detecting early warning signs. This contrasts with active governance, where institutions continuously monitor, anticipate and adjust before a crisis erupts. Active governance relies on foresight systems—data, expertise and institutional coordination—to prevent problems or cushion their impact. Passive governance waits for problems to emerge or become visible enough to force a response.

In India, this style of governance has become an unmistakable pattern across sectors. Responses are robust after the fact, but the governing machinery seldom exhibits anticipatory capacity.

The IndiGo disruption offers a vivid illustration. The aviation sector is one of the most tightly regulated in India, under the watch of the Directorate General of Civil Aviation (DGCA) and ministry of civil aviation. Yet, the system appeared blindsided by a staffing crisis.

Despite the regulator having notified its staffing rules two years ago, news reports indicate that IndiGo made no significant increase in its staff capacity even as it expanded flights and routes. The regulator's failure was not that the rules were irrationally framed, but that active monitoring was lacking. Airlines are required to maintain logs of daily flights and pilot assignments: the data from these logs should have been analysed to issue advanced warnings and follow up with regulatory action for non-compliance. In addition to airline records, warning signals on inadequate staffing should also have been available from the statutory filings with the Employees' Provident Fund Organisation and Employee State Insurance Corp.

Social media has been rife with reports of difficult work conditions in aviation. An active governance approach would have picked up these signals through routine surveillance of data and reports, and used them to issue regulatory guidance.

When the crisis did occur, the initial government response was defensive and procedural. Statements were issued about "reviewing the situation" and ensuring "normal operations." Only after days of disruption did the regulator respond, and that too by partially relaxing safety norms. By then, the economic and reputational costs had mounted—both for the airline and for India's aviation reliability.

In addition to the immediate elements of this story, there is a more systemic failure: data and statutory reporting obligations are seen more as rent-seeking opportunities than as instruments for effective governance. This leads to a paradox where reporting obligations are viewed as intrusive burdens on market functioning, while regulators themselves blunder in wilful blindness. This is compounded by the fact that many of our regulatory bodies are designed for compliance enforcement rather than risk anticipation. Their principal role is to ensure that entities comply with formal guidelines, not to scan data for emerging vulnerabilities. This approach is a bureaucratic legacy—regulation as policing rather than stewardship.

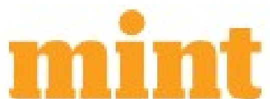
Ironically, this is happening at a time when the government, having adopted modern technology, is swimming in data. However, the data is held in silos and controlling departments and agencies view each other as competitors in a complex battle for status and budgetary allocations, rather than collaborators. One reflection of this mindset is that statistical officers assigned to different departments are often assigned routine tasks, such as compiling HR reports and preparing parliamentary responses, rather than serving as frontline agents of information management. The state of governance is captured by a pithy observation in the British sitcom *Yes, Prime Minister*, where a senior civil servant remarks that government is not a team but a "loose confederation of warring tribes."

Passive governance, unfortunately, is politically comfortable. Being reactive lets governments take visible action during crises—press conferences, fact-finding committees, emergency guidelines—that generates immediate public legitimacy. Proactive action, by contrast, is often invisible. Preventing a crisis does not produce headlines. It requires investment in data systems, institutional capacity and regulatory humility, which seldom capture the political imagination.

Thus, a cycle persists: crises recur, citizens adapt and the machinery consolidates its role as a reactive firefighter rather than a preventive architect. This dynamic helps explain why routine decisions are converted to firefighting measures. Civil servants take peculiar pride in how hard and late they work to handle predictable emergencies, rather than implementing systemic improvements that would prevent the crisis in the first place.

What is needed is a change in perspective. Governance must be treated not as an exercise in event management, but as continuous risk management. This requires using data for predictive monitoring, inter-agency coordination and the development of protocols for the active sharing of data across departments and agencies. The public release of operational metrics would allow civil society and experts to flag early risks.

These are not radical ideas: they exist in numerous commission reports. The problem is a lack of institutional intent. At the highest level, the government has shown a keenness to adopt 'whole-of-government' systems. I have previously discussed how mechanisms like Pragati were effective in resolving inter-agency problems. Unfortunately, these lessons have not been institutionalized.



MY VIEW | A VISIBLE HAND

What global stock market dynamics portend for 2026

NARAYAN RAMACHANDRAN

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Even though the year has not yet ended, some clear but peculiar patterns have emerged from stock-market returns. Here are the facts for the US stock market this year. With all indices hitting respective highs, the Nasdaq Composite (up 22.5%) has so far beaten the S&P 500 (18.5%) and Dow Jones 30 (13.0%). Within the Nasdaq index, some sub-sectors of technology did very well indeed (hardware and AI), while others did poorly (consumer technology and SaaS companies). The divergence is best illustrated by Nvidia and Alphabet (Google), which represent the AI boom, delivering year-to-date (YTD) returns of 38% and 62% respectively, versus Amazon and Netflix, which represent the consumer-tech segment, delivering only 4% and 9%. Just 14 stocks make up 75% of the Nasdaq 100, ten of which delivered returns of more than 15% over the year, with Palantir leading the pack with its 140% YTD return. Only four stocks—Meta, Netflix, Amazon and Costco—underperformed.

Dig a little deeper and the stocks that did exceedingly well outside the tech sector appeared to be related to the AI boom. For instance, the best performing non-tech stock on the S&P 500 is GE Vernova, with a 130% YTD return that was driven by strong demand for energy from AI data centres. There are two other main themes. Commodity stocks, particularly of gold-related companies like Newmont Mining (up 148%), did very well with gold hitting its peak price of $4,380 per ounce. Defence stocks, particularly aerospace companies like GE Aerospace (81%), also performed well.

On a relative value trade yardstick from the beginning of 2025, European markets did well, handily outperforming average equity returns in the US. The MSCI European Markets Union (EMU) index has returned about 32% YTD. In simple terms, about 10% of this is because the dollar has weakened and the rest is from local currency returns. In Europe, financial and defence sectors have done well.

The technology hardware boom from the US has carried well into Asia. South Korea is the best performing emerging market (75% YTD), with Taiwan also doing well (27%). Korea's market concentration of Samsung and SK Hynix (together 43% of its float-weighted index) has meant that the Korean market has benefitted greatly from the hardware trade. Elsewhere, Brazil has been a beneficiary of the commodities theme and nearly every emerging market from Greece to Mexico has gained from the relative value trade, except Turkey and India. In aggregate terms, the dollar declined 11% against a basket of currencies, the steepest such fall since 1973.

> **Track the AI boom and relative value trade along with the rupee's direction and local earnings**

India bucked the global trend this year. Its stock market recorded only a high single-digit return in rupee terms. For overseas investors, this was reduced by the rupee depreciating about 5% against the dollar as a result of market outflows and the central bank's currency disposition in the face of stiff US tariffs. The biggest drags on the Indian index were technology services companies led by TCS (down 22% in rupee terms). Despite continual demand for shares generated by mutual funds, India's stock market did not benefit from either a relative-value calculus or AI-boom-driven international flows.

What does all this portend for 2026? The AI boom and the relative value trade (an end to US exceptionalism) were easy calls for 2025. Most analysts missed the strong performance of gold last year. For next year, an easy call to make is a continuation of the relative value trade with a deepening beyond the defence and commodity sectors. For instance, there are many non-tech companies in China with strong cash-flow growth and good valuations. Once-in-a-generation fiscal stimulus action in Germany (to be approved soon) and Japan is likely to benefit some sectors in those countries. The dollar will most likely continue to depreciate against a basket of major currencies.

Whether the AI capital market boom will peak and then crash is a much harder call. Valuations are indeed very stretched, with median price-earning ratios even for large companies in excess of 30. However, just four mega-tech firms have a combined annual free cash flow of over $350 billion. Companies that have taken on significant debt for AI plays, such as Coreweave and Oracle, are vulnerable to even a slight dip in outlook. They could well turn out to be canaries in the coal mine. The AI phenomenon is real, as are revenues and cash flows, but valuations are high. Does this leave us at the end of this boom or merely near the end? Even with elevated valuations, the final stages of a bull market usually yield 30-40% further returns. Long-horizon investors should look for opportunities elsewhere, while speculators may hang on for a bit.

The Indian economy has done surprisingly well: some may even say inexplicably so. A critical question for the year ahead is whether nominal GDP will improve and corporate earnings with it. If so, a double-digit market return in rupees is probable. In the event of an AI-related global collapse, Indian stocks could offer shelter. But if the world faces a muddle-through scenario without a clear AI peak, then relative value does not augur well for India. On the currency front, unless a US trade deal offers tariff relief, the rupee is likely to depreciate for the Indian economy to shore up its competitiveness.

P.S: The 2026-27 Jovian year in Sanskrit is 'Parabhava,' which translates to 'downfall' or 'ruin,' while 2025-26 is Visvavasu, which means 'trust' or 'belief.'

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MY VIEW | CAFE ECONOMICS

Asymmetrical trade: Beware its political consequences

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The year that's drawing to a close will be remembered as the point at which US President Donald Trump overturned the global trading system that had been in place since World War II. India has been a major target of Trumpian whimsy. It is now hard to believe that the world will go back to the old multilateral trading system even after Trump exits office. We are in untested territory, with all its inherent uncertainties.

India's big question is how best to adapt to the evolving global arrangements, with the worrisome prospect of rising protectionism, militarism and regionalism. The government is busy trying to close a trade deal with the US and has voices within that want the country to join at least one of the regional free-trade agreements that we have assiduously stayed out of. Are there any relevant lessons from the past?

In that context, one book written at the end of World War II deserves to be read again. The theme of Albert Hirschman's *National Power and the Structure of Foreign Trade* (1945) is inseparable from his early political life. Before becoming one of the 20th century's most original political economists, Hirschman played an active role in resistance to Nazism. A German-born Jew who fled Hitler's Germany, he fought in the Spanish Civil War, then worked with the French Resistance against fascism. He helped smuggle hundreds of anti-Nazi intellectuals and artists out of Vichy France.

He is one of the central characters in a 2023 Netflix series, *Transatlantic*, on the underground operation to sneak refugees out of Europe. His experiences shaped his understanding of how political power operates through channels far more subtle than armies alone. When Hirschman later turned to international trade, he viewed it not as a neutral economic relationship between two countries, but as a potential instrument of coercion. His message resonates today.

In the abovementioned book, Hirschman challenges the dominant view that trade is always mutually beneficial, symmetrical and peace-promoting. Instead, he argues that trade relationships can become asymmetric: one country may depend disproportionately on another for imports, exports or access to markets. The two key mechanisms are what Hirschman calls "supply effects" and "influence effects." If a country relies heavily on a single trade partner, it becomes vulnerable to its threats, incentives or sudden withdrawal of trade. Even without explicit coercion, the dependent state may adjust its behaviour to align with the stronger one's interests, goaded by what Hirschman calls "commercial fifth columns."

Hirschman devotes one part of his book to explain how Nazi Germany used a foreign trade strategy to increase its leverage in Eastern Europe, which is quite separate from the better known story of its marching armies. The Nazis constructed a network of bilateral trade agreements, clearing arrangements and commodity-specific deals that locked smaller economies to its east into relationships of dependency.

> **Hirschman's argument that trade does not always promote peace is relevant in the Trump era**

Germany achieved a stranglehold over its smaller neighbours by becoming the primary purchaser of their agricultural produce and their main supplier of industrial goods. These smaller countries increasingly oriented their production, financial systems and even domestic politics to suit the German economy. This process did not require overt threats: their structural dependency itself generated political accommodation. Trade became a weapon of national power.

Two clarifications need to be mentioned. *First*, Hirschman does not argue that there are no gains from trade, but makes the more nuanced point that these gains are sometimes asymmetric. *Second*, using trade as statecraft is more than the mercantilist strategy of exporting more than importing. A large country may gain leverage by running trade deficits that make other countries dependent on its domestic demand.

Hirschman asks what smaller countries can do to protect their autonomy in an asymmetric world. His recommendations are strikingly relevant to our times. *First*, nations should diversify their trading partners to avoid a crushing reliance on any single dominant power. *Second*, they can build domestic capacity—industry, infrastructure or alternative suppliers—to reduce exposure to coercive shortages. He developed this theme in greater detail in his subsequent work as a development economist, especially the importance of forward and backward linkages in any industrialization strategy.

Regional cooperation among small states can counterbalance the influence of larger ones, creating a unified market less susceptible to domination. And multilateral institutions can help prevent the coercive leverage that bilateral trading relations may promote. It is now fashionable to run down the multilateral trading system, but the symmetry that is fundamental to its design—as evident in the principle of 'most favoured nation' which provides equal trade opportunities for all countries—is a response to the dangerous asymmetries that arose in the era of imperial powers. International trade should liberate rather than shackle countries.

Hirschman's early confrontation with totalitarianism taught him that economics is inseparable from politics. *National Power and the Structure of Foreign Trade* reveals how asymmetries in commerce can evolve into asymmetries in sovereignty. The book was written in a particular historical context, but has useful clues on how countries can negotiate trade turbulence in the Trump era.

MY VIEW | EX MACHINA

AI use of original work: A reverse Robin Hood proposal

RAHUL MATTHAN

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Last week, the Department for Promotion of Industry and Internal Trade (DPIIT) released a working paper on 'Generative AI and Copyright,' recommending a 'hybrid model' that it claims will balance the need to promote AI development with creator rights. It suggests that AI companies in India should pay a mandatory blanket licence fee (a percentage of their global revenue) for using copyrighted materials to train their models. It recommends the establishment of a body called the Copyright Royalties Collective for AI Training (CRCAT) that will collect licence fees from AI developers for distribution to registered creators through existing Collective Management Organisations (CMOs).

While at first blush this might seem like an elegant solution, not only is this approach deeply flawed, it is likely to do more harm than good to the small creators it is supposed to protect.

To better understand this, let's identify who the winners and losers are in this proposal. First, let's consider the AI companies. They will now have to pay a licence fee, which, even if it is a small percentage, will likely be a significant amount since it will be based on their global revenue. However, since AI revenues are derived from subscription and usage-based fees, this is a cost that I expect will be largely passed on to consumers. Which means that, in the long run, this will probably have a minimal impact on their profitability. On the other hand, the proposal shields AI companies from copyright lawsuits, which means that, for a small fee (much of which they can pass on), AI firms can eliminate a significant legal risk to their business model. They are clearly net winners.

Then, there are the intermediaries—the CRCAT as well as all the other CMOs—whose sole purpose is to collect and distribute licence revenues to creators. Collective licensing schemes such as this are little more than value transfer mechanisms, with intermediaries taking their cut throughout the chain. CMOs typically retain 9% to 15% of all money collected to cover 'administrative expenses.' In addition, collective licensing schemes result in 'black box' revenues—unmatched funds where artists entitled to licence fees cannot be identified—which the CMO could dispose of at its discretion. All of which seems to suggest that whichever way you cut it, intermediaries are clear winners. To make matters worse, given India's poor track record with CMOs in the past, the creation of a new super-CMO does not inspire confidence.

Which brings us to the creators, where the issue is more nuanced. After all, there are many different types of creators. The ones who first come to mind are superstars—A.R. Rehman, Taylor Swift and the like—who already earn a substantial income from their creative works. Under the DPIIT proposal, these artists are likely to receive a disproportionately large share of the AI licence money, as the distribution mechanism requires that additional weightage be given to the relative value of each registered work. This means that a tiny handful of major artists (who are already very wealthy) will receive substantial payouts, while small creators would have to settle for a pittance.

> **The payback mechanism proposed by a government working paper would be unfair to most creators**

What's worse is that the DPIIT proposal prohibits any opt-out, so copyright holders cannot withhold their works from being used for AI training. While this is beneficial for the AI industry, small creators who are, in any case, only likely to receive a few paise in compensation, will have no way to remove their works from the training data. All they can do is register to get whatever little payment the government-appointed committee decides they are entitled to.

But there is an even more fundamental problem with this approach. The structure of AI training makes traditional licensing mechanisms, such as those suggested in the working paper, work very differently when compared to the music or written-text industries. While it provides 'legal certainty' to AI companies and guarantees administrative fees for CMOs, it simply cannot provide meaningful income to the average individual creator.

In music streaming, a song is the 'unit' of value. Each play of the song entitles the artist to remuneration. This is easily measurable, and while administratively complex if managed through layers of intermediaries, it enables a clear correlation between use of the work and the artist's remuneration.

The unit of value in AI is a 'token' (a fragment of a word or a small part of an image). Unlike music or text, where it is possible to establish a direct correlation between use of the work and the payment that must be made for it, attribution breaks down in the case of AI. The training process disperses each token's influence across billions of model parameters and the model's outputs emerge from this dense statistical mixture, making it impossible to trace any output back to a single token or an individual's work.

Since attribution is likely to be a significant problem, much (if not all) of the licence revenue will end up in a 'black box,' from which no individual artist will be able to claim a share. The only ones who can would be those so well established that their works are overrepresented in the dataset.

What the DPIIT has proposed is a Reverse Robin Hood mechanism—a legally sanctioned transfer of wealth from small individual creators to established artists and the intermediaries that serve them. It is hard to imagine an outcome further removed from the desired objective.

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THEIR VIEW

The world made a pledge in Paris 10 years ago: We must redeem it

All countries must work to meet the historic commitments made collectively at CoP-21 a decade ago. France is doing its bit

EMMANUEL MACRON
is president of France.

REUTERS

It has been 10 years since the UN Climate Change Conference in Paris (CoP-21), where 195 states made a historic commitment to work together to keep the long-term rise in global temperatures well below 2° Celsius above pre-industrial levels and to pursue efforts to limit the rise to no more than 1.5° Celsius. France played its part in making this great moment of universal solidarity a success. A decade later, we can be proud of how far we have come.

In France, we have reduced our greenhouse-gas emissions by 30% compared with 1990, including 20% between 2017 and 2024. We went from a reduction of less than 1% per year before 2017 to annual reductions of more than 2% on average from 2017 to 2021—and more than 4% on average between 2022 and 2024. Our goal is a 50% reduction by 2030, which means 270 million fewer tonnes of carbon dioxide in the atmosphere every year. [It shows the] success of our unique approach to ecology, which combines progress and protection, and enables us to reduce both emissions and unemployment at the same time. We never impose a rule without providing an accessible alternative and refuse to sacrifice our competitiveness. Our aim is to combine sovereignty, employment and decarbonization. How? Through clear choices.

Ecology is at the heart of all our economic, planning, energy, agricultural and industrial policies. The *National Low-Carbon Strategy* is a case in point: it sets our course toward carbon neutrality, shaping all our policies. We rely on six principles:

Respecting and protecting science: We are guided by the consensus of the Intergovernmental Panel on Climate Change, which has begun preparing its seventh report and held its first meeting with all its authors in Paris. This is why we invest so heavily in climate research and innovation—to find new decarbonization solutions. Through our Research Programming Law and France 2030 programme, we have funded practical research and hundreds of projects related to climate change in various fields, from small modular nuclear reactors and low-carbon hydrogen to sustainable fuels and water management. At a time when scientific voices are being challenged, we will continue to accelerate in this area and attract the best researchers.

Ending dependence on imported fossil fuels: We are choosing a decarbonized and sovereign energy system—essential for both national independence and climate protection. As early as 2022 in Belfort, I outlined the main pillars of our energy policy: reducing fossil-fuel consumption, developing renewable energy and relaunching nuclear power. This has succeeded: In 2024, our electricity was more than 95% decarbonized. We have identified zones where offshore wind farms will be developed by 2050. The nuclear sector has been revived, with initial construction and financing already underway on six new EPR2 reactors. Small reactors for heat production are also being developed. We are building a sovereign energy industry and I intend to go even further: by 2027, we will close or convert the last coal-fired power plants.

Helping industry decarbonize: Reindustrializing France means helping decarbonize the world. Green investment in France has increased by nearly 30% in three years. Green industry accounted for one in three new factories in 2024. We have already launched decarbonization efforts for the 50 largest industrial sites—representing about 10% of France's total emissions. By 2030, these sites will have halved their emissions. Our green industries are creating jobs. We plan to produce electric vehicles, batteries, heat pumps and solar panels. [As for the rest of Europe], I hope that the European Commission's upcoming announcements will show that momentum is building, so that Europe truly becomes the site of the world's most ambitious decarbonization projects.

Progress for people: Ecology must improve people's daily lives. Renovating our homes allows everyone to lower their energy bills, helps France reduce dependence on fossil fuels and increases everyone's quality of life. This requires constant attention to equality and purchasing power. Through our social leasing programme, 50,000 low-income households were able to acquire a new vehicle in 2024 for less than €100 per month and another 50,000 will benefit this year.

Adapting to climate change: We must prepare for the consequences of climate change. We have adopted our third National Adaptation Plan and defined a reference pathway to align all our policies—from the local to the national level.

Carrying the fight to Europe and the world: Europe is the most climate-ambitious continent with a goal of carbon neutrality by 2050. The EU is also the world's leading provider of climate finance. France embraces its role as a guarantor of the Paris agreement and of climate action. To this end, in 2017, I launched the One Planet Summit to build cross-sector coalitions capable of acting simultaneously on emissions reduction and adaptation projects. Since then, we have launched 50 initiatives to fight climate change. Our programmes led to the UN's adoption of the Kunming-Montreal Global Biodiversity Framework and the High Seas Treaty, as well as to the mobilization of €4 billion to combat plastic pollution and over €19 billion for biodiversity protection and food security.

Ten years after CoP-21, France also hosted the UN Ocean Conference, aimed at protecting unique ecosystems that are vital to the climate. We support Just Energy Transition Partnerships and seek innovative financing solutions that align private investment flows with global decarbonization goals. This was our message at CoP-30 in Belém.

The decade since CoP-21 has been a period of success and ambition. But it has also been marked by international tensions, the questioning of science, international division and efforts to erase the universal ideal of liberty and fraternity among peoples. As always, France will play its full part in the struggle for our climate and our planet, guided by respect for science, industrial ambition, progress, solidarity and the exemplary leadership of Europe. Let's aim for collective success over the coming decade. This can be achieved—if we remain faithful to the commitments we made in Paris 10 years ago.

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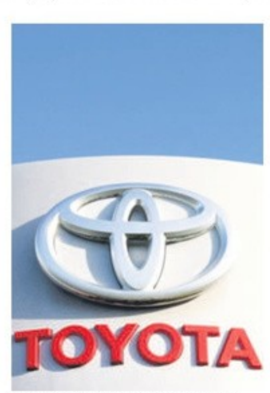
MINT CURATOR

Toyota in China: It's set to ride out the tremors of geopolitics

The Japanese carmaker adapted swiftly to an electric market shift

JULIANA LIU
is a columnist for Bloomberg Opinion's Asia team, covering corporate strategy and management in the region.



China's shift to EVs caught most other foreign players off guard. REUTERS

Spiralling diplomatic ties between Japan and China are sure to affect some businesses. But one company is poised to stand its ground: Toyota. After all, the world's biggest carmaker has already survived a much bigger challenge—a tectonic shift in China's auto industry that has decimated most foreign players there.

Even though shipments last year were 14% lower than the 2022 peak, that's nowhere nearly as devastating as its global peers. Sales at Ford were more than 80% lower than its 2016 all-time high. Revenue at Volkswagen, whose ubiquitous boxy Santanas symbolized private car ownership during China's go-go years, was down about a third last year from its record.

The turning point for the domestic auto sector came around 2020, two decades after a mechanical engineer named Wan Gang returned to China after years spent working for Audi in Germany. He promised Chinese authorities that while foreign automakers dominated petrol cars, Beijing had a chance to pull ahead by betting on electrification. Eager to reduce its dependence on imported oil, officials put him in charge of a state-led effort to develop a market for clean-energy vehicles.

Wan's words would prove prophetic. In 2021, electrified vehicles accounted for just 18% of sales. Just three years later, it jumped to 50%. By 2030, it's expected to rise further to 81%. The shift from internal combustion to clean-energy engines caught most foreign players by surprise.

Toyota was an exception. That's in large part due to its decision to start making hybrids back in 1997, with the launch of its first-generation Prius in Japan. Sales of versions of the Corolla, Levin, Camry and Highlander have helped the carmaker weather the EV transition in China, its second-largest market by volume.

From 2023, it also began offering heavy discounts on some models. Julie Boote, an automotive analyst at research firm Pelham Smithers Associates, told me this strategy boosted shipments but took a toll on the bottom line. During the 2021 fiscal year, she estimates that profits from Toyota's joint ventures as well as sales of its vehicles imported from Japan stood at 525 billion yen ($3.4 billion). Three years later, the figure nearly halved to 290 billion yen.

That's still head and shoulders above than even its Japanese peers. Their combined share of China's passenger car market dropped from a peak of 26% in 2020 to 14% last year, according to auto analyst Tatsuo Yoshida of Bloomberg Intelligence. Honda and Nissan are struggling, while Suzuki and Mitsubishi have essentially withdrawn.

As for Toyota, another strategic pivot is emerging. Although it has always worked with local affiliates FAW Group and Guangzhou Automobile Group for joint manufacturing, as legally required, the dynamic is changing. The Japanese carmaker was once the senior partner transferring its technology. Now, it is starting to localize like never before by integrating and showcasing Chinese technology.

The result? Toyota's March launch of its fully electric bZ3x sport utility vehicle was priced at 109,800 yuan ($15,000). That puts it in the same league as cut-price, high-tech cars from BYD. It's also about $6,000 cheaper than one of its predecessors, the Izoa, launched around 2020 as one of Toyota's first dedicated EVs for China. At this price, the bZ3x has been popular, having sold more than 50,000 units since launch to October.

But this strategy has an inherent risk. Increasing localization may inevitably blur the lines between brands. If foreign carmakers lean so heavily into Chinese technology, why would buyers not just purchase homegrown models in the first place? Anyone pursuing this path must consider the longer-term consequences.

In the clearest sign yet of Toyota's ambition in China, it will be following in Tesla's footsteps by opening a fully-owned manufacturing facility. Located outside Shanghai, it will assemble Lexus vehicles starting in 2027 and is expected to produce roughly 100,000 units at first.

Toyota's turnaround, without a massive restructuring or GM-style $5 billion write-down, seems to be working. Boote believes that profits from the China operations will grow 14% compared to last year. And despite continued rumblings between Beijing and Tokyo over Taiwan, there have been no calls in China for any boycotts of Japanese products.

It's a very different picture from 2012, when sales of Japanese cars plunged and didn't recover for months as a territorial dispute over islands in the East China Sea sparked protests across China. Although the current situation may deteriorate further, the response from Beijing appears much more measured. Toyota should be able to pull through.

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THEIR VIEW

Oil, gas and gallium can explain America's new security strategy

Washington's world view is being reshaped by material conditions that enlarge the space for peace

JAMES K. GALBRAITH
is co-author of 'Entropy Economics: The Living Basis of Value and Production'.

The new National Security Strategy of the US seeks "strategic stability" with Russia. It declares that China is merely a competitor, that the Middle East is not central to American security, that Latin America is "our hemisphere" and that Europe faces "civilizational erasure." India barely rates a mention: one might say, as Neville Chamberlain did of Czechoslovakia in 1938, that it's "a faraway country... of which we know nothing." Well, so much the better for India, which can take care of itself.

The realpolitik of this document is breathtaking, yet the underlying logic is not stated. It is a logic of resources. With oil flowing thick and fast from Texas and reserves in Canada and Venezuela, the US can exit the Gulf in West Asia and even (in principle, not in practice) leave Israel to its own devices. Russian gas, more precisely the lack of it, has sealed the fate of Europe: Germany is de-industrializing while Britain and France, their empires long gone, sink toward irrelevance. Sanctions having failed, Russia's eventual victory in Ukraine is now assured.

With China, the resource issue is rare earths, especially gallium, a byproduct of refining bauxite into alumina. China controls rare earths through a near-monopoly on refining, which could erode with determined efforts over time.

Gallium is different: US aluminium capacity peaked in 1980 and China's advantage in the underlying process of refining is now estimated at 90 to 1. The US cannot own-source gallium on any timescale. As there is no substitute for gallium in advanced microchips, the US military cannot now confront China and prevail. A *détente* is therefore necessary for America, as desired by and acceptable to Beijing.

As strategy, the new order is not ironclad and should not be taken too seriously until military bases are closed, aircraft carriers decommissioned and nuclear weapons mothballed. It is also hedged in several unrealistic ways, such as the notion, quickly quashed by China, that perhaps Japan (and Korea) might defend the "first island chain," a euphemism for Taiwan.

As economics, it is a mass of contradictions, in particular its quest for US re-industrialization while simultaneously protecting the financial system and the dollar's global role. The syndrome is of the child who wants every shiny package under the tree. One may expect a tantrum once the reality dawns that one can't have it all.

Then there is the undisguised notion that the nations of Latin America are not really countries, but dependencies and satrapies—colonies in all but name—run by *caciques* (local leaders). That there have been (and still are) such countries in the region cannot be denied. But Mexico and Brazil, not to mention Colombia and Venezuela, not to mention Nicaragua and Cuba, have other ideas. The brazen, Miami-mobster tone of this document is its most retrograde feature, scarcely removed from the years before the American Civil War, when Cuba and Mexico were seen as new frontiers for southern slaveholders.

Still, for all its defects, as an assault on the previously sacrosanct, unipolar and Eurocentric world order, the new US strategy is an ice-breaker. It opens up policy space not seen in 40, 50 or perhaps 60 years—not since Reagan and Gorbachev, Nixon and Mao, or Kennedy and Khrushchev, who each in their own way tried to forestall a final nuclear confrontation. The panicky reaction of European political leaders and US foreign policy, media and Democratic Party elites portends a colossal struggle to keep the old order going. *New York Times* columnist Thomas Friedman's pastiche of cringe and cope is a telling example of what to expect.

Previous efforts at peacemaking all came eventually to nought. Kennedy's overtures of 1963, notably the test-ban treaty and his decision to exit Vietnam, ended with his assassination. Nixon's opening to China led to deep a relationship that only lapsed into hostility as China emerged as a leading economic power while the 1990s-era illusion of an 'end of history' convergence to 'liberal democracy' fell apart. The end of the Cold War engineered by Gorbachev and Reagan gave way, under George H. W. Bush, to claims of 'victory' with an inevitable repercussion—revanche.

Yet, in each of those episodes, the material conditions of the US were stronger and its need to dominate the world greater than is true today. The US is now self-sufficient in energy; it can get along without Europe or the Gulf, and it can prosper without antagonizing Russia or China. At the same time, US military capacity has eroded: an era of missiles and drones has superceded that of aircraft carriers and bases. The material conditions, in short, favour peace.

One cannot be optimistic. No doubt, those committed to unilateral American hegemony will make every effort, in the months ahead, to reverse any move towards balanced peace. But they would be defending a global order that no longer exists, whereas the new conditions really do call for regional consolidation and multi-polarity in a world where peace and stability are paramount.

India, nicely balanced among great powers, will benefit if a peaceful system prevails. And its diplomacy can help, if it chooses, to make it happen.

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THEIR VIEW

Let 'digital collateral' for loans drive credit inclusion

VIVAN SHARAN & SAMIRA ABRAHAM

are public policy experts at Koan Advisory Group, New Delhi.

India's economy grew at a faster-than-expected 8.2% in the last quarter, driven by manufacturing and services as well as a recovery in private consumption. The recent GST rationalization has helped boost consumption, but Index of Industrial Production data for the past six months points to weak rural consumer spending. Moreover, that growth was largely driven by capital-intensive and higher-skill sectors. As finance minister Nirmala Sitharaman prepares the next Union budget, her mandate is clear: the government must continue to stimulate demand without fiscal consolidation going awry.

Liquidity in the hands of people and enterprises that need it most is the missing piece that could help sustain our growth momentum. Technology has a prominent role to play here, not just in data analytics for credit assessments, but also in nudging loan repayments.

India's credit gap in the micro, small and medium enterprise (MSME) sector remains vast, estimated at ₹25 trillion, as does the challenge of providing affordable credit to households at the bottom of the income pyramid. Bank credit growth has been slowing: it fell to around 11% in 2024-25 over the previous year, compared with over 20% in 2023-24; this slowdown was compounded by reported challenges in the recovery of unsecured loans.

The next budget should thus focus on building momentum in the small-ticket loan segment. Large companies will invest when business sentiment turns positive. But small-value loans fuel everyday consumption, allow MSMEs to invest in productive assets and keep the economic engine warm. Microfinance can help at the margins, but not at the scale needed to stimulate demand.

Non-bank financial companies (NBFCs), including housing and fintech lenders, are the backbone of the small-value segment. According to the Reserve Bank of India's (RBI) 2025 *Financial Stability Report*, they account for more than 84% of personal loans below ₹50,000. RBI deputy governor M. Rajeshwar Rao recently acknowledged their crucial role in furthering financial inclusion, even though the central bank is worried about unsecured loans and delinquencies.

Throttling credit is not a way to resolve the tension between risk mitigation and financial inclusion; instead, let's encourage the use of technology to secure small-value loans. Much has already been written about technology's role in transforming credit underwriting. With richer data-sets such as GST filings and alternative indicators derived from smartphone usage, AI tools can meaningfully assess borrowers once dismissed as unworthy. Young workers, gig economy participants, migrants and informal-sector entrepreneurs all benefit from this shift. So far, India's regulatory stance on AI in fintech has been pragmatic. India has not mimicked Europe's restrictive attitude: RBI's committee on responsible and ethical enablement of AI suggests market-friendly approaches.

Delinquency would decline and lending expand if the use of software is linked to repayments

But a potent technological intervention lies waiting, one that can help us re-imagine collateral for a software-defined world. We could promote 'digitally secured' loans to improve credit outcomes: certain functionalities of a digital device or asset could be temporarily barred in the event of non-repayment. The logic is not novel: borrowers have a strong incentive to repay loans when their access to an asset they value depends on it. But 'digital collateral' updates this rationale to today's times.

Smartphones, now essential for work and education, best demonstrate the potential of digital collateral. NBFCs can work with smartphone brands to temporarily limit non-essential features through remote locking or feature denial if borrowers miss payments repeatedly. Such systems already operate in countries like South Africa and Brazil, and this was also the case in India post-covid until RBI clamped down on the practice.

Digital collateral sharpens incentives for repayment and screens out high-risk borrowers who are less willing to accept such credit conditionalities. Field experiments in Uganda demonstrate possible gains: digitally secured loans showed repayment rates roughly 11 percentage points higher than comparable unsecured loans.

Critics may argue that such mechanisms weaponize access to technology by tying essential services to repayment behaviour. Such concerns are neither new nor insurmountable.

The promotion of any financial inclusion technology should follow a pragmatic and gradual approach. Basics like informed consumer consent, ample notice periods for access bars, the preservation of essential functions and quick reversals once dues are cleared or restructured are non-negotiable.

The principle has been used in other sectors. Essential services such as electricity supply are routinely suspended for non-payment, often more abruptly and with worse effects than anything envisioned under a digital collateral framework. A thoughtfully designed system could improve India's loan-recovery standards across the economy.

As more consumer assets, from cars and two-wheelers to refrigerators and IoT-enabled home appliances, come to depend on software to keep running, the number of use cases for digital collateral should expand beyond the small-value segment.

India needs policies that enable credit expansion through various tried and tested tools. The adoption of digital collateral in a tech-driven world is a no-brainer.

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MY VIEW | MYTHS AND MANTRAS

Should you invest yourself or let professionals do the job for you?

Ask whether your performance as a fund manager is superior on the basis of an objective assessment

DEVINA MEHRA
is founder of First Global and author of 'Money, Myths and Mantras: The Ultimate Investment Guide'. Her X handle is @devinamehra

I don't know that much about stock markets, but want to start investing in equities."

"What is the point of just investing with mutual funds and portfolio management services (PMSes)? I want to learn and do it myself."

These are some of the questions I get. Often, the unsaid part is, "It is so boring to say that I am invested in a combination of fixed deposits, mutual funds and PMSes. What do I say when my friends brag about the latest multi-bagger they unearthed? And anyway I am smarter than most of these so-called experts."

The question all these investors need to ask themselves is: Is managing your portfolio yourself the best way to invest in equities? After all, why use financial advisors and fund managers if you can avoid it? So, should you be a do-it-yourself (DIY) investor or is it better to leave the decision making and portfolio management to professionals?

First off, investing yourself is the best way—actually, the only way—to understand how the stock market game works. And learning is always a laudable objective!

However, do think of this another way too: based on data, are you the very best fund manager you know? Logically, that should decide whether you should manage your own funds.

Now the game gets interesting. Look at all the data on your own investing performance and be objective about this—account for not just the winners that you trot out at every party, but every single stock you have bought from the beginning of your investing journey. Yes, including all the painful ones you don't want to think about or ignore in your DP (depository participant) statement. The ones that no longer trade, for example. The 'great story' stock that is now down 80%, instead of tripling. Now that we are in a digital world with an electronic trail of everything, dig out your DP account details from the beginning. This is the portfolio managed by the fund manager 'I/Me.'

How has your portfolio done over time? What kind of returns and volatility have you seen? What was the biggest loss you made? No cheating!

Collect similar data for the mutual fund or PMS schemes that you may be thinking of investing in. In short, look at yourself as just another fund manager. Suppose there are five professional fund managers that you are considering investing with. Get the same details for them and consider 'I/Me' as Fund Manager No. 6.

Then compare the six fund managers that are now in your consideration set. Is Fund Manager No. 6 the best there is in terms of returns—not just over a few months, but over the longer term? How did they perform in times of volatility and drawdowns (that is, when the markets or portfolio went down)? If Fund Manager No. 6 happened to be just another professional who you did not know personally, would you entrust this manager with the bulk of your money?

Objectively speaking, are you the very best fund manager there is?

If not, how much should you allocate to this fund manager called 'I/Me' and what proportion to each of the other professional fund managers you are considering?

Of course, 'I/Me' as a fund manager may not have a great past track record, but you may be convinced that this individual has learnt from past mistakes; and that 'I/Me' now has outstanding potential and may deserve to get a somewhat higher share than one strictly based on performance.

Maybe this fund manager has now shown a much better understanding of markets, given all the ups and downs he or she has seen, and is confident of doing well in the future.

Even so, how much of your money should you allocate to this particular fund manager? Should it be 100%? Or even 50%? Or should it be a smaller percentage? Or maybe 'I/Me' should get only a small proportion of the total corpus as play money, so that 'I/Me' can be happy to learn and have something to talk about with friends at parties.

After all, calculations are all very well, and far be it for me to be such a killjoy as to advise resisting the small thrill of telling your friends, "Remember that stock I told you about three months ago? It has doubled since then." Of course, no one is going to check your DP account for a full and complete picture. So a bit of play money is fine.

But for the rest of your portfolio, you must account for the fact that 'I/Me' is probably not managing your portfolio full time. This manager also has a day job or a business to run. In short, this manager has limited time and other resources to devote to this activity. 'I/Me' is unlike other fund managers, who are doing this full time and who have a large team supporting them, providing them data, analysis, alerts, etc.

So go ahead and compare a set of fund managers. It's a fun mental exercise to do and will probably improve your decision-making. It will force you to step back and evaluate yourself earnestly, rather than just work on vague impressions that you can do a better job than the professionals.

In all likelihood, you may find that you are better off investing via mutual funds, PMSes or guided investments in smart baskets, etc, at least for the bulk of your investments. Happy investing!

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OUR VIEW

ISTOCKPHOTO

Let reforms spur India's corporate bond market

This segment of the debt market has been crying out for help. A Niti Aayog report makes yet another attempt to usher in policy changes that are dearly needed for this worthy objective

India's capital markets have grown by leaps and bounds since 1991, when economic liberalization began. Be it in terms of participation or infrastructure, they now compare with the best in the world. But this boom has been all but stolen by the equity market. When it comes to the market for debt, especially corporate bonds, ours lags woefully behind those of not just advanced countries, but many of our peers as well. Globally, the bond market is much larger ($140 trillion) than the equity market ($115 trillion). But India is an exception. Not only is our debt market dominated heavily by government securities (G-Secs), the value of all outstanding bonds is just 50-60% of the country's equity market capitalization. True, our market for corporate bonds has grown in recent years. However, as a *Mint* report indicates, a large slice of bonds issued by companies goes unlisted; according to data from Primedatabase, in 2025 up to 9 December, private firms raised nearly ₹8.6 trillion via bonds listed for trading and a bit above ₹2 trillion through unlisted paper.

Ironically, we do have what it takes for a bond market to thrive: notably, a well-developed market for G-Secs that offers a benchmark yield curve for bond pricing, a legal framework, a trusted depository system and credible rating agencies. Our challenge has been to enlarge corporate issuances, given that banks cannot adequately fulfil the need for long-term finance. Bank deposits are repayable on demand, but loans have longer tenures, which results in an asset-liability mismatch that constrains lending for long spans of time. Corporate bonds could fill this gap. Ever since the pandemic, though, privately placed issuances have surged. While their pace has eased, low costs and operational ease have been drawing issuers down this route. Off-market bonds are often rated lower on safety and they offer higher yields to compensate, but finding takers for such debt and setting bond prices should be the market's job. A market that functions better, thus, is an important aim.

For such reasons and more, the Niti Aayog's recent *Report on Deepening the Corporate Bond Market* must not gather dust, like many others before it; recall reports by panels headed by R.H. Patil (2005), Percy Mistry (2007) and H.R. Khan (2016). If India's economy is to leap from low-middle-income to high-income, our financial system must be able to mobilize long-term capital at low cost; in the Niti report's words, "a deep and diversified corporate bond market is indispensable for that transition." Towards this end, it proposes a three-phased approach; *first*, taxation reforms to fix distortions that currently favour equities and bank deposits; *second*, parity in withholding tax treatment between corporate bonds and securitized debt instruments; and *third*, an extension of capital gains tax deferral rules to limited liability partnerships and direct asset transfers in real estate and infrastructure investment trust structures (to enhance liquidity). A critical element that the report does not emphasize enough is the need for speedy dispute resolution. Long legal delays in default cases do little for investor confidence. We have made some progress with debt mutual funds and bond ETFs that could serve as an option for savers in search of fixed-income avenues that yield more than bank deposits. But we need to do much more if the Niti Aayog's goal of taking India's corporate bond market to ₹100-120 trillion by 2030 from ₹53.6 trillion in 2024-25 is to be met.

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Don't count on Fed rate cuts to reduce long-term bond yields

Trying to force them down will cause more problems than it solves

ALLISON SCHRAGER
is a Bloomberg Opinion columnist covering economics.

The Fed has less influence on longer-term bond yields than short-term. AP

There's no such thing as a sure thing in financial markets, but some things come pretty close. One of them is the proposition that there will be more interest-rate cuts next year—and another is that these reductions will have little to no effect on long-term rates.

First, the cuts. US Federal Reserve Chair Jay Powell may have presided over his last announcement of a decrease, but odds are his successor will cut rates further next year. It's not just that President Donald Trump wants lower interest rates, which not only boost the stock market and credit offtake, but make servicing the national debt cheaper. It's that there are financial risks in the current environment, in which rates are high after a long period of being exceptionally low: Getting rates back down may help the US avoid a credit crisis.

But the government and financial markets may be in for a rude awakening. Even if (when?) the Fed brings down short-term rates, the 10-year US Treasury bond yield will almost certainly not go down very much—at least not without significant financial repression.

It is as predictable as it is inexplicable: The Fed cuts rates and long-term yields go up. It could be the market is sceptical that the likely next Fed chair, Kevin Hassett, will be serious about inflation. But even if Trump nominated the next incarnation of Paul Volcker, the Fed will probably not be able to lower the 10-year yield.

This may seem strange—in theory, the 10-year bond should reflect what people expect the future short-term yield to be. If the Fed is committed to easing in the future, rates should go down. And often the 10-year rate does follow the Fed policy rate. But not always. Longer-term interest rates reflect more than future expected short-term rates. This is why the market for bonds of different durations is segmented. The Fed's influence is greatest on any bonds of less than five years duration; as bonds get longer-term, it has less influence. Longer-term bonds are more affected by market forces. Their yields reflect expected future inflation, inflation risk, and a risk premium for holding an asset with more price variability than a short-term bond.

Lately, all these factors are keeping rates high. Inflation appears to be holding steady at 3%, yet the Fed has already started easing by cutting rates and ending quantitative tightening. There is anxiety about inflation staying high because the full impact of US tariffs has yet to be felt and the Fed has not indicated (short of some wish-casting in its summary of economic projections) that it is committed to bringing inflation down further. There is even less commitment in the US Congress to reducing federal debt, which means more bonds will be issued in the future, which could spell a drop in bond prices. This makes holding longer-term bonds riskier, and investors want a bigger premium to compensate for that.

It all adds up to upward pressure on long-duration bond yields—no matter what the Fed does with short-term rates.

Even if the Fed found religion on inflation and Congress suddenly began to care about the national debt, there would still be reason to expect long-term bonds to be higher. Historically, bond yields revert to the mean: Unlike stocks, they rise and fall around a long-term average that is higher than it was in the 2010s. Over time, the 10-year yield has declined simply because the world got less risky and sovereign defaults became less common.

But that long-term average still exists. The reason is that, current macro factors aside, long-term yields reflect things that don't change much over time, such as how productive capital is and how much society values the future compared to the present. Economists have long thought an ageing population would bring down yields because older societies are less productive and buy more debt, but we are less sure of this than we used to be.

A stubbornly high 10-year rate will no doubt frustrate many politicians, not to mention central bankers. It means mortgage rates won't go down, makes servicing the national debt more expensive and raises the likelihood of a 'credit event' as firms' debt comes due and they can't afford to refinance. Alternatively, the economy might just slow down, exposing the ineffectiveness of the Fed's monetary policy.

So expect the US government to try to do more to lower longer-term rates. The Fed could begin large debt purchases again, despite the dismal record of so-called quantitative easing, while the Treasury could use regulations to essentially force banks to buy more debt, part of a strategy called financial repression that has an equally bad reputation.

They should be wary. Messing with the price of risk tends to create more problems than it solves.

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THEIR VIEW

Mind the gaps: Why India's GDP measurement requires a reset

Next year's base revision offers us a chance to improve data accuracy and five reform measures should help achieve that goal

ASHISH KUMAR & KUNTALA KARKUN
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Each release of data on gross domestic product (GDP) in India follows a familiar script: an initial wave of headline enthusiasm, followed by doubts about manufacturing strength, real-nominal gaps and statistical discrepancies. But these debates miss a key point. India's core methodology for GDP estimation is broadly sound and internationally aligned: the real weakness lies in the broader statistical ecosystem—data-sets that haven't kept up with structural shifts, outdated reconciliation tools and price measures that struggle to reflect fast-changing production and consumption. The result is an over-interpretation of the headline number without the context needed to read it properly. Unless we modernize this architecture, we will keep debating symptoms rather than the underlying issues that matter for interpreting GDP data in a rapidly evolving economy.

Manufacturing—an 80-20 measurement split that distorts the narrative: Two core indicators, manufacturing gross value added (GVA) and the Index of Industrial Production (IIP), often seem to diverge. This isn't a contradiction, but a feature of the system. About 80% of manufacturing GVA comes from the organized corporate sector, estimated from quarterly filings of roughly 1,500 firms that report sales, input costs and operating expenses. This aligns with global practice and recent data shows solid momentum: corporate manufacturing has been growing 10-20% this year, with earnings before interest, taxes, depreciation and amortization rising by about 9.6%.

The remaining 20% comprises quasi-corporate, unincorporated and informal units, and is harder to measure. These enterprises don't file quarterly accounts, so the statistics ministry uses the IIP as a proxy, applying volume growth and converting it to current prices via the wholesale price index (WPI). But the IIP tracks physical output, not value added: it misses margins, input costs, product upgrades and service intensity. It cannot really mirror value addition. The result: earnings look strong and GVA remains high, but the IIP moves differently. This divergence reflects our statistical design, not economic stress. We need better ways to track the informal sector.

GDP discrepancies reflect data gaps: The growing gap between production-based and expenditure-based GDP has evoked valid concerns. While the global norm is to keep such discrepancies within 3% of GDP, India has recently crossed that point. The divergence stems from uneven data quality. Production GDP draws on frequent high-detail sources—corporate filings, administrative data and sectoral statistics, while expenditure GDP relies on lower-frequency consumption and investment surveys, which are often revised substantially later.

Two structural issues aggravate this mismatch: A base revision delay, which means weights no longer mirror the present economy, and the absence of regular 'supply and use tables' (SUTs), which are standard reconciliation tools across advanced economies. We haven't produced input–output tables for 15-18 years and our SUTs are compiled only after annual estimates are released. But the global best practice is to compile SUTs before we finalize a year's estimates and use them for quarterly and advance projections. This approach would eliminate discrepancies in annual data and sharply reduce them in quarterly estimates.

The paradox of IMF's 'A' versus 'C' rating: India's statistical weaknesses become clearer if viewed through global evaluations. Many emerging economies, including India, face a familiar paradox: the International Monetary Fund (IMF) may award an 'A' for National Accounts but a 'C' for the overall statistical system. GDP methodology is just one element of the IMF's review, which also covers the whole statistical ecosystem: public finance data, external-sector reporting, monetary and banking statistics, financial-sector disclosures and the reconciliation frameworks that link them. Gaps in fiscal coverage, delays in financial reporting, inconsistencies across administrative data-sets and a weak SUT/input-output table foundation drag down the composite grade even though our National Accounts meet global norms. In other words, India's GDP gauge is well-designed but the dashboard around it needs an update.

Next year's base-year revision offers us a window to realign our statistical system with the economy it measures. Five reforms are particularly urgent:

One, create a corporate manufacturing growth index: The ministry of corporate affairs can leverage MCA-21 data-base filings to create a transparent, high-frequency index that bridges the gap between GVA and the IIP. Such an index would track manufacturing, provide markets clarity and reflect significant quarterly variations (often 10-20% across segments).

Two, use the ASUSE to track the informal sector directly: The Annual Survey of Unincorporated Sector Enterprises (ASUSE) offers a basis for direct measurement of informal-sector GVA. Integrating this data with quarterly GDP after the 2026 revision would reduce our reliance on IIP proxies

Three, institutionalize SUTs and reinstate input-output tables: Both these are non-negotiables in advanced statistical systems. They reconcile production, expenditure and income accounts, remove discrepancies and support GDP interpretability.

Four, update deflators: For more accurate estimation of real GDP growth, we should employ a broad suite of producer price indices that includes a producer price index (PPI) for goods and services, both for inputs and outputs (industry-wise where needed). The WPI alone will not suffice.

Five, invest in statistical capacity: Inter-agency platforms, modern IT systems, data engineers and other skilled statistical staff form the backbone of reliable measurement. We must strengthen it.

A modern economy needs a modern statistical system. Today, corporate performance looks strong but we have no dedicated index to track it; deflators skew interpretation; discrepancies widen because our reconciliation tools are outdated; and the informal sector is estimated through proxies never designed for that role. None of this discredits India's GDP, but it does constrain how precisely we can read the economy. India's ambitions demand sharper statistical clarity. The 2026 base-year revision is a chance to upgrade the system for the next decade. If we get it right, our data confidence will rise to match the economy's maturity.

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OUR VIEW

ISTOCKPHOTO

Nuclear recharge: Let's hedge our import bets

India's new nuclear law aligns our framework with global norms and looks set to revive a languishing source of clean energy. But don't give up on efforts to minimize import reliance

By adopting the Sustainable Harnessing of Nuclear Energy for Transforming India (Shanti) Act of 2025, which subsumes and replaces both the Atomic Energy Act of 1962 and Civil Liability for Nuclear Damage Act of 2010, India is set to align its legal framework for nuclear power generation with standard global practices. Since this move could give atomic reactors a role in our transition to clean energy, it is welcome. While there has been a buzz around small modular reactors, which use the usual fission technology, a fusion leap could end the joke about its eternal status as the 'next big thing' sooner than many think. When New Delhi signed its nuclear deal with the US in 2008, it not only secured India's release from the West's tech-denial regime imposed for testing nuclear weapons at Pokhran, it also cleared a path for us to go global shopping for nuclear fuel, reactor components and technology. We got the rights that members of the Nuclear Suppliers' Group have, plus full membership of the Missile Technology Control Regime. We joined the Wassenaar Arrangement on dual-use technologies and materials and the Australia Group on chemical weapons and precursor chemicals. Yet, the generation of nuclear power failed to take off. By exposing reactor suppliers to statutory damage liability, the 2010 law got in the way. Now that this obstacle is about to be axed—though plant operators could still get their suppliers to bear liability via contracts—and private operators will be allowed into the field, we can expect significantly better odds of nuclear plants coming up.

Critics of the Shanti Act have zeroed in on its cap of 300 million Special Drawing Rights (SDR of the IMF) on the liability of an operator in case of an accident. This is a creation of the Vienna Convention on Civil Liability for Nuclear Damage. The cap's rationale was that the sum should not exceed what insurers would cover; having it indexed to inflation would have turned it fuzzy over time and made projects harder to insure. Now that India's law is aligned with the Vienna norm, New Delhi should join this Convention. India is already part of the global Convention on Supplementary Compensation. Under it, if any signatory has a disaster that requires a payout in excess of 300 million SDR, then all members must pool in funds for the purpose. We should note that reactor design and materials technology have made safety advances since the failures at Three Mile Island, Chernobyl and Fukushima. Moreover, plant operators are subject to scrutiny and control by the Atomic Energy Regulatory Board, which has been given a statutory basis. Modern digital systems also allow the use of real-time safety dashboards. Of course, we must fortify the regulator against the risk of capture by operators; accountability to Parliament and high pay-scales would help.

While nuclear reactors and fuel could be imported (the US recently eased the way for transfers to India), we must not leave our quest for self-reliance in the lurch. India's own fast-breeder reactor project, which makes use of locally available thorium, is taking too long to move from its pilot to commercial stage. This must change. We must step up its funding as well as R&D efforts to overcome the technical challenges that remain. The early strides we took in harnessing nuclear energy should be powered up, not allowed to fall off the national agenda. Let's hedge our bets.

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THEIR VIEW

Stablecoins are not superfluous: They play a useful signalling role

These tokens reveal our fear of missing out and beliefs as digital creations join the world of finance

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are, respectively, a corporate advisor and author of 'Family and Dhanda'; and a strategic security and digital policy researcher

The Reserve Bank of India's deputy governor T. Rabi Sankar recently responded to a question at a *Mint* conference on whether stablecoins have a role in the financial system by saying they serve no purpose that fiat money cannot serve. We respectfully disagree. Stablecoins do serve a role within today's fiat-money system—not by replacing it, but by placing a wrapper of imagined stability over it.

That this wrapper is thin need not concern us for now. Demand for 'stability' allows us to picture an alternative world of finance. Fiat currencies, backed by nothing more than the word ('IOU') of a nation state, have always embodied a power asymmetry. The history of nation states and empires is littered with examples of sovereign defaults on obligations or currency debasement, often via hyperinflation. Fiat currencies, and even their gold-backed predecessors, have always been prone to bouts of instability.

The uncertainty stoked by such episodes tends to generate demand for alternatives that creates its own supply. Take the global financial crisis of 2008-09. At its core, a risk-build-up was driven by demand for stable AAA-rated securities, which was met through financially engineered debt products. Mortgages issued to 'Ninja' borrowers (with no income, jobs or assets) in the US were repackaged into collateralized debt obligations and magically labelled as low-risk instruments. Some of this demand arose from overseas investors looking to park huge sums in US assets that would secure them from the volatility of their own sovereign currencies. Ironically, their search for safety ultimately undermined safety itself.

The subsequent collapse gave rise to another financial 'innovation': cryptocurrencies. These promised freedom from sovereign control and a shift in power to asset holders. That promise, however, did not quite materialize. Private currencies backed only by algorithms exhibited wild volatility and were prone to online heists. Clearly, algo-run cryptos could be highly risky.

Again, demand was met through financial engineering. What if a cryptocurrency is backed by assets for its value to be pegged accordingly? Short-term US Treasury bills were thus bundled together to create a new asset class. It had a three-layer composite derivative structure, featuring the US dollar, Treasury bills and a cryptocurrency. Each component is volatile, yet the structure is perceived as less so than its parts, thanks to dollops of wishful thinking.

All that remained was a wrapper to package this construct, a name that would convey stability. Thus was born the moniker 'stablecoin.' There are assorted stablecoins in the US today, most of which are backed by assets to maintain a dollar peg.

So, where does our disagreement lie with Rabi Sankar's assertion that fiat currencies meet all purposes? In the existence of a purpose for which stablecoins are particularly useful.

Fiat currencies don't bear as much wishful thinking as stablecoins. And since the financial system rests on a degree of collective belief, a new asset class that attracts those ready to invest in an extra dose of fond hope serves a function. Policymakers can measure such demand and learn from it.

India's crypto policy, despite its lack of clarity on crypto legality, offers an illustration. Crypto trading gains are taxed at slab rates, yet losses cannot be offset—neither across years nor even within the same year across multiple trades where some transactions make profits and others incur losses.

The fear of missing out plays a role in crypto demand. Indian investors often like to keep up with their American counterparts in making investment allocations. Yet, this 'FOMO' overlooks what already exists. India has built a public digital money stack where trust rests on sovereign rails rather than private balance sheets: UPI has compressed settlement risk to near zero for retail payments, Aadhaar has solved the problem of identification at scale and the digital rupee aims to offer the benefits of programmable money under the aegis of sovereign credibility.

Stablecoins then perform a useful if unintended function. They reveal segments of demand willing to suspend disbelief in exchange for a private promise of stability. For regulators, this is not a threat, but a signal. They can acknowledge it only obliquely, through careful references to stakeholder views and evolving assessments. While the signalling value of stablecoins may be hard to talk about openly, it serves an informational purpose as a tracker of confidence in the fiat currency.

QUICK READ

Are stablecoins redundant in a financial system based on fiat money? The former serve at least one purpose that the latter can't. This becomes clearer if we stop viewing stablecoins as a threat.

Such tokens let regulators track segments of demand willing to suspend disbelief in exchange for a private promise of stability. This could be a proxy indicator of confidence in our fiat currency.

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MINT CURATOR

China's export boom hurts the job prospects of Asia's Gen-Z

Manufacturing jobs are vanishing as cheap Chinese goods flood in

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Labour-intensive industries that employ younger workers are the hardest hit. AFP

China's new economic model is putting the future of Asia's Gen-Z at risk. The continent is home to some of the world's most trade-oriented economies that rode globalization to lift the lives and livelihoods of hundreds of millions. But it's now being hit by a double whammy: an export base that has come under pressure from a flood of cheap goods from China, unquestionably the region's dominant power, and US President Donald Trump's trade war.

It is frustrating a generation already struggling with stagnant wages and soaring living costs. They're having to face the fact that the manufacturing jobs that powered prosperity for their parents are becoming scarce, while the white-collar ladder is increasingly crowded for graduates too.

To sustain growth as domestic demand stalls and its property sector continues to act as a drag, China has doubled down on manufacturing. Its annual trade surplus is now over $1 trillion, despite a deepening plunge in shipments to the US. Its exports are swamping neighbouring economies and stirring resentment abroad. French President Emmanuel Macron has warned that the EU may take strong measures if Beijing fails to address the imbalance.

Southeast Asia and other countries in the Global South are absorbing a disproportionate share of Chinese exports. The members of the Association of Southeast Asian Nations (Asean) are particularly vulnerable as their own low-cost markets are struggling to compete with the scale of China's output. Import curbs and other measures have done little to stop the flow.

Labour-intensive industries employing younger workers are hit hardest. Around 60 textile factories have closed in Indonesia since 2022, leading to the loss of an estimated 250,000 jobs. The Indonesia Fiber and Filament Yarn Producer Association has estimated another half-million are at risk in 2025, effectively wiping out one of four jobs in the sector in a matter of years.

Indonesia isn't the only country affected. Thailand recorded roughly 2,000 factory shutdowns last year; officials cited cheap Chinese imports as a major factor. These entry-level manufacturing jobs traditionally absorbed young people; their most reliable path into the middle class is narrowing.

It doesn't stop at low-end production. The US-China Economic and Security Review Commission warns that China's overcapacity is now reshaping markets far beyond textiles and toys—advanced industries backed by state financing and an aggressive industrial policy.

Economists David Autor and Gordon Hanson argue that China Shock 2.0 could be even more disruptive than the first, which took place between 1999 and 2007 and upended America's economy, leading in part to the loss of nearly a quarter of all US manufacturing jobs.

The political consequences of the new China shock are already emerging. In parts of Asia, younger voters are angrier and more sceptical of their leaders and economic elites, which risks intensifying pressures on governments. That anger was on display on the streets of Indonesia, Timor-Leste and the Philippines this summer, as a generation fed up with rampant corruption, nepotism and a lack of jobs led protests demanding more accountability. In Nepal, angry youth opposed to graft forced the government out of power in early September.

Beijing, aware of these problems, may not want to upset its neighbours' economic stability. The region is already reeling from Trump's tariffs—presenting an ideal opportunity for China to expand its influence. Recent official meetings made a veiled reference to uncertainty overseas, calling for "better coordination between domestic economic work and an international economic and trade battle." Party leaders have vowed to "act without delay" to develop new growth engines.

There are bright spots. Exports from Southeast Asia to the US rose about 23% year-on-year in September, with Vietnam and Thailand leading. Much of this is companies diversifying their production from China because of geopolitical tensions. But that growth still isn't necessarily creating secure jobs for young workers.

Simply blocking Chinese imports is unlikely to work—they have become crucial in the region's supply chains. More credible responses would focus on helping domestic firms find new markets and become more efficient, coordinating regional trade defences rather than acting alone, and expanding retraining and income support for displaced workers. Without policies that ensure that Gen-Z shares in the benefits of trade, economic frustration risks hardening into political volatility.

China's economic model is exporting uncertainty across Asia's labour markets. And no amount of cheap goods will make up for that.

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THEIR VIEW

India's RDI Fund: We just cannot afford to miss our R&D moment

The Centre's big push is in the right direction but outcomes will depend on how well we redesign the broader R&D ecosystem

RAJESH NAMBIAR
is president, Nasscom.

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In recent months, India's R&D capability has become a matter of national debate. Rightly so. The government's announcement of its Research, Development and Innovation (RDI) Fund signals the right intent. In many ways, this should be seen not as the culmination of India's science agenda, but as an opening to a larger redesign of how the country organizes and governs R&D.

Today, India's challenge is not lack of ambition, but the underlying architecture. Our research ecosystem still faces issues such as data gaps, slow translation cycles, regulatory friction and limited patient capital for DeepTech. Without thoughtful structural improvement, even a new fund, however large, may struggle to fully deliver the innovation outcomes India seeks. In this context, the ₹1 trillion RDI scheme, operationalized through the Anusandhan National Research Foundation (ANRF), marks a pivotal shift. It finally gives India a dual-engine innovation architecture that spans technology readiness levels (TRLs): ANRF grants for early-stage discovery and low-TRL science plus a patient-capital RDI Fund for translation, scaling and commercialization at higher TRLs.

This dual structure plus a long-standing gap in India's innovation journey: the absence of institutional mechanisms that connect scientific discovery with scalable enterprise adoption. With the ANRF derisking foundational research across mission-mode domains such as EVs, med-tech, 2-D materials and AI for science, and with the RDI Fund leveraging alternative investment funds, development finance institutions, non-bank financial companies and corporate vehicles to back RDI-intensive projects, India can build a bridge between invention and innovation. If executed well, this architecture could 'crowd in' large sums of private investment in R&D.

But the architecture is only the starting point. India may find it challenging to enter the next decade with a delivery-first mindset and lead the world's next tech transformation. Despite having one of the world's strongest pools of tech talent, our R&D intensity is just 0.7% of GDP, compared to over 2% in China and over 3% in Israel, South Korea and the US. For a country aspiring to lead in AI, semiconductor design, space-tech, biotech, new materials and sustainability engineering, this gap may get in the way of our competitiveness.

Today, scientific depth and innovation determine a nation's sovereignty, not just market scale. Geopolitical trends suggest that markets will get more fragmented, production more capital intensive and trade more conditional, even as technology strengthens as a lever of power. India may find it increasingly difficult to rely on external R&D and intellectual property at a time when AI models, compute supply chains, materials science, defence tech and bioengineering are becoming strategic national assets for negotiated advantages.

R&D strength would not only offer us sovereign capability and the ability to capture future value, but also shield us from global volatility. India's R&D agenda must be framed accordingly. A high-intensity domestic R&D ecosystem is how we secure long-term strategic autonomy, retain value within the country and future-proof our growth against external shocks. If we do not strengthen our deep-science capability at home, we risk becoming more dependent on foreign technologies in a world where tech strength increasingly determines geopolitical influence.

But the biggest barrier today is not lack of will. It is the pressure points embedded in our institutional R&D system architecture. To move from aspiration to measurable outcomes, a careful redesign of the R&D operating system could play a meaningful role.

Adopt a globally benchmarkable data architecture for R&D: Policy cannot rely on assumptions: it needs clear visibility, meaningful comparability and real-time measurement.

Create a modern science-to-market pipeline: India must accelerate pathways for technology transfer, intellectual property licensing and procurement that privilege Indian innovation.

Create regulatory environments that enable risk: DeepTech requires sectoral sandboxes beyond fintech in areas such as compute, space, materials, biotech and AI safety, with clear guardrails and speed expectations.

Crowd in patient private capital: The multiplier effect of government initiatives will only come into play once private capital co-invests in long-horizon tech projects: perhaps outcome-linked incentives could be deployed to support scale.

These foundations are essential for the RDI Fund to realize its full potential. Without them, capital on its own may not significantly strengthen India's R&D performance.

This is a pivotal moment for us. How we fare with R&D could define India's image as an innovative country for decades to come. We cannot aspire to be the world's AI factory without first becoming an R&D powerhouse.

The government's RDI push is in the right direction. It signals our intent to move from cost-led participation to invention-led value capture. But its true impact will be determined by how well we redesign the broader ecosystem around it, which includes measurement, incentives, translation, regulation and private capital. As the world order shifts in line with tech ecosystems, India must seize its R&D moment without losing time.

QUICK READ

The government's Research, Development and Innovation scheme, which incudes a fund of ₹1 trillion, moves the needle by plugging key funding gaps across various stages of the process.

India's technology challenge is to acquire sovereign capabilities that don't just generate value in the future but also act as a buffer against global volatility, and that will demand much more work.

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THEIR VIEW

India should transfer its subsidy for fertilizers directly to farmers

This reform will free up fiscal space, empower price signals and spell significant ecological gains

AMIT KAPOOR & PRADEEP PURI
are, respectively, chair and fellow, Institute for Competitiveness.

India's fertilizer subsidy has long weighed heavily on the exchequer. The revised budget allocation for it in 2024-25 stood at ₹1.83 trillion. Nitrogen-based urea absorbed over 65% of it, while phosphatic and potassic fertilizers claimed the rest under the nutrient-based subsidy (NBS) regime. The 2025-26 budget allocation is ₹1.56 trillion. This subsidy is among our largest recurring fiscal commitments and its structure matters as much as its cost.

The current fertilizer subsidy model, introduced in 2017-18, claims to be a direct benefit transfer (DBT), yet it does not reach farmers directly or entirely. The funds are transferred to fertilizer firms, not cultivators. Fertilizer makers are reimbursed only after Aadhaar-authenticated sales at point-of-sale (PoS) terminals. This model has improved traceability and curbed fertilizer diversion to some extent, but not tackled the problem of artificially low retail prices that fuel fertilizer overuse, damage soil health and leave scope for misuse.

The urgency of reform was highlighted in the 2015-16 *Economic Survey*, which revealed that up to 65% of subsidized urea never reached small and marginal farmers. Specifically, 41% was diverted for industrial use or cross-border smuggling. PoS checks introduced in 2016 did reduce diversion, as seen in declining urea sales, but the core problem persists. According to the Indian Council of Agricultural Research, the 'fertilizer response ratio' dropped from about 13.4kg of grain per kg of nutrient in the 1970s to just 3.7kg by 2005, a sharp decline in efficiency. This is largely driven by rampant overuse of cheap urea. Skewed fertilizer use does not just degrade soil, it also seeps into our food and water, harming public health. Excess nitrogen and imbalanced nutrients have been linked to thyroid disorders, diabetes and micronutrient deficiencies, turning a farm-level distortion into a national nutrition crisis.

Our fertilizer policy thus needs a structural overhaul to combine DBTs to farmers with nutrient caps. Instead of routing subsidies through companies, cash should be transferred straight into the bank accounts of farmers as season-specific, per-hectare entitlements. This would grant them purchasing power and also enable fertilizer sales at market prices, which would empower price signals, discourage overuse and curb diversion. Agri Stack data can be leveraged to calculate entitlements, while e-Rupi vouchers can be issued with nutrient limits for nitrogen (N), phosphorus (P) and potassium (K), adjustable for soil health. Like phosphorus and potassium, urea must also be brought under the NBS regime to rectify India's chronic nitrogen overuse. Robust and transparent verification mechanisms should be used to make the DBT system tamper-proof and trustworthy. Such a policy would align farm incentives with our goals of sustainability and efficiency.

The fiscal case for reform is compelling. Using the actual 2024-25 spend of ₹1.83 trillion as a baseline, shifting to a farmer-focused DBT system that cuts leakage to say, 10%, could save nearly ₹57,000 crore if urea diversion falls from 41% to 10%, and about ₹1 trillion if overall fertilizer subsidy leakage drops from 65% to 10%. Even on the 2025-26 projection of ₹1.56 trillion, the potential savings range from ₹49,000 crore to ₹86,000 crore.

The benefits would go beyond fiscal savings. While price rationalization, combined with nutrient caps, will help curb nitrogen overuse to restore soil fertility and reduce groundwater contamination as well as greenhouse gas emissions, better balanced application of NPK fertilizers could also strengthen farm yields and resilience as climate variability intensifies. Redirecting even half of the subsidy savings towards irrigation infrastructure, soil testing labs and farmer extension services could spark a transformation in productivity and sustainability. A rationalized subsidy regime would not just be a financial reform, but an ecological and agricultural reset that India urgently needs.

What about farmer resistance? It's possible farmers will turn around and say they prefer buying fertilizers at subsidized prices over cash transfers (in fear of higher upfront costs and transfer delays). The solution lies in smart design. Pre-season disbursal of e-Rupi vouchers, redeemable only for fertilizer purchases, could ease farmer concerns. Implementation should start small and scale smart. It could begin with pilot projects in diverse agro-climatic zones and then expand to states that have integrated India's Agri Stack with Soil Health Cards, before a nationwide rollout with public dashboards that track fiscal savings and soil metrics for an NPK balance.

Smarter subsidy delivery through DBTs to farmers could preserve fertilizer affordability, restore price signals, reduce diversion and fix incentives to keep farm soil healthy. Done right, it can save about ₹75,000 crore annually, which could be used to fund irrigation projects, cold chains and tech adoption.

This shift would anchor our policy in data, discipline and dignity for farmers. This is not just sound economics, it is good governance and a step towards an agricultural transformation. As the policy choices we make today will determine the future of Indian farming, we must act on this right away.

Ananya Khurana contributed to this article.

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OUR VIEW

PTI

Securities market code: Get its finer details right

The proposed law aims to unify India's legacy laws into a single code, as promised by the FM, and strengthen market regulation. But it shouldn't overlook Sebi's need to raise its own cadre

Last week, finance minister Nirmala Sitharaman introduced the Securities Markets Code Bill of 2025 in Parliament, aimed at building a new legislative scaffolding for India's securities markets. The Bill, which has been sent to the parliamentary panel on finance for comments and inputs, proposes to merge and replace three laws: the Securities and Contracts (Regulation) Act of 1956 and those related to the market regulator, Securities and Exchange Board of India (Sebi), and depositories. This was necessary to address multiple overlaps among those legacy acts of legislation. The move is a follow-up of Sitharaman's 2021-22 budget promise to consolidate various Acts into a single rationalized code. Broadly, the Bill is designed to strengthen investor protection, ease the compliance burden of sundry market operators and improve the overall governance framework for the market's regulation. The Bill proposes to achieve all this by increasing Sebi's powers, strengthening market-infra institutions (such as depositories) and also decriminalizing a host of minor, technical or procedural lapses.

At first sight, the Bill's tabling in the Lok Sabha may seem like rearguard action to bolster market confidence in the regulator and its regulatory capacity. Doubts about Sebi's oversight and investigative calibre were raised by perceptions in the wake of a US shortseller's allegations against an Indian conglomerate, an episode followed by belated revelations of a big New York-based derivatives trader having manipulated indices and indulged in coordinated trades to accrue vast but allegedly illegal market gains. However, the fact that the FM had announced her single-code intention way back in February 2021 weighs against such a conclusion. While a few aspects of the Bill appear to close gaps bared by recent episodes of market concern, its core purpose is to end the jurisdictional overlaps of outdated laws that made regulation both cumbersome and suboptimal. For example, the code is designed to bring stock exchanges, custodians, clearing corporations and depositories under a common umbrella. Further, its ombudsman proposal will not only help shield investors better, but institute a structured mechanism for dispute resolution and grievance redressal, something India has lacked so far.

While there is no denying that such an omnibus code for India's securities markets was long overdue, it is also necessary to point out that the code has some critical gaps. One such lacuna relates to the regulator's human capacity deficit. It is true that the code makes an extraordinary effort at adding heft to Sebi's governance structure; it will expand its board size from the current nine to 15 members, with an allowance for a maximum of six independent directors with specialized knowledge of markets, law, finance and the economy. The code will also grant the government the authority to oust any board member upon the discovery of a conflict of interest or impropriety. Yet, it shies away from proposing human resource structures that could deepen Sebi's institutional and regulatory capacity. As a regulator, Sebi is relatively young. Like the Reserve Bank of India, it needs to raise an independent cadre of personnel equipped with the regulatory skills needed to oversee fast-evolving markets with ever more sophisticated strategies at play. Hopefully, the parliamentary committee that's looking at the Bill will give this issue some serious thought.

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THEIR VIEW

Deepfake regulation: It needs to be smarter, not stricter

SHWETASREE MAJUMDER

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Not long ago, manipulated videos of Shah Rukh Khan were circulating online, portraying him as endorsing fraudulent investment and betting schemes. Abroad, a video of Ukraine's leader asked his country's troops to surrender before being exposed as a fake. These are not aberrations. They reveal a world where synthetic clips are cheap, fast and eerily convincing.

A 2024 McAfee Labs survey found that 75% of Indian respondents had encountered some form of a deepfake in the past year and 38% had been targeted by a deepfake-enabled scam. Understandably, policymakers want stronger safeguards. The government's proposed amendments to the Intermediary Guidelines attempt to address these dangers by creating a category of "synthetically generated information" and imposing identification and disclosure obligations. Platforms must permanently label such content through visible markings covering a tenth of the screen or the first tenth of an audio clip and also embed unique metadata into the file. Significant social media intermediaries (with over 5 million registered users) must ask users to declare whether their uploads are synthetic and verify those declarations using technical tools. If users fail to label content, platforms must do it themselves.

This is a major shift from India's existing safe harbour regime. Section 79 of the IT Act of 2000 shields intermediaries from liability for user-generated content so long as they remain neutral platforms and act promptly on grievances. Now, they would be required to inspect, classify and modify user content before letting it run. This effectively collapses the distinction between a platform and a publisher.

The difficulty is not only legal, but practical. Even advanced detection technologies struggle to reliably distinguish deepfakes from edited or enhanced content. Meta has invested in adversarially trained detection models, yet acknowledges their limitations. YouTube requires creators to disclose AI-generated content but relies on user declarations, given the inadequacies of automated detection. Google's SynthID watermarking tool embeds signatures into images and audio clips at the point of creation and offers a promising pathway for provenance, but it cannot function retroactively and does not work across all online formats.

In this context, visible labelling and mandatory verification rules would be hard to follow. Platforms unsure of the status of content may block or delay publication to avoid liability. Legitimate expression could be caught in the crossfire. For smaller platforms, compliance costs could be prohibitive.

> **There are more pragmatic and effective ways to tackle deepfakes than what India has proposed**

Other jurisdictions have taken a more calibrated approach. The EU's AI Act requires creators to disclose artificially generated or manipulated content, but not rigid watermarks or screening. It focuses on transparency without distorting content. In the US, which has stronger free speech protection, lawmakers have focused on specific harms, such as election interference or porn. Even China, despite its reputation for strict internet regulation, does not demand visible labels covering fixed portions of a screen or ask platforms to authenticate all user declarations. India's proposal is not just more stringent, it reflects a shift towards prescriptive, platform-centric control. It assumes that the way to manage deepfakes is to place the burden primarily on intermediaries, rather than spreading responsibility across creators, users and tech developers. It prioritizes content curbs over provenance checks or helping users assess credibility.

We need a better balanced approach . Provenance-checking systems being developed by the Coalition for Content Provenance and Authenticity offer ways to establish authenticity without altering what we see online. Watermarks applied at the moment of creation, rather than pre-upload platform-inserted labels, is a more reliable alternative. Detection tools, imperfect but improving, can help identify malicious content without screening everything.

Critically, public awareness must be central to any regulatory strategy. With over 800 million internet users in India, many encountering sophisticated fakes for the first time, no watermark can replace the value of an informed citizenry. Trustworthy reporting mechanisms and digital literacy campaigns should help.

Deepfakes demand a firm response, but the digital commons must not suffer. We could preserve the safe harbour provision so that platforms remain neutral and don't need to act as our content police. Criminal misuse of deepfakes—cases of fraud, impersonation, reputational attacks, etc—can be addressed through fast-track judicial remedies and coordinated action among platforms, law enforcement and financial institutions if it involves transactions. We should empower users with provenance tools and reporting devices. Such a consumer-centric approach would protect people from deepfake harms while preserving an innovation-friendly internet.

India's AI ecosystem deserves the space to develop through compliance sandboxes and supportive frameworks. Punitive burdens that only large corporations can absorb need a rethink. Deepfakes are a serious threat, but our policy response mustn't create new ones. Security can't be bought through overcorrection. Our task is to build a regulatory framework that strengthens trust, enhances transparency and retains the openness that has defined India's digital growth.

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China's carmakers had better not spark off price wars abroad

Price undercutting has hurt them at home. There's a lesson in that

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China's price war hit profitability across its auto supply chain. REUTERS

China's car market is getting saturated. With sales set to decline in the coming year, it's no surprise that homegrown automakers are looking to redouble their efforts overseas. But in order to remain welcome in their host markets, they should localize production and avoid the worst excesses of an ongoing price war at home.

Annual revenues in the world's largest car market are expected to decline for the first time since 2022, by 3% to 5%, according to Bloomberg Intelligence. When the country emerged after three years of pandemic controls, there were high hopes of economic recovery. That hasn't happened. Consumers have been reeling from the impact of a real estate crash and prolonged job insecurity, especially among the younger generation.

To boost consumption, Beijing has been running a major subsidy programme since April 2024. Similar to America's cash-for-clunkers plan, it encouraged people to trade in their old cars or scrap them altogether. More than 16 million autos, about one-third of the total sold, are believed to have been bought under this scheme.

Over the past year, several cities halted the 300 billion-yuan ($43 billion) initiative early, appearing to have run out of money. It's unclear whether it will return. Even if the offer is renewed, the subsidy per car will probably be less generous. Combined with the introduction of a new 5% tax on electric vehicles (EVs) on 1 January, it's sure to be a tough year for sales.

Carmakers have already been dealing with the fallout of a three-year price war. The consequences have reverberated throughout the supply chain and reduced the profitability of the entire ecosystem, including of parts makers. It was the right move for Beijing to step up regulatory scrutiny last week by announcing a proposal to crack down on selling vehicles below cost. However, more regulation will not be enough to fix China's underlying problem of too much supply and not enough demand.

Car manufacturers have no choice but to seek greener pastures abroad, where the same car can be sold for more than double, even as they inevitably face rising barriers to entry in key offshore markets. In October 2024, Moscow raised import fees that severely affected sales. Until then, Russia was the biggest export destination for Chinese cars, a position that has been overtaken by Mexico. Thanks to low prices, Chinese vehicles might remain a viable option there, despite the Mexican government's approval of 50% tariffs last week.

BYD, the world's largest EV maker, has been China's most aggressive exporter. In the first 11 months of the year, it sold more than 900,000 units overseas, an increase of 150% compared to the same period a year ago. At this rate, BYD will soon wrest the crown from Chery, which has held the position since 2003, and had a relatively paltry 15% gain.

Selling abroad at higher margins is BYD's best bet for regaining profit growth. It fell in the two most-recent quarters as deliveries at home declined. Beijing's crackdown on the company's practice of delaying payments to suppliers as well as aggressive discounting has weighed on BYD's earnings and market sentiment. Its share price has plummeted since touching a record high in May.

We got a sense of what's to come in October, when BYD revealed a huge increase in its long-term borrowing to 61 billion yuan from just 5.5 billion yuan a quarter before. The money is likely to be used to fund its global expansion with factories in Hungary, Indonesia and Turkey scaling up production. The company recently opened a $1 billion facility, its biggest outside China, in the Brazilian state of Bahia.

Its peers are doing the same. Chery, which already has a European production base in Spain, is reportedly considering making vehicles in Germany and additional facilities in the UK. EV maker Zhejiang Leapmotor, a startup that partners with Stellantis on exports, plans to start small by selling 50,000 vehicles abroad this year and double that figure in 2026.

Localizing production helps avoid tariffs and establish long-term relationships in markets where automakers are trying to build up their brand image. But as expansion happens, history offers a cautious lesson on steep discounts squeezing margins. It's disheartening to see a destructive pattern of price cuts happening in countries like Thailand. Authorities in Bangkok should take a page from Beijing's playbook to stop unreasonable competition.

The pressures Chinese carmakers face will bring new investment opportunities and job creation in destination countries. But regulators must be on guard against replays of bad behaviour that could ultimately crush profits.

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THEIR VIEW

Our capital formation slowdown is a hidden drag on GDP growth

India should act to reverse this slump before inadequate productive investment gets in the way of its economic ambitions

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For two years, Indian policymakers have celebrated the country's position as the world's fastest-growing major economy. However, beneath the headline numbers, a quieter concern has taken hold among economists: India is suffering from one of its most worrying slowdowns in capital formation in more than a decade. Investment no longer keeps pace with the economy's needs. Our ability to build new factories, expand infrastructure and adopt new technologies is weakening. And this has consequences not just for future growth, but also for jobs, productivity and the country's long-term development path.

A useful way to see what drives a country's productive capacity comes from Xavier Sala-i-Martin's framework. Capital grows when three things happen together: the economy saves more, its financial system converts household savings into financial savings and then into efficient lending, and the investments themselves are effective.

Think of national income as moving through a sequence of stacked stages. Income is first saved. These savings must then enter the financial system, which decides how much is actually channelled to borrowers. Borrowers, in turn, must convert this funding into real investment, such as factories, infrastructure or technology. Finally, this investment adds to productive capacity only if it is efficient and well-directed.

Capital stock grows only when income successfully passes through all these layers and the resulting productive investment is large enough to more than offset depreciation—the natural wearing out of machines, infrastructure and technology. If even one layer is weak—low savings, poor financial intermediation, misallocated credit, stalled projects or inefficient investment—the final addition to capital is sharply reduced, regardless of how strong income growth may appear. In short, capital formation is only as strong as its weakest link.

This is precisely what is going on in today's India. The first part of the link reflects the 'quality' of investments. In simple terms, it asks whether the money being spent actually creates productive assets. If a factory produces at world standards, its efficiency is high. If a highway sharply reduces travel time, its efficiency is high. But if a bridge is built where few people travel or if a company raises funds but deploys them poorly, efficiency falls. India today faces increasing concerns on this front. The recent IPO boom provides a stark example. In 2023-24 and 2024-25, India recorded more than ₹60,000 crore in fundraising from initial public offering (IPOs), the highest since the 2021 startup frenzy. Yet, several high-profile listings, from consumer tech to fintech, have been marked by weak post-listing performance, unclear profitability paths and swift price corrections. Efficiency falls when capital flows into ventures unable to convert funds into lasting economic returns. Markets raise capital, but the economy does not necessarily gain productive assets.

The second part of the story is about how much households save and what portion of those savings actually flow into the financial system. Household savings have fallen from 23% of GDP in 2011 to around 18% today, largely on account of rising consumption and financial liabilities amid a growing shift towards gold and real estate. Our gross domestic savings rate declined to 30.7% of GDP in 2023-24 from 32.2% in 2014-15. India imported nearly 800 tonnes of gold in 2024, up sharply from pandemic lows. Gold is emotionally and culturally valued but economically stagnant: it sits locked in homes and vaults, instead of flowing into businesses or factories. When savings bypass banks, mutual funds and bond markets, they cannot be transformed into productive investment. The assembly line slows down.

Even when savings do reach the financial system, not all of them actually reach productive borrowers. Banks remain India's predominant credit channel, providing more than 60% of all loans, but productive lending has been hampered by rising disbursals of personal loans and unsecured credit, with a continued preference for putting money into government securities. In other words, the financial system is increasingly channelling funds to consumption and public borrowing, rather than long-term private capital creation. The financing of private investment remains weak despite high economic growth.

The next stage, turning investment funds into actual capital, is just as worrying. India's gross fixed capital formation has fallen from 34% of GDP a little over a decade ago to about 30% today, versus China's 41%. Private corporate investment, once touted as the engine of India's growth story, remains stuck near 10% of GDP from a peak of 27% in 2007-08, with little movement even though profitability has improved. Meanwhile, with state governments facing fiscal pressure, their capital expenditure has slowed down in the last two quarters. The Centre is the only entity maintaining strong capex growth, but it cannot bear the entire burden alone.

Finally, even though GDP has been growing near 6.5%, the combination of falling savings, muted private investment, lower efficiency and rising gold imports means the economy is running on a weaker engine. Growth is being driven less by new capacity and more by consumption and productivity gains. This cannot continue indefinitely.

India's slowdown in capital formation matters because everything from future wages to the competitiveness of Indian firms is affected. Without sustained investment, businesses can't modernize, adopt new technologies or scale production. This makes it tougher for them to generate high-quality jobs or compete with global players. It also limits India's ability to take advantage of shifting supply chains, a once-in-a-generation opportunity.

The situation is not irreversible. India has strengths: a large domestic market, improving infrastructure, political stability and growing geopolitical relevance. But to sustain its growth momentum, policymakers will need to revive the full 'assembly line' of capital formation. That means rebuilding household financial savings, steering credit towards productive sectors, improving the quality of public investment and making sure that the IPO boom channels funds into businesses that actually expand the economy's productive base.

India has long sought to escape the 'middle-income trap.' A strong and efficient investment engine is the surest way out. Reversing the capital formation slowdown is not only an economic imperative, it is the foundation upon which India's long-term aspirations rest.

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MY VIEW | IT MATTERS

The 2026 AI opportunity for India's IT services sector

SIDDHARTH PAI

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In 2026, artificial intelligence (AI) won't just be something companies talk about in press releases. It will become part of how everyday work gets done. Instead of being tested in small pilot projects or used in flashy demos, AI will be built into the core of how businesses operate. People are calling this shift 'The Great Integration,' and it's already taking shape. It's not about creating new AI models, but about using the ones we already have to make real work faster, smarter and more efficient. And for Indian IT service firms, this new phase could be a huge opportunity—if they can rise to the challenge.

There are three main types of AI that will become common in workplaces. Generative AI helps create content, such as writing emails, reports or code. Predictive AI looks at data to forecast things like sales trends, inventory needs or customer behaviour. Agentic AI is a newer kind that can take a goal, like scheduling a meeting or ordering supplies, and carry out the steps to make it happen without a human guiding every move. Each of these will start showing up in the software tools that employees use every day, helping them save time, reduce errors and make better decisions.

To make all this work, businesses will need to connect these AI tools with their existing systems. That's where services come in. Setting up AI isn't just about plugging in a chatbot. It involves linking AI to a company's databases, making sure it understands business rules, keeping it secure and checking that it gives reliable results. This is complex, behind-the-scenes work—and it's exactly what Indian IT services firms have been doing for years.

These firms have long experience tailoring technology to suit the unique ways different companies operate. They've managed large, complicated tech systems for global clients across industries. Now, as those clients try to induct AI into every part of their operations, they're turning to the same IT partners for help. Whether it's automating HR processes, upgrading supply chains or adding AI to customer service tools, Indian IT firms are in the decision-making room.

But while the opportunity is real, so are the challenges. Many Indian IT firms are big and successful, but that can make it hard for them to move quickly. AI is evolving fast and clients want more than just help using new tools. They want a real transformation: new ways of working, smarter operations and better outcomes. To deliver that, IT firms need more than just technical skills. They need people who understand the client's industry and can design solutions that actually solve problems.

There's also a chance for Indian IT firms to grow beyond offering services. With AI, they could create their own products or tools that can be reused across different clients. Some have started building these platforms, but turning them into business success will take new thinking, long-term investment and the ability to market and scale like a product rather than services company.

> **Firms could use an intimate grasp of client operations to guide specific goal-oriented AI transformations**

Competition is heating up. Global consulting firms are expanding their AI offerings. Big cloud companies are adding AI features to their platforms and offering support directly to clients. Startups with small teams but strong AI expertise are building niche solutions that are winning business. Indian IT firms won't just be competing on price or scale anymore. They'll have to show that they can lead in an AI-powered world.

These firms do have strong foundations. They know how to deliver large projects across time zones and wait through 14-month request-for-proposal cycles. They have long-term client relationships and are trusted to keep systems running smoothly. While others talk about the future, Indian IT firms are used to quietly building it. They know how to take a complicated plan and turn it into working software that runs reliably.

In 2026, success will require them to go beyond just offering AI features. They must become experts in helping clients deploy AI across all operations. That means learning more about each industry, building reusable tools and partnering with startups or research labs. It would also mean hiring and training the right kind of talent.

It won't be easy. Indian IT firms are good at structured, well-defined work. But AI projects often start with uncertainty. The answers aren't always clear and the path to success might involve testing, failing and adjusting quickly. That's a big cultural shift. These firms will need to experiment more, take smart risks and focus on results instead of just effort. They'll also have to be honest with themselves. Just renaming an automation team as an 'AI Centre of Excellence' won't fool anyone. Clients want capability, not rebranding. They're looking for partners who can think creatively, act quickly and take ownership of outcomes.

Still, if any group is equipped to take on the Great Integration, it's probably the people who once managed to upgrade a 30-year-old billing system written in Cobol without crashing the company's entire network. They may not always be flashy, but they're dependable, skilled and now at the starting line of one of the biggest technology shifts we have seen lately.

In 2026, AI will stop being something extra and become essential. The companies that know how to weave it into the way businesses really work—the messy, complex and often illogical systems that run the world—will be the ones that come out ahead. Indian IT service firms have a shot at leading that change if they're willing to evolve, invest and step out of their comfort zones.

THEIR VIEW

A post-neoliberal consensus seems to have crystallized

DANI RODRIK

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The post-neoliberal consensus is here, but don't look for it in US President Donald Trump's policies. After a decade of backlash, it is time to accept not only that neoliberalism is dead, but also that a new consensus is taking its place. Remarkably, significant segments of the left and the right in America have come to agree on the broad outlines of economic policy. Discussions in universities and think-tanks are driven today by a common understanding that departs significantly from the neoliberal orthodoxy of the last 50 years.

The first element of the new consensus is a recognition that the concentration of economic power has become excessive. The concern is expressed in different forms by different groups. Some complain directly about inequality in income and wealth and its corrosive effects on politics. Others worry about market power and the adverse implications for competition. For yet others, the key problem is financialization and the distortion of economic and social priorities that it produces. The remedies on offer also vary, from wealth taxes to vigorous antitrust enforcement to campaign-finance reform. But the desire to curb the economic and political power of corporate, tech and financial elites is widespread, uniting progressive supporters of US Senator Bernie Sanders with populists like the podcast host and former Trump advisor Steve Bannon.

The second element of the new consensus is the importance of restoring dignity to people and regions that neoliberalism left behind. Good jobs are essential to this agenda. Jobs are not just a means of providing income. They are also a source of identity and social recognition. Good jobs are what underpin a robust middle class, which is the foundation of social cohesion and a sustainable democracy.

Dislocation is inevitable in a world of economic change. Until the 1990s, plenty of safeguards—job protections, trade restrictions, price controls and regulations that kept finance in check—limited the impact on workers and communities. For neoliberals, these safeguards were inefficiencies that had to be removed. They overlooked the economic and social distress that job losses arising from technological change, globalization or economic liberalization would produce.

The third component of the emerging consensus is that government has an active role to play in shaping the economic transformation that is needed. Markets on their own cannot be trusted to produce economic resilience, national security, innovation for advanced technologies, clean energy or good jobs in distressed regions. Government must prod, twist arms and subsidize. Industrial policy has moved from the disreputable fringe of economic discussion to its very centre.

Taken together, these three tenets provide a new understanding of the goals and instruments of economic policy that is both novel and, on the whole, laudable. But the devil is always in the details. Actual outcomes will be determined by specific policies that are chosen and implemented.

> **Fight economic concentration, generate good jobs and give the state a role in transforming the economy**

Consider the good-jobs objective. Here the left and the right seem to have reached a consensus on the desirability of reshoring and reinvigorating manufacturing. Historically, the industrial labour force played a pivotal role in producing equitable, middle-class societies. But automation and other technological forces have turned manufacturing into a labour-shedding sector. Even China has been losing manufacturing employment by the millions in recent years. So, even if manufacturing investment and output is revived in the US and Europe, the impact on employment is likely to be minuscule.

Whether we like it or not, the future of employment lies in services—care, retail, hospitality, logistics, the gig economy and so on. Any approach to good jobs that does not focus on organizational and technological innovations in these services will necessarily disappoint.

There are of course other important reasons for supporting manufacturing. Advanced manufacturing, along with the digital economy, plays an outsize role in innovation and national security. It makes sense to deploy industrial policies that focus on these economic activities, in addition to policies that focus on labour-absorbing services. But here, too, the 'how' matters as much as the 'what.'

Caveats apply to industrial policies as well. These can go badly wrong when they foster corruption or serve narrow corporate interests. Unfortunately, Trump's approach provides little comfort on this score. The US president's trade policies and dealings with tech companies have been erratic, transactional and devoid of a coherent long-term strategy that would serve the public interest.

The post-neoliberal tenets of economic policy provide us with a broad checklist for evaluating actual agendas—and Trump's fails miserably. It pays lip service to good jobs and industrial policy in the service of economic transformation, while fostering greater concentration of wealth and power. A model of crony state capitalism that tries to resuscitate a long-dead industrial economy is hardly an antidote to neoliberalism.

The best that can be said of Trump's approach to the economy is that it is an experimental phase in the post-neoliberal transition. The good news is that future policymakers will not have to look far for new guiding principles. The new consensus is already here.

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Mexico's tariffs signal that it is prepared to build Trump's wall

Trump wanted to wall off America and Mexico seems ready to help

MIHIR SHARMA
is a Bloomberg Opinion columnist.

Sheinbaum's barriers are widely seen as a concession to Trump's agenda. REUTERS

When the Mexican Senate voted last week to approve a 50% tariff rate on a swathe of countries—China, India, Brazil, South Korea, Vietnam, and Taiwan among them—politicians from President Claudia Sheinbaum's ruling Morena party pretended they did it for their own reasons. Nobody in Asia believes this is a bold declaration of economic independence, however. It's seen instead as opening a new and unexpected front in Donald Trump's trade war on the world.

The vote waived the senators' usual right to discuss amendments in committees and it passed 76-5: the opposition abstained. Officials grandly delivered the usual lines that accompany measures cutting off trade: That they would protect local industry, that revenue would increase by almost $3 billion, that there would be more money to spend on supporting the unemployed.

But the real reason is that Sheinbaum is spooked by the deadline, six months away now, for reviewing the US-Mexico-Canada Agreement (USMCA). The speed with which she pushed the legislation through and its timing are no coincidence: Trump said earlier this month that he might let NAFTA's successor expire or "maybe work out another deal" that ensured the US wasn't "taken advantage of." Nobody wants that can of worms reopened.

About 80% of Mexico's exports cross its northern border and more than 80% of those are tariff-free under the USMCA. The country depends upon US markets for 30% or so of its output. Mexican politicians are clearly scared enough that even acts of economic self-harm, like 50% tariffs, seem worth trying.

For the countries affected by the new rates out of Mexico City, this is a sobering reminder that they have more than just the US president to deal with. Trade is a complicated, disaggregated affair, which is why we have multilateral arrangements like the World Trade Organization. For much of 2025, we could pretend that wasn't the case, with everyone scrambling to conclude their own bilateral deal with the US. But Sheinbaum shows that the trade conflicts Trump has launched are a cascading war, not some controlled confrontation.

Some will be hit particularly hard. One of the few industries in India that has carved out a successful export niche for itself is auto components. New tariffs may render them uncompetitive inputs for the giant factories along the US border serving America's insatiable appetite for cars.

But a significant proportion of Indian exports to Mexico aren't about the US at all. It is consistently among the top three or four destinations in the world for small, fuel-efficient cars, for example. These aren't meant for Americans, but they've been hit with tariffs anyway. Sheinbaum is paying Trump protection money, but she's taking it from the pockets of Indian producers.

And from her own citizens, of course. Opposition lawmakers pointed out that official modellers had given up on trying to estimate the effects of such a drastic change to Mexican trade policy. Citgroup's economists think that this will keep domestic inflation above 4% next year. All the other downstream (and predictable) effects of tariffs will apply: loss of competitive advantage, factories that face supply crunches, retaliation in fields where you don't expect it.

And what happens if Trump decides that he doesn't care about such expensive professions of loyalty and shuts down the USMCA anyway? Mexico City will have to rebuild trade relations with the rest of the world from scratch, but capitals from Brasília to Beijing may not be particularly warmly disposed at that point.

Many Asian countries had hoped the America-first trade policy—even if disruptive—might end up forging a united front against Chinese dominance of manufacturing. Sheinbaum's surrender shows us a different path. In this alternative world, some countries will quietly enact the US president's policies for him. The others will, perhaps with China in the lead, find a multilateral path to isolate collaborators.

Countries across Asia and beyond now know that it isn't just their relationship with the US that is threatened, but with multiple other nations as Trump tries to push everyone into his dreamworld of high tariffs. He has already asked the European Union, for example, to impose 100% tariffs on China and India. It is unlikely to agree. Some countries will raise high and unpredictable trade barriers against each other and the world, while the rest will seek security and prosperity by integrating faster and further. Sheinbaum may have picked the wrong side.

In his first term, Trump had promised to have Mexico pay for his wall. Now, in his second term, he has succeeded. So what if this new wall is one made of tariffs and not bricks?

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THEIR VIEW

Cooperatives can redefine their future by embracing technology

India's collective enterprises could serve as a grassroots growth engine for the economy by effecting digital transformations

S. MAHENDRA DEV & K. K. TRIPATHY
are, respectively, chairman and joint secretary, Economic Advisory Council to the Prime Minister.

ISTOCKPHOTO

India has about 850,000 cooperatives with over 290 million members relying on these collective enterprises for their livelihood. Cooperatives are pillars of India's grassroots economy. Yet, in a rapidly evolving world, many struggle to stay relevant due to resource constraints, operational inefficiencies and limited technology adoption. The Prime Minister's clarion call for '*Sahkar se Samriddhi*'—prosperity through cooperation—can become a reality only when cooperatives embrace Industry 4.0 tools that promise efficiency, transparency and sustainable growth. By aligning with the fourth Industrial Revolution, cooperatives are poised to reclaim their role as crucial contributors to inclusive economic growth.

Emerging technologies are reshaping the global marketplace. Indian cooperatives can no longer afford to lag behind. They must embrace Industry 4.0 technologies and adopt innovative business models. The task ahead is clear: they must adopt Internet-of-Things (IoT), big data and smart systems to ensure efficiency, competitiveness and sustainability. This will turn them into engines of inclusive growth as we aim for Viksit Bharat—a developed India—by 2047.

Agricultural cooperatives can use modern farm techniques to optimize production, harvest processes, storage, transportation and distribution. Cooperative culture promotes the development of supply chains that reach far and wide across a diverse ecosystem, with farmer members, staff, vendors, associates, consumers, *et al*, united by the common purpose of serving everyone's interests. With the help of trained human resources, this spirit could unite all involved in modernization efforts to remain relevant in today's highly competitive business environment.

The Industry 4.0 imperative: Cooperatives must close their technology adoption gaps. Since at least 2008, digital systems have been driving transitions across production systems, with data analytics and widespread networks linking people and processes to enhance productivity. Cooperatives need to harness the same benefits. Timely data sharing would optimize coordination across the value chain from sourcing and production management to quality control and distribution. While our multinational cooperatives in the dairy and fertilizer sectors, Amul and Iffco, have gone far ahead in adopting modern technology, the need of the hour to encourage and enable 177,000 credit and 677,000 non-credit cooperatives to do likewise.

Globally, cooperatives are embracing technology and innovation to improve their efficiency, transparency, productivity and profitability. Smart-farming cooperatives of the EU have adopted precision tools such as sensors, connected devices and data platforms to enhance yields and reduce waste. Sweden has witnessed the rise of a robust housing cooperative movement that delivers affordable and eco-friendly urban housing. Indonesia has redesigned its farm cooperatives to improve member service efficiency through better governance and market integration.

The tech application challenge: We already have success models for cooperatives to learn and adapt lessons from. Amul, which stands out as a global cooperative dairy brand, has adopted analytical tools and IoT solutions to automate various key functions, ranging from milk production and processing to cold-chain management, logistics and distribution.

Consumer-facing cooperatives can leverage big data and cloud platforms to gain deeper insights into customer preferences. The integration of IoT and cloud-based analytics is vital for consumer cooperatives to manage large-scale self-service system technology and point-of-sale networks. The usage of virtual reality tools is also gaining prominence as a way to enhance product demonstrations, communication, content delivery and consumer engagement.

Agrarian cooperatives in general and sugar cooperatives in particular could benefit from cloud and IoT technologies that support storing, processing and analyzing large volumes of data. On the ground, radio frequency identification and drones coordinated by artificial intelligence (AI) are emerging as key enablers of precision farming, value addition and efficient resource management. Machine learning and AI applications can support decision making for improved productivity.

Credit cooperatives are witnessing a digital shift as India's credit sector comes to increasingly rely on technology solutions. Big data analytics, AI and blockchain-based systems are being encouraged to strengthen creditworthiness assessments, credit management and customer relationships.

In industrial cooperatives, AI and IoT, coupled with robotic automation, are considered critical to boost productivity and profitability. New technologies also have a role in ensuring regulatory compliance and elevating customer satisfaction.

Fishery cooperatives could use analytical tools, GPS, cloud computing, machine learning and remote sensing to improve outcomes and enhance income opportunities.

Service cooperatives may find significant value in deploying cyber-physical systems, cloud computing platforms, IoT and AI to achieve greater operational efficiency through cost optimization and streamlined business processes.

Globally, cooperatives are reinventing themselves through modern technology, effective governance and active member engagement. Indian cooperatives must not only keep up, but aim to go further. To go digital effectively, they should set simple goals and follow step-by-step and flexible strategies. Industry 4.0 tools can drive efficiency and sustainability, while simple goals and flexible strategies would help cooperatives make a step-wise transition to a digital future. By embracing change, our cooperatives can register profit with purpose and help power India's journey towards Viksit Bharat.

These are the authors' personal views.

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THEIR VIEW

The Shanti Act opens a nuclear pathway: Let's proceed with care

It can make nuclear energy integral to India's climate plans if we get the executional aspects right

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The Sustainable Harnessing and Advancement of Nuclear Technology for India (Shanti) Act of 2025 is a watershed moment in making nuclear power part of our decarbonization strategy. It paves the way to achieve a target of 100GW of nuclear energy capacity by 2047 by removing hurdles that constrained investment and kept the sector technologically insular. How much the move helps will depend on how well the Act is implemented, from framing and enforcing effective rules through capable and empowered institutions to the balance achieved between the sector's growth and concerns of safety and environmental protection.

The Act heralds three transformative shifts. *First*, it opens the door for private sector participation in nuclear power generation, equipment manufacturing and fuel-cycle services. *Second*, it attempts to rationalize India's nuclear liability regime that deterred foreign suppliers and investors. *Third*, it makes space for advanced nuclear technologies, such as modular reactors (SMRs) and next-generation reactors.

So far, nuclear power has been the preserve of public sector entities like Nuclear Power Corporation of India Ltd (NPCIL). Rooted in national security considerations, this policy constrained India's access to capital and innovation. Now private players would be able to forge partnerships, form joint ventures and play manufacturing roles, while the state retains control over sensitive aspects of the fuel cycle. This calibrated liberalization acknowledges that public finance alone cannot support the scale of nuclear capacity required for a low-carbon economy. From a private investor's perspective, this legislative change is welcome but not sufficient. Nuclear projects are capital-intensive with long gestation periods. Their viability depends on predictable tariffs, long-term power purchase agreements and the assurance of contract enforcement. Subordinate legislation on pricing mechanisms, offtake guarantees and dispute resolution would help attract private investment. An important concern would be how robust the tariff determination mechanism is.

A politically sensitive aim was to undo the disproportionate and open-ended deterrence introduced by the Civil Liability for Nuclear Damage Act of 2010, which allowed plant operators to sue suppliers over mishaps. The new law seeks to rationalize supplier exposure with the objective of aligning India's liability regime more closely with global practices while preserving safeguards and the rights of victims. This is a delicate balancing act, as perceptions of diluted accountability could provoke public resistance. The government needs to communicate clearly how the revised framework would hold operators accountable and how it is designed to protect citizens and ensure prompt compensation through insurance pools and other mechanisms.

The Act recognizes technologies like SMRs, which promise lower upfront costs, enhanced safety features and flexible deployment. Prospects of SMR deployment near load centres (like industrial clusters) open up exciting possibilities for integrating nuclear power with our industrial decarbonization agenda. Indigenous technology efforts must be kept up too.

SMR optimism must be tempered by the fact that these reactors are still new. Regulatory capacity, supply chains and human resource skills will need strengthening for SMR deployment. Our nuclear regulatory framework was designed for large reactors operated by a single public entity. A future involving multiple reactor designs and private operators will require us to not just empower the Atomic Energy Regulatory Board (AERB), but ensure its autonomy. It must have the resources it needs to oversee a far more complex and diversified nuclear ecosystem. Without strengthening the AERB, the whole mission to multiply our nuclear generation capacity could come apart.

From a climate policy perspective, nuclear energy offers low-carbon power that can complement intermittent renewables and strengthen grid stability. The Act takes India's net-zero goal into view, but nuclear energy would benefit from clearer integration with broader power sector reforms. For nuclear reactors to be treated as climate infrastructure, they must fit clearly into climate finance frameworks, so that projects can compete for patient capital and green funding.

Finally, we cannot overlook the social dimension of nuclear energy. Many projects in India have faced resistance on account of perceived opacity. International experience suggests that early community engagement, safety disclosures and benefit sharing are essential for popular acceptance. These principles should inform regulation. Perhaps an office of public advocacy could disseminate information, address apprehensions and take up credible concerns with policymakers and regulators. This would go a long way in enlisting public support for nuclear projects.

The Act's success in making nuclear power integral to India's clean-energy transition will depend on investment and innovation. But execution—regulatory certainty, contractual clarity and institutional capacity—will be key. It can prove transformative if what's on paper unfolds well on the ground.

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OUR VIEW

AP

India can't expect to go into nuclear overdrive

Conditions have been created for a ramp-up of nuclear energy. While it can help clean up the country's electricity grid, government policy will need to go by a complex cost calculus

With the passage of a law that not only opens the door for private participation in India's nuclear power industry but also promotes it, the government hopes to meet its target of 100GW in generation capacity by 2047. Currently, it accounts for a mere 2% of our grid capacity, and given India's demand projection for 2047 and the electricity required to meet it, that goal implies a share of 5% by then. Today's tiny share is explainable. Nuclear plants have a notoriously long gestation period before they can supply power. They often face resistance on the basis of safety concerns, with accidents such as Chernobyl and Fukushima embedded in public memory. And India's indigenous technology has made little progress, with the second of our three-stage programme yet to fructify before it can transition to the use of thorium, which is easier to find in the country than the right kind of uranium.

Interest in nuclear power has seen a global revival for the role it could play in climate action. Plants that house nuclear reactors produce carbon-free electricity around the clock, unlike solar and wind projects that are subject to the vagaries of weather. A reactor design rethink spurred by the power-guzzling needs of AI—aided by investments from Big Tech firms to meet their climate goals—has resulted in the development of small modular reactors (SMRs), which claim to overcome the legacy drawbacks of nuclear plants. Big reactors, despite their limitations, are also back in vogue for the same reason. Even though India's 2047 target represents a modest share of total power capacity, the volume of electricity would be significant; our per capita consumption is currently half the world average and we aspire to be a developed nation by then. This larger goal demands that electricity tariffs remain low enough for our industry to compete globally. This requires us to get the power sector's cost calculus right. While nuclear energy offers large volumes of reliable green supply, given the pace at which battery storage costs are dropping, solar panels and wind turbines backed by batteries are likely to be more cost competitive. Fiscal incentives could help nuclear power get more competitive, provided we also develop the 'muscle memory' of project rollouts that can compress both construction costs and timelines as we go along to enable lower tariffs. Solar tariffs, for example, have fallen sharply over the last decade-and-a-half, thanks to the large-scale production of key parts in China. Unlike wind and power, reactors use nuclear fuel and thus have variable costs beyond the money invested in setting up plants, but they take up significantly less land that could otherwise be used for food cultivation. On the other hand, the safe storage of spent fuel can be costly too. All these factors will have to be taken into account.

Broadly, the government needs to undertake resource-adequacy mapping across sectors for the deployment of an optimal energy policy. Trade-offs must be borne in mind. For example, our green ambitions should not be at the expense of the economy. We need to count on efficiency gains, carbon markets and climate finance from the rich world. The Centre must also develop the institutional capacity needed to oversee and manage the growth of nuclear energy. Globally, SMRs have over 80 designs, but just about four plants have been set up so far, and that too, only recently. All considered, we can't expect to go into nuclear overdrive.

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MY VIEW | STATISTICALLY SPEAKING

India's 2026 GDP data revision is about methods, not growth rates

Discussion papers published by the statistics ministry should cue debates on what India can reasonably expect to measure

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Following the release of two discussion papers by India's ministry of statistics outlining proposed methodological changes for the upcoming base-year revision of national accounts, there has been a renewed focus on our methodology for the GDP revision. The new base year will be 2022-23 and the revised series is scheduled for release in early 2026. They lay out, in great detail, what has changed in data availability and show improvements in methodology.

It is precisely for these reasons that they deserve attention. They do not settle our perennial and politicized debates about India's 'true' growth rates. Instead, they represent a significant step in how the statistical system explains itself to users, while also giving us the tools to understand what constraints remain.

On the positive side, these revisions build on previous efforts and incorporate newer data available since the 2011 series to move away from blunt proxies and static ratios. On the production side, the expanded use of corporate filings (via MGT 7/7A forms filed with the ministry of corporate affairs), enables a more efficient allocation of value added across activities, rather than assigning multi-activity firms wholesale to a single dominant sector. The use of India's Annual Survey of Unincorporated Sector Enterprises (ASUSE) and Periodic Labour Force Survey (PLFS) makes household sector estimates more dynamic than the practice of using proxies for growth on base-year estimates. In the past, such simplifications were unavoidable; today, richer administrative and survey data permit more granular treatment. These changes will not lead to higher or lower growth, but will improve consistency.

The treatment of the government sector also illustrates the kind of desirable conceptual housekeeping the system needs. Long-standing approximations—such as pension outgo used as a proxy for current compensation—are being refined to reflect the evolving mix of old and new pension schemes. Similarly, the imputation of housing provided to government employees brings the Indian practice closer to international standards. These changes affect output composition and levels in different directions, but are rooted in accounting logic and should have no bearing on macro narratives.

We see similar changes on the expenditure side, where private consumption estimates are being revised using a broader mix of household surveys, administrative data-sets and commodity-flow methods. The shift towards updated consumption classifications improves comparability. At the same time, reduced reliance on commodity flows addresses criticisms that consumption estimates were insufficiently grounded in observed household behaviour. Here again, the outcome will not necessarily flatter any particular story about demand, but it should better reflect the structure of consumption in a changing economy.

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A recurring theme in public debates on GDP concerns deflators and 'real' growth. Earlier controversies often conflated the choice of price indices with questions of intent. The discussion papers, by contrast, move the system towards a better practice wherever the data permits it—most notably through the use of double deflation in manufacturing, where both output and input prices are available. At the same time, they acknowledge that such methods cannot be applied universally, especially in services, where appropriate price indices remain scarce. This is not an Indian peculiarity; many developing countries face similar limitations. The critical point is that data constrains methodological choices and does not reflect a desire to engineer outcomes.

The discussion papers also help us assess what we cannot yet do and what the next round of reforms must focus on as we prepare for eventual alignment with the United Nations System of National Accounts (SNA) 2025 standard. A significant limitation is our inability to systematically exploit GST data for national accounts. Despite the GST's richness and near-universal coverage, India still lacks a stable institutional and analytical framework to clean, link and interpret filings for national and regional accounts. Using GST filings would improve sectoral allocations even more than the proposed use of MGT7/7A. Over time, building such a framework could materially enhance the quality and timeliness of quarterly GDP estimates. Converting experimental service price indices to regular official statistics would also reduce concerns about inappropriate deflators.

A second frontier lies on the expenditure side: moving towards an annualized Household Consumption Expenditure Survey. This would significantly strengthen private consumption estimates, reduce reliance on indirect commodity-flow methods and improve coherence across production, expenditure and distributional statistics—what future SNA 2025-aligned revisions will demand.

Seen in this light, the most encouraging aspect of the exercise is not any single technical tweak, but the ministry's decision to place the methodology squarely in the public domain before implementation. By publishing discussion papers and inviting feedback, the ministry signals a willingness to engage with users, acknowledge trade-offs and document assumptions. This matters more than the precise numerical outcomes of the revision.

India's GDP numbers will continue to be debated, as is inevitable in a large, diverse economy where statistics carry political and economic weight. But the quality of that debate should focus on institutions, data pipelines and methods, rather than treating every revision as a political outcome or a failure to deliver magical solutions. The discussion papers mark a step forward, not because they don't provide unattainable 'final' answers, but because they move us towards a more informed and grounded conversation about what our national accounts can reasonably be expected to measure today as institutions evolve to support the next generation of statistics.

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MY VIEW | EX MACHINA

AI training is not copyright theft but AI output may be

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In Ex Machina last week ('AI use of original work: A reverse Robin Hood proposal'), I argued that the working paper issued by the Department for Promotion of Industry and Internal Trade (DPIIT) on copyright and artificial intelligence (AI) falls short of its objective because the mandatory blanket licensing regime it proposes transfers wealth away from the very creators it was supposed to protect. But as bad as this suggestion is, it is not the most egregious conceptual shortcoming of the report. Far more disconcerting are the assumptions it makes about how AI systems are trained and its suggestion that this process infringes the Copyright Act of 1957.

The verb 'copy' lies at the heart of many operational activities around which the Copyright law has been designed. A 'copy' has always referred to a reproduction of a work clearly identifiable as having been substantially derived from the original. However, it has never treated the act of learning from a work as equivalent to reproducing it.

In the early days, copies referred to physical reproductions made by a printing press or other mechanical devices designed for this purpose. Since then, it has been extended to the many digital duplicates we encounter today—most of which will never physically exist. It is this concept that is now being extended to AI training.

To qualify as a copyright infringement, it must be established that the process of training an AI model results in the creation and storage of reproductions of copyrighted works in a form that is intelligible, expressive and capable of substitution. This, however, is not how models are trained.

When an AI model trains on a given corpus of text, it converts that training data into vectors—strings of numbers that form coordinates in a high-dimensional space. This allows the concepts contained in the text to be represented as distinct points in a multi-dimensional matrix so that the relationships between them can be mathematically encoded in terms of the distance and direction separating them. As a result, training strips away the original expression of an author's prose—the rhythm of sentences, choice of specific words and the ordering of paragraphs—to reveal the abstract concepts that the AI model requires (in much the same way a human learns from a text when reading it). It then uses this to reduce the uncertainty of its own next-token prediction capabilities, thereby improving its ability to respond to prompts.

While that may not have been its express intention, this training process embodies a workflow that falls outside the scope of what copyright law seeks to protect. Indian courts have consistently held that there can be no copyright of an idea; only of a form, manner, arrangement or expression of it.

> **Learning from material in itself is not theft of intellectual property but reproducing it could well be**

As we have seen, the training process strips out those elements of the work that are entitled to copyright protection, and, as a result, there is no question of copyright violation during training. No 'copies' are stored—not of a book's plot, nor snippets of its text, let alone the book as a whole. Any copies that may have been generated are transient, unintelligible and non-expressive. All the model retains are the ideas and concepts expressed through the work, which is precisely what Indian courts have held that copyright protection does not extend to.

To be clear, the DPIIT paper was motivated by legitimate concerns about the impact of AI on creative industries. The many authors, artists and journalists whose works are being used to train AI models worry that these AI systems will be able to produce content that rivals their own, often in a fraction of the time it takes them to generate similar outputs. This, in turn, makes them fear for their livelihoods and their continued ability to eke out an existence in a future where AI democratizes creativity to such an extent that the skills they have accumulated over a lifetime become replaceable.

As much as these concerns merit serious consideration, if we are looking to apply copyright law in order to find a solution, our scope of operation will be limited to what that law is capable of protecting. That being the case, the DPIIT's approach—alleging copyright violation during the training process—is unlikely to succeed, as it rests on a poor understanding of how AI models are trained.

What would be far more effective is focusing on the other end of the workflow—on the outputs that these models generate. If it can be shown that an AI system, in response to a prompt, has reproduced a substantial portion of a copyrighted work, that would be clear evidence of copyright infringement, since the output would constitute a substantial copy of an author's work. Since no permission was taken to generate such an output, the response could constitute a violation of copyright law and entitle the author to appropriate legal remedies. These remedies should be available under the existing copyright law, but to the extent that the DPIIT feels that this is not abundantly clear, it could suggest amendments that more effectively protect the rights of authors under these circumstances.

What the DPIIT should refrain from doing, at all cost, is extend the scope of copyright to the AI training cycle. After all, should the department do so, it will become hard to explain why the same logic should not apply to human learning as well—an outcome copyright law has always been careful to avoid.

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THEIR VIEW

Our fashion boom is a climate time bomb to be defused

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India's fashion and apparel industry is projected at $350 billion by 2030, as it is growing at over 10% annually, faster than almost any other manufacturing sector. This momentum looks unstoppable, but it is also becoming a climate liability that could get in the way of our decarbonization goals.

The arithmetic is unforgiving. Globally, fashion accounts for 10% of annual carbon emissions, more than all international flights and maritime shipping combined. Every year, the world produces 92 million tonnes of textile waste, with less than 1% recycled into new garments. India is expanding production capacity even as evidence emerges that making clothes more efficiently cannot offset making vastly more of them.

The prevailing narrative in India treats sustainability as an accessory. Deploy some solar panels, use some recycled polyester, promote a few ethical brands, and the problem fixes itself. That story is not just incomplete, it is misleading. Efficiency improvements reduce emissions per garment, but when total garment production accelerates sharply, overall emissions still rise.

Research tracking the environmental footprint of fashion consistently finds that volume growth swallows efficiency gains. India's domestic clothing consumption is growing at roughly 10-12% annually, far outpacing mature markets. Fast fashion formats are penetrating our smaller cities speedily, driven by affordability and novelty rather than apparel durability or scope for reuse.

We still have a narrow window to avoid the mistakes that rich markets made and are now struggling to reverse. But we must confront three realities that few talk about.

The first is coal. A large share of emissions in Indian textile-making comes from coal-fired boilers used for dyeing and finishing fabrics. Moving to electric boilers and heat pumps is both technically feasible and economically viable with proper financial structures, as research by the Apparel Impact Institute shows. Yet coal persists because it is cheap, familiar and weakly regulated in dispersed manufacturing zones.

Without a clear time-bound phase-down backed by concessional finance and tariff reforms that make electrification affordable for small manufacturers, this source of carbon emissions will likely remain locked in for decades. Cleaner options exist, but they will not be adopted at scale through voluntary commitments.

The second reality is overproduction. Fast fashion's business model is built on making far more than what consumers need, then clearing excess inventory through deep discounts. This is not a side effect of growth, but the organizing logic. As long as overproduction remains untouched, energy savings and material innovations will never be sufficient.

India needs to move beyond voluntary sustainability reporting and require large brands and e-commerce platforms to disclose and reduce unsold inventory, returns and sell-through rates. Treating overproduction as a regulated climate risk, not merely a retail inconvenience, would force alignment between production and genuine demand rather than speculative supply and endless churn.

India should act to decarbonize it now or risk facing a harder reckoning once emissions get fully baked in

The third reality is that India's fashion industry cannot decarbonize one factory at a time. The sector employs over 45 million people and is dominated by small and medium enterprises clustered in various hubs. Roughly 80% of the industry operates in these clusters. A firm-by-firm regulatory approach will fracture compliance.

Decarbonization must be organized around clusters with shared infrastructure for renewable energy, common waste and water treatment and pooled financing. Critically, this must include explicit job protection and reskilling programmes. Without such safeguards, the transition will provoke political resistance and may stall before we can make meaningful progress.

Some argue that market forces and rising consumer awareness will steer the industry toward sustainability, making regulation unnecessary. That view misreads fashion market behaviour. In smaller cities, where demand growth is highest, purchase decisions are driven by the appeal of prices and trends. Green awareness is concentrated among affluent urban consumers who represent a small fraction of today's market's expansion. Others claim that global buyers demanding cleaner supply chains will drive change. But export pressure is partial and inconsistent. Export-led decarbonization also risks creating a two-speed industry: clean for foreign markets, dirty for domestic consumption. That bifurcation will keep national emission reductions slow by leaving the bulk of the industry unchanged.

India's fashion story need not become a climate disaster because the country still has an advantage that Europe and North America lost decades ago. Our apparel market and industrial base are still being built and consumer habits are not yet fully entrenched. Industrial clusters are not locked into high-carbon infrastructure. We could embed climate discipline into this phase of growth rather than trying to retrofit it later at vastly higher cost and against fiercer resistance.

The choice we face is stark. India can shape the industry now, while options remain open, or wait to encounter a much harder reckoning once emissions get locked in, competitive pressures intensify and political room for manoeuvre shrinks. The fashion boom is an economic opportunity, but only if hard choices are made before momentum calcifies into inertia.

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OUR VIEW

Let risk exposure decide deposit insurance rates

A shift to risk-based insurance of bank deposits from a flat-rate framework would not only be logical, it could also help lift today's veil of secrecy around the financial health of banks

It is heartening that the Reserve Bank of India (RBI) has decided to adopt a risk-based framework for deposit insurance to replace a one-size-fits-all one which does not distinguish between banks on the basis of their individual risk profiles. This decision was taken on Friday and it follows RBI's monetary policy statement of October 2025, in which the central bank had proposed a model that abandons a flat premium rate in favour of payments that vary by risk—in this case, of a regular bank failing to meet its obligations to depositors. With this shift slated to come into effect from 2026-27, financially sound banks can expect to save on the price they pay. In general, it should incentivize banks to manage their risks better, thereby improving the overall soundness of India's banking industry.

Currently, Deposit Insurance and Credit Guarantee Corporation (DICGC) charges all banks a flat premium of 12 paise for every ₹100 of assessable deposits. This framework, in vogue since 1962, goes against the basic principle of insurance that says the premium—or price for the service—must be related to the degree of risk; higher premium rates for life coverage in war zones, for instance. In the context of banks, the best way to keep deposits secure is by means of a banking system that has no bank failures. But that is a utopian ideal. Like fiat money without an issuer, it does not exist. Modern banking is based on a fractional reserve system, under which banks retain a fraction of their deposits and lend the rest. But bank deposits are repayable on demand, while the loans they extend are not. In the real world, thus, occasional bank failures are unavoidable. Yet, for the system's survival, depositors must trust that their bank will be able to repay their deposits 'on demand.' Should this faith get shaken, it could result in a 'run on the bank' (rapid withdrawal of deposits), which, if not nipped in time, could lead to its collapse. Hence the need for deposit insurance.

Two questions follow. One, the quantum of insurance. And two, its pricing or premium. A related issue is how the regulator can guard against banks taking advantage of a situation, like at present, where the premium paid has no relation to their risk profile. After all, it is the regulator's role to protect the interests of depositors while ensuring the financial sector's stability. Full insurance cover for deposits may seem like an ideal solution. But it is sub-optimal. It gives rise to what economists call 'moral hazard.' If banks know depositors will be repaid regardless of how they conduct their business, they have an incentive to chase risky assets in pursuit of higher profits. While the quantum of insurance is frequently debated—it was hiked from ₹1 lakh to ₹5 lakh in 2020—the related issue of the premium to be charged has seldom received the attention it deserves. That has finally been addressed. But it isn't enough. As a report by the Bank of International Settlements argues, the criteria used for premium calculations should be made transparent. In the Indian context, where RBI has steadfastly refused to make its bank-inspection reports public, next year's shift to a risk-based framework for deposit insurance, combined with disclosure of its modalities, would have the added advantage of lifting a veil of secrecy around the health of our banks. If depositors know how banks are placed on a scale of risk, they could make better informed decisions on where to put their hard earned money. It could be a win-win.

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| MY VIEW | GENERAL DISEQUILIBRIUM

Politics over AI is a trend that will endure next year too

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This is the last episode of General Disequilibrium for 2025. Looking through a foggy windscreen, it seems like the approaching 2026 season will be dominated by politics over artificial intelligence (AI). This trend, apart from the polarizing debate over an AI bubble bursting or not bursting, is likely to dominate the AI policy landscape. This has consequences for India too, which has been judged as an 'AI loser' by sections of global markets.

An AI bubble is a top-of-the-mind issue today. However, it is perhaps premature to debate the likelihood of a bubble or non-bubble at this juncture, let alone its bursting. A lot will depend on the nature and speed of AI adoption and its manifestation in enterprise bottom-lines. Much money has already been sunk into AI infrastructure, products and services, and a lot more has been committed for the next three-four years. Consequently, most financial institutions seem reluctant to accept the eventuality of a meltdown. As a precautionary note, though, it might be wise to recall 2007, when most traders were in denial about the likelihood of a market meltdown. History remains the best starting point for building a risk-mitigation model.

Bubble or not, one thing is certain: AI is here to stay and governments across the globe will have their hands full trying to erect meaningful guard-rails around this emerging technology. These efforts are bound to collide with industry resistance. This new flashpoint is likely to define 2026.

Battlelines have already been drawn. Silicon Valley's AI tech-preneurs are amassing a fund to sponsor politicians promising light-touch AI regulation. A political action committee—Leading The Future, backed by venture capital firm Andreessen Horowitz and OpenAI co-founder Greg Brockman, among others—has raised $100 million to finance the election campaigns of industry-friendly politicians during the November 2026 mid-term elections in the US. The pro-regulation section is not sitting on its hands. Two former Congressmen—a Republican and a Democrat—have launched Public First, with an initial $50-million kitty to identify pro-regulation candidates on both sides of the aisle.

Individual states in the US are headed for a showdown with the federal government. A new California bill requires AI companies to publish and abide by safety policies for managing AI risks. A New York bill sought to improve on this bill, but industry influence managed to water down the text of the final legislation. A White House executive order has further muddied regulatory waters by trying to rein in states' power to regulate the AI industry, but that comes after almost every US state has already passed AI regulation, with over 100 laws legislated between them all. Expect feathers to fly.

Lobbying over regulation will intensify in the West while India could expect friction over AI adoption

India, on the other hand, has started its AI regulatory journey on a circumspect but predictable note: policies are tilted in favour of industry rather than citizens, as they focus more on governance than regulation. The government's recently released AI Governance Guidelines rely on existing laws, such as the Digital Personal Data Protection Act, instead of enacting separate AI legislation. While the government has committed to intervene if AI models cause harm, there is apprehension that the absence of a stand-alone law will leave room for interpretation and misuse.

The Indian government's soft-touch regulatory regime may have been necessitated by market compulsions and strategic impulses. The AI Governance Guidelines have "innovation" as their centrepiece and wish to be viewed more as an enabling provision than a regulatory decree. The motivation behind this policy mix seems to be driven by a global perception of India as an 'AI loser,' a view that may have led to a record retrenchment this year by foreign portfolio investors in favour of AI 'winner' markets such as South Korea and China. The new guidelines try to reverse that sentiment.

There is some realization that India may have missed critical layers of the AI stack. The AI industry has three broad layers: infrastructure (chips, servers, data centres, energy grids), software (large language model) and, finally, products and services for enterprise clients. India has seen investments come into the first layer, with Google, Microsoft, Amazon and Meta committing large sums to AI data centres. But India lacks large homegrown AI models, like US-based OpenAI's or China's DeepSeek, which require deep and patient investments. The government has committed ₹10,300 crore ($1.15 billion) for supplying subsidized chips to startups or research centres for developing AI platforms that exclude the Western biases of existing models.

This puny outlay, compared with other sovereign budgets (such as France's $117 billion), is predicated on the hope of private capital pitching in. That might be slightly problematic, given India Inc's reluctance to invest: a survey by EY India and Confederation of Indian Industry shows that over 95% of enterprises have earmarked less than 20% of their infotech budgets for AI.

But the government's year-end guidelines reveal an indulgent attitude towards the private sector in the name of innovation that may tempt many Indian companies to use artificial intelligence for shirking their after-sales service responsibilities. Many banks and consumer-facing companies have already replaced a human voice with underdeveloped, inefficient and untrained AI bots. This promises to stir up a different kind of politics over AI.

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THEIR VIEW

India in 2026: Here are three big shifts that few are talking about

Greater openness, stronger state-level investment and better-balanced macro policies are gains the country must hold on to

PRANJUL BHANDARI
is chief India economist and Asean economist at HSBC

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Three important shifts are quietly underway in India that could shape the economy through 2026 and beyond.

One, even as the world is becoming more protectionist, India is opening up: At a time when many countries are turning inward, India is moving in the opposite direction. Over the last year, it has been cutting import tariffs on intermediate inputs, trying to fast-track trade deals with various countries and becoming more open to foreign direct investment (FDI) across sectors. These steps can have sizeable benefits because the nature of trade itself is changing—in a way that can work to India's advantage, particularly if it continues to signal openness.

Even as goods trade falls under the shadow of tariffs and geopolitics, services trade is rising faster, supported by technology and remote delivery models. India is moving up the services value chain—from information technology service exports a few decades ago to becoming a software solutions provider and now a leader in professional services. From its ever-rising global capability centres, India sells a wide range of services around the world, from design and accounting to legal, engineering and HR services. But this is not where it ends.

The line between goods and services trade is also blurring with the rise of 'hybrid' products. Many manufactured goods now have a large embedded services component. A smartwatch is not simply a time-keeping device: much of its value lies in the software ecosystem that tracks health metrics and syncs with cloud platforms. Medical devices come bundled with diagnostic software and remote monitoring. Cars are increasingly described as "software on wheels."

Given India's strengths in services and software, this era of hybrid products—where the services component is rising rapidly—is a significant opportunity for the country to move further up global value chains.

Two, India's lower income states are showing the first signs of catching up: Lower GDP per capita states can generate strong catch-up growth for several years if the conditions are right. In economics, this is known as 'growth convergence' and can be an important driver of national growth.

Evidence around convergence in India has been mixed. However, we find early signs that lower-income states are starting to rise, in some cases growing faster than higher-income states. Our analysis suggests that Indian states have moved from a period of growth divergence before the pandemic to early signs of convergence after it.

One variable best explains this pattern—public capital expenditure by states. The states that stand out for strong public capex and growth include Assam, Uttar Pradesh, Rajasthan and Bihar. When states are comfortable on the fiscal revenue front, they tend to raise capex, especially in the case of emerging states. After the pandemic, tax buoyancy increased, helping the cause.

Two problems are arising now. Tax revenue growth is slowing and several states, especially those going into elections, are announcing new cash-transfer programmes. So far, this has not eroded state capex, but if revenues weaken further, that could change. Both the central government and the states have a role in preventing this.

The Centre could increase the scope of its capex-loans-to-states programme. These funds are strictly for capex and tend to crowd in states' own resources. There is room to increase the size, broaden the eligible uses, make the scheme more flexible and increase its predictability.

For their part, Indian states should seize the growth opportunities coming their way. The Centre is leading a state deregulation drive and has eased key norms in labour laws, which had become a deterrent to growth. States can operationalize these changes on the ground and simplify procedures.

As global supply chains are being reconfigured, opportunities have emerged to attract FDI into labour-intensive sectors such as textiles, furniture and toys. India's emerging states enjoy a wage advantage. If this is combined with better infrastructure, further deregulation and easier labour laws, these states can rise quickly for long.

Three, India has a Goldilocks economy within reach: Having achieved something close to a Goldilocks scenario of recovering growth and low inflation, the challenge will be to maintain it in 2026. A related challenge is to address underlying imbalances, such as too little a contribution from private-sector capex and insufficient capital inflows to fund the trade deficit.

Reforms are the ideal way to bring in the private sector over time, but in the short-run, the focus is on achieving a more balanced fiscal and monetary policy mix.

On the fiscal side, the aim should be to continue good-quality government spending without crowding out the private sector. This would entail gradual and disciplined fiscal consolidation over several years, in order to bring public debt levels closer to pre-pandemic norms while protecting capital expenditure.

On the monetary side, policy must work for both savers and investors. For an inflation-targeting central bank, that means setting interest rates and liquidity conditions consistent with achieving the 4% inflation target over time.

Here, there is some good news: several drivers of India's current phase of disinflation, such as exported disinflation from China, look persistent, and inflation could come in a shade below 4% in 2026-27. This would give the central bank some room to ease rates if growth were to slow, making the transition towards a better balanced growth mix easier.

If India can hold on to these shifts—greater openness, stronger state-level investment and a more balanced macro policy—it could turn today's early gains into more durable, broad-based economic growth.

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OUR VIEW

ISTOCKPHOTO

Capitalism: History isn't a gauge of its durability

A Harvard historian's new book traces its global success, warts and all, along an arc that covers India's past too. It's a worthy read, but stumbles on one key aspect—market theory

It's unlikely that reading a book—or reading at all, let alone an infinite scroll or hardback doorstopper—will ever be a popular way to ring in a new year. But 2025 gave us a tome worthy of such bravery: *Capitalism: A Global History* by Harvard historian Sven Beckert. In the self-interest of this claim, its length is best left undisclosed. It kicks off with a jaw-dropper: the 1639 trial in America of Robert Keayne, a trader shamed for 'false principles' like it being fine for someone to "sell as dear as he can and buy as cheap as he can" and take advantage of either "his own skill or ability" or "another's ignorance or necessity." Adam Smith's thesis of an 'invisible hand' blending our interests to serve our collective well-being came much later, in 1776, though capitalism as an economic order is characterized not just by a free market, but also by the right to private property, contract enforcement and other props. The charm of Beckert's account of endless capital self-creation is that it offers us a global view. After all, its story not only spans a millennium, it girdles the globe.

Aptly, thus, this book takes us back to trade across the high seas around India about nine centuries ago. Capitalists thrived, Beckert notes, but capitalism did not. The latter took hold only after Europe stormed in with firepower to control trade routes, its merchants forged alliances with states, social reproach eased and key enablers arose, such as limited liability and shares, central banks and war-funding. Yes, the East India Company features with its colonial exploits, from its opium-for-tea game with China to forced indigo farming in Bengal. The latter was not quite as horrific as slavery in the West, but the worldwide warts of capitalism's rise serve to support Beckert's big point that it was "extraordinarily statist." Its big catalyst, though, was the Industrial Revolution, an "offspring" that harnessed energy and innovation to boost economic growth—one reason why we celebrate it. This book does not dismiss these gains, but its dot-plot portrays capitalism as just another construct, fallible and wobbly. It refers to the free market as a mere "figment of scholars' and ideologues' imaginations" whose claim to self-correction was taken apart in the 1930s by Keynes, who showed how savings and investment could stay out of whack without a state rescue.

India finds place in this book's 20th century arc too, thanks to the 1944 Bombay Plan pitch by top industrialists for a 'mixed economy' and our post-1947 quest for self-reliance. This wide-angle lookback plugs important gaps. It places capitalism under an academic lens that zooms in and out to enrich our view. It is timely too, as neoliberal calls to let the free market allot capital with full liberty go limp in the face of China's centrally led rise and AI's rogue risks. Yet, this volume fails to engage in any depth with market theory. Beckert could have taken up a case study like India's post-1991 reform thrust away from autarkic statism. In general, since markets function as ears to ground reality, capital allocations driven by the many minds that make up market forces are likely to beat the results of a few people making choices. Sure, such efficiency does not always work out, capital concentration can get in the way and examples do exist of state-led prosperity. Even so, while we must squash the risk of inequality stalling India's emergence, a bet on a remixed economy with more space for competitive market forces is likely to pay off for us. Market fallibility doesn't change that.

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MY VIEW | MODERN TIMES

India should treat all Indians as well-off and not poor

MANU JOSEPH

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If you want higher standards for drinking water packaging in India, who do you turn to? A few days ago, the Supreme Court seemed to scold a petitioner for wanting that, calling his plea for India to comply with top international standards a "luxury litigation." The apex court was hearing a writ petition filed by Sarang Vaman Yadwadankar. As reported, one of the judges said, "Where is the drinking water in this country? People do not have drinking water. The quality of bottled water will come later on... This is an urban-centric approach... Water bottle should have this content, that content, these are all luxury litigations...." *(shorturl.at/EFYLu)*

The spirit of those observations could explain many of India's deficiencies. Poverty in the country results in a tendency to peg everything on it. So India's plans are often of low calibre. India should instead consider all Indians upper middle-class.

Plastic packaging contains some chemicals that could be harmful, even carcinogenic beyond a point. For instance, antimony, a chemical element that is something between a metal and a non-metal, can be harmful in high quantities. DEHP is another chemical that carries a similar risk. The issue is not whether these chemicals are in fact harmful. The developed world has already worried about it and come up with guidelines to reduce their presence. The issue is whether we too require higher standards.

If carcinogens in plastic water bottles is seen as a 'luxury' concern, it may inadvertently explain a society that still struggles to get potable water to all its people. When we have low standards, we aspire to less.

India's top court said that it is unrealistic to expect the country to enforce guidelines for packaging that have been adopted by advanced economies. "The people in rural areas drink ground water and nothing happens to them," noted the judge, according to that news report. The poor, however, are not superhuman. In fact, they die of diseases all the time. These are unnecessary deaths.

The court drew attention to rural India in a historical context too: "Mahatma Gandhi, when he returned from South Africa, travelled across rural areas to understand the plight of the people." *(shorturl.at/1z18l)* It seemed to suggest that in a country where people don't have bread, someone was asking for cake. Yet, it's not clear how asking for higher standards for water packaging has anything to do with water consumed by the poor. It is not as though following better health standards would increase the cost of water for the poor or distract governments from providing them water.

The attitude that just because most Indians are poor, we should not have high standards for Indian life explains why our roads are dangerous and why trains derail: our standards are low at almost every level.

> **What holds us back are the low standards we set for ourselves on account of widespread poverty**

A train that is highly comfortable for passengers will automatically have high safety standards. Like the Delhi Metro, which was initially considered a project for the 'rich' but is today a lifeline for the average citizen in the national capital region. Trains 'for the poor' are the ones where the poor continue to travel in great hordes, often in suffocating conditions, all the while facing the probability of a railway mishap.

But India looks at comfort as something of a luxury. In perpetually planning for the poor rather than the rich, India has remained a poor country.

The poor themselves have higher standards than India has for them. This is why so many of them reject government schools in most states, with a few exceptions like Delhi and Kerala. Some poor and lower-middle-class families spend a considerable portion of their income on sending their kids to private schools. As a result, a whole category of private schools have mushroomed that cater to their aspirations, which includes escaping government schools designed for them by governments that think they need no better.

India's low standards for its poor created a low threshold for vulgarity. As a result, for decades, it couched science and technology, including its space mission, in terms that suggested it was primarily a service to the poor. That is the least romantic aspect of science, especially for the talented young.

However, the spirit of the Supreme Court's irritation is not without substance. There is a segment of the urban population that imitates Western elites whose excessive consumption lends them a certain narcissism that makes them obsess over ways in which their party of life may come to an end. Also, it is true that some people have phobias, which found a mention in the court's observations. Fears can be contagious, even among those who are not clinically paranoid. It explains why some people worry about carcinogens in everything.

Indians have also borrowed some luxury abstractions that may diminish the lives of the poor. Take the paranoia around 'privacy,' for instance, and how a class of people who have no qualms giving their biometric data to the US government for a mere visit tried to sabotage India's biometric identity project, Aadhaar.

So it is not as though there are no "urban phobias" or "luxury petitions." But, as with the water packaging issue, there is an assumption in India that high standards are not appropriate in a country with poverty. That only keeps us poor. There is a lesson in this. Individuals, especially the poor, should think big, be grand and look much above their station.

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THEIR VIEW

Old-age security for all: Pension plans should begin right at birth

A contribution scheme that starts at birth could secure people and also fund long-gestation projects

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Advances in healthcare, nutrition and living standards are driving a dramatic demographic transformation. Amid a scenario of rising life expectancy, a declining birth rate and a rapidly ageing population, old age social and income security (OASIS) assumes utmost importance. The United Nations Population Fund's *India Ageing Report 2023* projects that the number of persons aged 60 years and above would double from 149 million in 2023 to over 347 million (25% of the population) by 2050. The dependency ratio would grow from 16% in 2020 to 34% by 2050.

This has profound social, political and economic implications. The burden on the younger population and the state to support the elderly will increase exponentially. In this setting, pensions emerge as a critical instrument of social protection, ensuring dignity, independence and financial security in old age.

Policy steps over the past two decades have covered significant ground by replacing unfunded defined-benefit pension schemes for government employees with defined-contribution systems; and by setting up the National Pension System (NPS) for citizens at large. However, progress on the latter has been modest, given the size of the population to be covered, low financial literacy and failures to appreciate the importance of pension. Yet, concerns of fiscal sustainability, coverage gaps and benefit adequacy in the context of OASIS cannot be overlooked.

The magnitude of the issue calls for a policy shift that recognizes OASIS as a bedrock of socioeconomic stability and harbinger of economic growth. Its approach should define the imperatives and uniqueness of pension as integral to OASIS and focus on pension planning right from birth rather than near or after retirement. The recently introduced NPS-Vatsalya for children holds promise. It can be an effective OASIS instrument for Viksit Bharat, the philosophical underpinning of which must be universal economic security and stability. NPS-Vatsalya enrols a child below 18 years with a minimum annual contribution of ₹1,000.

We recommend that every child be given a Permanent Retirement Account Number (PRAN) at birth and a PRAN-DAN card (DAN for Defending a Newborn) loaded with an initial contribution of ₹1,000 by the Union government. Given that 23-25 million children are born each year, the outlay would be ₹2,300 crore, a modest sum compared to expenditure on the Indira Gandhi National Old Age Pension Scheme alone, which provides a monthly pension of ₹200-500 for the poor aged above 60 years.

The PRAN should be linked to the mobile/UPI number of the newborn's guardian, who should be prompted through a message every month to contribute a minimum ₹100 to the account.

The initial contribution of ₹1,000 could be funded in several ways: court penalties and fines, traffic challans, unclaimed funds with banks, insurance companies, etc; or even donations from individuals or companies, including NPS intermediaries, potentially through co-branded and QR-code embedded PRAN-DAN cards.

For the scheme to take off, contributions to Vatsalya must be tax exempt, as under the old income tax regime. For parents under the taxability threshold, the government could consider supplementing the parents' contribution if fiscally feasible. State governments can be encouraged to supplement contributions too, considering how it will reduce their future social security burden.

Children signed up for the scheme in 2026 will be at least 21 years old in 2047. By then, their PRAN account will have a sufficient accumulated corpus to provide a sense of financial stability. Their starting stake should motivate them to keep making contributions after getting employment. The corpus will grow further with monthly contributions during their working lives, imbuing them with confidence predicated on the promise of a respectable monthly pension after retirement. Our calculations show that with annual contributions of ₹1,200 up to 25 years of age, ₹1.2 lakh from 26-30, ₹1.8 lakh from 31-40, ₹2.4 lakh from 41-50 and ₹3 lakh from 51-60, the corpus will grow to over ₹4.2 crore by age 60 if compounded at 9%, which is around the current rate of return on NPS funds. This can provide a pension of over ₹2.1 lakh a month (at 6%), with the corpus intact. By 2047, when most of India's elderly population receiving unfunded pensions from the government will have passed on or reduced substantially, India will be in an enviable position with largely funded OASIS.

All it takes is an annual government investment of ₹1,000 per child to encourage higher amounts being put in by subscribers. The entire amount being locked in for up to 60 years would help India fund long-gestation projects. The massive pool of pension funds (the NPS has over ₹15 trillion despite limited participation) so built over the decades will support economic growth.

Empirical evidence from various countries shows that elderly poverty rates are much lower where pension coverage is broad and its benefits adequate. As someone said, you cannot cross a chasm in two leaps; the time to take a policy leap across the country's pension chasm is now.

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Taiwan's economic rebalance holds a lesson for India

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For 2025, Taiwan's GDP growth of more than 7% is the fastest in more than a decade, powered by a boom in semiconductors, AI servers and electronics exports. Yet, private consumption stagnated as consumer confidence is fragile. So, Taipei announced a one-off universal cash transfer. But why would a high-income, high growth, fiscally-prudent economy, running record trade and current-account surpluses, resort to cash handouts? The answer lies in a disjunction between measured growth and experienced prosperity, one that should resonate uncomfortably in India.

Taiwan's growth has been spectacular. AI-driven demand has sent chip and server exports soaring by more than 30%. But this boom is concentrated in a small part of the economy. Semiconductor firms like TSMC enjoy big margins while large parts of traditional manufacturing—machine tools, auto components, furniture—are stagnating. A quarter of Taiwan's workforce is employed in these old sectors, where wages are under pressure and job security is weakening.

More striking is consumption, which has gone down to 43% of GDP—to China's level and far below the rich-country average. Productivity has risen sharply, but wages have not kept pace. The labour share of national income has declined. House prices have exploded. Thus, Taiwan's growth has led to an economy where export competitiveness is prioritized over domestic demand.

That is why the cash transfer was felt necessary. The government is not trying to stimulate growth, which is already high. It is trying to rebalance growth towards households, correct excess savings and convert external surpluses into domestic welfare. In other words, it is making that growth inclusive. Crucially, it can do so because it is running large fiscal and current-account surpluses, with ample fiscal space.

Taiwan's universal cash handout is explicitly framed as a sharing of "economic fruits." It is about 2.5% of per-capita disposable income and financed from the record tax revenues generated by its tech boom, not by borrowing. There was no attempt to target specific vote banks, no gender or caste-based design and no pretence that this was a permanent entitlement. It is therefore quite unlike the competitive welfare politics now visible across Indian states.

In Taiwan, policymakers recognize that when growth is excessively export-led, currency management, corporate profits and balance-sheet strength can grow even as household incomes stagnate. Cash transfers are a direct way to address this.

The parallels with India are striking. India is among the fastest-growing large economies in the world, but consumption growth, especially rural, is lagging. Real rural wages have been flat and private investment uneven. Household debt has risen sharply.

Its cash transfer underscores how high GDP growth can go with uneven earnings and consumption

Recognizing these stresses, policymakers have delivered multiple stimuli: sharp personal income-tax cuts, reductions in GST rates and multiple interest-rate cuts, accompanied by substantial liquidity injections by the central bank. This is indicative of growth not 'spreading' fast enough.

Meanwhile, India has become the world's largest laboratory for unconditional cash transfers to women. From one state in 2020, such schemes now operate in 15, at a cost approaching ₹2.5 trillion—about 0.7% of GDP. Unlike Taiwan, many of these programmes are explicitly electorally motivated and permanent, causing huge fiscal strain.

Both Taiwan and India illustrate a classic Keynesian-structural insight: GDP and overall income growth do not automatically translate to consumption growth when income distribution shifts against labour or to high-saving households and firms. Export booms, capital-intensive technologies and financial repression can all raise aggregate output but suppress mass purchasing power.

In Taiwan, suppressed wages, an undervalued currency and inflated asset prices have produced excess savings and weak consumption. In India, low farm prices, informalization of labour and high household debt have worked similarly. In both, the marginal propensity to consume out of national income has declined.

Cash transfers, therefore, are not merely welfare instruments: they are macro-stabilizers. They raise the share of consumption in GDP directly. But fiscal sustainability is one risk and policy substitution—using cash to mask deeper failures—is another. The Taiwan episode offers lessons for India.

First, Taiwan's cash transfer is an admission that high growth can coexist with weak household welfare. India should resist triumphalism about headline GDP numbers and focus on growth in consumption, real wages and income distribution.

Second, Taiwan could afford a universal cash transfer because it had large surpluses generated by an external boom. India does not have these. Financing such schemes through borrowing risks crowding out public investment in health, education and infrastructure, hurting inclusive growth.

Third, cash is a complement, not a substitute. Taiwan sees transfers as a temporary rebalancing tool, not permanent entitlement. For India, unconditional cash must not replace structural reforms aimed at raising farm income, generating urban jobs, strengthening small firms and ensuring that productivity gains drive wages.

High growth is necessary but not sufficient. What sustains an economy is not exports or balance sheets, but the confidence of ordinary households.

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THEIR VIEW

Market dominance entails the risk of a systemic failure

DEEP MUKHERJEE

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The recent incidence of unprecedented service disruptions at a major domestic airline exposed a significant blind spot. Over-dependence on one (monopoly) or two (duopoly) players for an economically critical service exposes the economy to concentration risk. In the event of a monopolist failing to provide a key service, economic activity can get severely disrupted. It may be argued that a failure by a monopolist or duopolist to provide a critical economic service is a problem at least as serious as an outright abuse of market dominance by means of anti-competitive practices. The Competition Commission of India (CCI) has taken cognizance of the air-service disruption and reportedly plans to examine if the carrier abused its aviation dominance.

However, the issue of concentration risk attributable to market dominance remains unaddressed. Certain industries are critical to the functioning of the economy. Commercial activity depends on what may be called 'systemically important infrastructure service providers' (SIISPs). These industries need better risk oversight from regulators. Yet, with the exception of banking, most SIISP regulators do not explicitly take concentration risk into account. Operational risk management in many of these industries is also quite rudimentary compared to banking.

In the banking sector, it is well understood that the failure of an entity or disruption of its services may create a domino effect in the economy through operational networks. Its regulator, the Reserve Bank of India (RBI), apart from regulating much else, is aware that some banks are 'too-big-to-fail' and pre-emptively intervenes to prevent bank failures or service disruption at scale.

In a modern fast-evolving economy like ours, there are SIISPs beyond banking. These industries have such intricate networks that a disruption at one point could spread to other areas and engulf a significant portion of operations across India. Such SIISPs include transport providers such as airlines, power generators and power grid owners, providers of data and mobile connectivity, email service providers and cloud data storage providers, to name a few.

The failure of one provider could cause a spike in demand for the same service from other providers, which may face operational risks of their own, given a sudden surge. What can we do to mitigate risks?

We must broaden our view of market dominance: We must reject the generalization that dominant players in any industry always abuse their dominance. This is not true. The US has among the world's most stringent antitrust frameworks. However, US judge Learned Hand, while deciding on the watershed case of *United States vs. Alcoa*, rejected the idea that market share alone implies monopoly power and emphasized that a business's conduct is more important: "The successful competitor, living substantially within the law, will doubtless see his competitors die one by one, but he will not be commanded to bury the dead." Giving credit to market leaders, he stated, "A single producer may be a survivor out of a group of active competitors merely by virtue of superior skill, foresight and industry. In such cases, a strong argument can be made that [while] the result may expose the public to the grip of such a monopoly, it is the play of forces which our whole economic system is intended to foster."

Regulators in critical sectors could take a leaf from RBI's book to curb operational disruptions

Debates on the dominance of a player in an industry tend to focus almost exclusively on the potential for market abuse or anti-competitive practices. Worryingly, though, these debates often neglect the economic impact of the failure of a major infrastructure provider. However, what needs to be discussed is the risk of such a player's failure to meet customer needs at scale. This is determined by how sophisticated its operational risk management and resilience practices are. This is independent of whether it is abusing its market dominance.

We need to expand regulatory mandates: Most regulators of SIISPs should track all major players in a critical industry for operational resilience, perhaps along the lines of what RBI does. This would include assessing such companies for how they manage operational risks, apart from the specifics and feasibility of their resilience plans. Based on data from minor disruptions, regulators could estimate the likelihood of a 'black swan' mega disruption and map it against the company's capability to overcome such a shock. For some SIISPs, data feeds could help regulators track variables in real-time for early signs of an extreme event. This would give regulators a line of sight on interventions and timely recovery.

The Directorate General of Civil Aviation, Central Electricity Regulatory Commission, Telecom Regulatory Authority of India and others could take a leaf out of RBI's book. These regulators could conduct stress tests, assess resilience and set guidelines.

The systemic impact of a monopolistic player's failure is agnostic of its market conduct. However, the genesis of both is often the mergers and acquisition (M&A) route. Given that no central entity looks at the aspect of concentration risk from an operational failure perspective, the CCI's mandate may need to be enlarged too. While approving M&As among SIISPs, the CCI could be mandated to assess the impact of the merged SIISP entity's failure on the Indian economy. With its enhanced role, perhaps the Competition Commission of India should be renamed the Competition and Concentration Risk Commission of India.

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THEIR VIEW

Seven focal areas of action that could sustain India's momentum

A focused mid-term policy agenda for the government and businesses would help keep the economy on a firm growth path

CHANDRAJIT BANERJEE
is director general, Confederation of Indian Industry.

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As 2025 draws to a close, India finds itself in a position that few large economies can credibly claim. Among major economies, it remains the fastest growing, underpinned by stronger institutions, improving credibility and a clear national direction.

Economic performance exceeded expectations across fronts. Domestic demand was resilient, supported by steady income growth and improved consumer sentiment. Service exports expanded strongly, reinforcing India's role in global value chains linked to technology and knowledge services. Manufacturing activity showed a gradual but unmistakable revival, aided by better capacity utilization, improved logistics and rising investment intent. Private investment gathered momentum. Reflecting this broad-based strength, CII has raised its growth projection for 2025-26 to 7.3-7.5% from 6.8-7.0%. This reflects not just cyclical strength, but rising confidence in India's medium-term growth trajectory.

Macroeconomic stability provided a crucial anchor. Inflation was comfortably below target for much of the year, supported by improved food supply management, better logistics and tax rationalization. Monetary policy responded in a calibrated manner, balancing growth with financial stability. As India enters 2026, its macroeconomic position is one of the strongest in recent years, even as we adjust to a phase where real and nominal growth rates converge.

Beyond the numbers, 2025 will be remembered as a year of decisive reform delivery. The rollout of GST 2.0 stands out. Simplified rate structures, reduced litigation, faster refunds and stronger compliance systems have lowered transaction costs for businesses. Predictability has improved and working capital stress has eased; and for consumers, rationalized taxes raised affordability.

India's income tax reforms also merit a special mention. Steps aimed at simplifying compliance, improving certainty, reducing litigation and raising disposable incomes helped reinforce consumption and taxpayer confidence. Greater use of faceless assessments, faster grievance redressal and improved data analytics enhanced transparency and trust in the tax system.

The implementation of India's four labour codes marked another transformational step. By consolidating 29 central labour laws into a modern framework, these strengthened worker protection while providing enterprises with clarity and flexibility. Over time, this will support formalization, raise productivity and enable sustained job creation.

Trade policy also saw renewed momentum. India concluded trade agreements with the UK, Oman and New Zealand, while negotiations progressed with the EU and others. Taken together, these efforts reflect a strategic shift to outward orientation and trade-led growth, which is essential for India's long-term competitiveness.

Looking ahead, 2026 must be a year of consolidation and ambition. The next phase of India's growth will depend on how effectively the government and industry act on a medium-term agenda.

First, sustaining high-quality public capital expenditure must be central to India's strategy. A renewed National Infrastructure Pipeline focused on outcomes, efficiency and speed is essential, with an emphasis on logistics, renewable energy, urban infrastructure, industrial corridors and digital connectivity. We need an enhanced shelf of bankable projects.

Second, India must mobilize patient, long-term capital. The creation of an India Development and Strategic Fund could play a catalytic role by supporting infrastructure, our energy transition, technology upgrades by small businesses and human capital investments, while strengthening India's strategic economic presence overseas.

Third, regulatory modernization must move decisively towards a digitization-first architecture. A Unified Enterprise Identity, an Entity Locker for enterprises, API-based compliance, a national compliance grid and digital legal repositories can dramatically reduce compliance costs and eliminate duplication. This will improve the ease of doing business at scale.

Fourth, focus on innovation and research. Government support through the RDI Fund matters, but industry must lead. Private sector research and development spending is far below global norms. Companies should invest aggressively in applied research, artificial intelligence, clean energy, advanced materials and next-gen manufacturing to boost productivity and competitiveness.

Fifth, trade competitiveness will require a predictable and globally-aligned tariff philosophy along with export diversification. Progress on trade agreements will reinforce India's position as a trusted global partner.

Sixth, financial-sector reforms must underpin long-term investment needs. Stronger development finance institutions, evolving banking structures, deeper capital markets and a globally competitive GIFT City ecosystem will be critical to financing India's next growth phase.

Seventh, corporate governance is vital for India's economic credibility. In today's business ecosystem shaped by technology, data and sustainability, governance frameworks must evolve, balancing board effectiveness, transparency, risk management and long-term value creation. This does not require any policy or regulatory prescription, but industry-led voluntary action.

While government action is critical, industry too has a responsibility. We must invest with confidence, scale up capacity, adopt advanced technologies and commit to skilling at scale. Sustainability must be integral to business strategy and transparency must guide corporate decisions. If the government leads with clarity and courage, and Indian industry responds with investment, innovation and responsibility, India can convert its reform momentum into enduring national confidence. I can commit that the CII will do its part.

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MY VIEW | EX MACHINA

Will the next 25 years surprise us like the last 25 did?

RAHUL MATTHAN

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On the last day of the year 2000, the future looked bright. The world had survived the Y2K bug, and early signs seemed to indicate that the rapid proliferation of internet access points would dramatically benefit society. We ended the year with optimism, hopeful that the impending digital revolution would democratize knowledge, erode authoritarian regimes and enable global prosperity. We believed we were on the cusp of a period of sustained technological acceleration that we prematurely christened the 'Long Boom.'

Twenty-five years later, it is clear that our optimism was misplaced. Not only did the internet not create a 'Global Village,' it weaponized connectivity, leading to a world divided by the Great Firewall of China, European regulations and American corporate silos. Social media made things worse, optimizing engagement over information to the point where, in less than a decade, friends and neighbours were divided along tribal lines and forced to operate in echo chambers that presented divergent versions of the same reality. Rather than coming together, nations have drifted apart, riven by concerns of digital neo-colonialism and the rapacious intentions of technologically advanced nations, as represented by the global corporations that serve as the spearhead of their ambitions.

Given our poor performance, it seems futile to attempt similar predictions today. But this article appears in print on the very last day of 2025 and I couldn't resist reflecting on how I believe technology will shape society over the next 25 years. Here, then, are the four axes along which I believe change will occur.

By far, the most significant technological shift will be in the biological realm, as synthetic biology starts being used to replace the chemical processes we currently rely on. This means that we will soon be able to 'brew' what we need by using precision fermentation and cell-free enzymatic systems, allowing us to 'manufacture' on demand whatever chemicals, fabrics, fuels and food we need. This will disrupt the current industrialized production system as we shift to distributed bio-manufacturing ecosystems in which neighbourhood 'brewers' produce our pharmaceuticals, fabrics and food. When this happens, our economic growth could finally be decoupled from resource extraction, marking the end of the 'Age of Oil.'

The second axis of tech transformation is intelligence—not necessarily the large language models that are all the rage right now, but some form of machine intelligence that will permeate everything we do in society. This will accelerate once cognition becomes commoditized and we all get our own personal AI systems. When that happens, always-on medical diagnosis intelligence will be able to detect health concerns well before they become a threat, transforming medicine from a reactive to a predictive science. It will ensure that every student has a tutor who knows exactly how this individual learns best, transforming today's 'one-to-many' teaching environment into a 'one-on-one' approach. It will also enable various micro-efficiencies—traffic lights that 'watch' roads and coordinate with every other light in the city, devices that negotiate with the grid to buy power when it is most efficient and refrigerators that re-stock themselves—which will allow us to stop worrying about *how* to do things and focus on *what* needs to be done.

We over-expect technological change and underestimate its second-order effects. This may happen again

The third axis of transformation will be space, with technology opening up a brand new dimension in which our planetary civilization can operate. Even if we do not reach Mars by 2050, we would by then have begun to use space for industrial activity, leveraging microgravity for the manufacture of high-value materials that can't be produced on Earth and augmenting our supply chains by mining asteroids.

This will likely be closely connected to the fourth and final axis of innovation, which is energy. I believe that in the coming years, it will finally cease to be the challenge it is today as we begin to use orbital platforms to access space-based solar power, collecting energy continuously and beaming it back to Earth. Unlike traditional terrestrial renewables, this system would be free of weather, seasonal and land constraints, providing us with uninterrupted carbon-free baseload power.

As transformative as these technologies will be, they will necessitate finding new answers to old questions. Synthetic biology will raise new ethical concerns around engineering life, just as commoditized intelligence will force institutions to determine where human agency ends and automated decision-making begins. And as global superpowers compete to establish dominance in new economic zones beyond the atmosphere, space will cease to be a 'global commons' and instead become a new battleground where conflicts over orbital slots and transmission corridors abound.

If the year 2000 taught us anything, it is that we overestimate the speed of technological change almost as much as we underestimate its second-order effects. This means that the real story of the next quarter-century may not be as much about what these new technologies enable as the extent to which we can redesign our geopolitical and institutional architectures to take advantage of them. Whether this period is remembered as the start of a 'New Long Boom' or the moment new sources of abundance further fractured the global order will depend on how our institutions adapt.

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GUEST VIEW

Why the Fed must not function as a lender of immediate resort

A bias in favour of launching rescues could undermine its credibility, harm monetary policy and weaken its independence

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AP

The greatest threat to the independence of the US Federal Reserve does not come from President Donald Trump's attacks or a Supreme Court ruling that might expand his authority. It is the Fed's longer-term shift from lender of last resort to lender of immediate resort. Without a clear distinction between temporary liquidity support and protection for insolvent institutions, the Fed's independence turns into cover for *ad hoc* bailouts and monetary policy becomes a hostage of weak institutions and authorities' reluctance to admit supervisory failure.

With each successive crisis over the past decade and a half, from 2007-08 to the 2020 covid shock and the mid-size bank turmoil of 2023, the Fed has steadily expanded the scope and scale of its interventions. What began as emergency liquidity support has become a recurring feature of financial-market management.

When every disruption is said to generate 'spill-overs' and every balance-sheet wobble prompts intervention, the distinction between containing panics and propping up failing institutions blurs, and with it goes the discipline that keeps moral hazard in check. At that point, independence can no longer enforce restraint: it merely shields open-ended emergency measures.

The benchmark for central-bank restraint was set by Walter Bagehot more than a century ago: lend early and freely, but only to solvent institutions, against good collateral, and at a penalty rate. Under this elegant framework, the central bank supplies liquidity, the fiscal authority provides capital and markets impose accountability. Viable institutions are insulated from liquidity panics, while insolvent ones are restructured or shut down.

That framework endured so long as the boundaries between regulated banks and the rest of the financial system were clearly defined, and the line between liquidity and solvency was easier to draw. Modern crises have made it harder to sustain the latter distinction, as sharp asset-price declines can quickly undermine institutions that appear stable.

With non-bank entities increasingly performing bank-like functions without comparable oversight, the Fed extended its reach in 2008 and again in 2020, broadening collateral standards and creating new lending facilities on the fly. By the time the pandemic hit, interventions once seen as extraordinary had become routine. While each step may have been defensible in isolation, together they pushed the Fed beyond the limits that preserved its legitimacy.

Whereas illiquidity is a short-term funding problem, insolvency reflects long-term balance-sheet weaknesses that can be addressed only through new equity, mergers or orderly resolution. The key challenge facing policymakers is to determine whether an institution is solvent yet temporarily illiquid, or insolvent and therefore in need of restructuring. If regulators cannot draw this distinction for banks, despite having granular supervisory data, they certainly cannot do so for non-banks, where visibility is limited.

The turmoil of 2023 underscored the risks created by the Fed's mission creep. My co-authors and I estimated that hundreds of banks faced large mark-to-market losses on long-duration assets, operated with thin capital buffers, and relied heavily on uninsured deposits. Yet, instead of calling for restructuring or new equity, the episode was widely framed as a liquidity crisis. New facilities effectively extended support to roughly $9 trillion in uninsured deposits, vastly expanding the safety net.

By acting as a lender of immediate resort, the Fed may have steadied markets, but it also left the underlying incentives unchanged, setting the stage for the next crisis and putting its independence under strain. Higher interest rates, though necessary to rein in inflation, exposed widespread interest-rate risk across the banking system. This left the Fed in a bind: raise rates dramatically and risk breaking the weakest banks, or hold back and allow inflation to run wild. Financial fragility, in effect, became an undeclared ceiling on monetary tightening.

The Fed's dual role as bank supervisor and monetary authority magnifies the conflict. The problem is that admitting supervisory failures or concealed solvency problems is politically costly. That creates an incentive for the Fed to characterize balance-sheet weaknesses as liquidity issues, leading to a pro-intervention bias that runs counter to the very purpose of central-bank independence.

The answer is not to abandon Bagehot's framework, but to update it. The Fed should set clear conditions for when emergency facilities can be activated, publish transparent eligibility rules that restrict lending to solvent institutions, impose robust penalty rates and haircuts, and publicly disclose how each facility was used once it is wound down. Most importantly, the Fed should limit itself to liquidity support and leave solvency issues to markets and fiscal authorities. Without that separation, the Fed will continue to drift toward industrial policy, undermining its legitimacy.

While some may argue that these safeguards already exist, recent interventions have lacked the one constraint capable of limiting moral hazard: automatic mechanisms that force markets to determine whether an institution deserves to survive. Banks that get liquidity support should be required to raise equity commensurate with that support within a defined window or face restructuring or consolidation. If markets are unwilling to provide capital, the institution is not illiquid, but insolvent.

Central-bank independence must rest on sound governance, transparency and accountability. That includes acknowledging supervisory failures when a solvency problem is misjudged as a liquidity one and explaining how those failures will be addressed. After all, a central bank that cannot refuse intervention during a crisis cannot be expected to hold its ground when tightening monetary policy.

To protect its credibility, the Fed must resist the temptation to treat every problem as systemic. Otherwise, the financial system will remain fragile by design and the Fed's credibility will erode every time it rescues another institution that should have been allowed to fail.

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MY VIEW | LEX MACHINA

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MY VIEW | WORLD APART

A wish list for the government as a new year beckons

RAHUL JACOB

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At the end of a tumultuous year for India's economy, especially its labour-intensive industries reeling from US President Donald Trump's tariffs, William Shakespeare's words seem apt. "There is a tide in the affairs of men, Which, taken at the flood, leads on to fortune... On such a full sea are we now afloat." In that spirit, here's a wish list for the Indian government as it confronts its many challenges.

'Make in India' needs to be comprehensively evaluated and then downsized. The ever growing list of incentivized industries—more than 25—makes a mockery of the claim that they are all strategic. Instead of this mission creep, we should focus on reducing our dependence on China. The Trump tariffs are prompting Chinese firms to tighten their stranglehold over developing-world markets, leading to the progressive hollowing out of industry in Indonesia and India. Our data shows lower numbers for imports from China than Beijing's export figures do, which suggests some under-invoicing. Our bilateral trade deficit is about $100 billion.

Let's redefine nationalism as spending less time abusing each other on social media and instead buying products made in India or at least from countries other than China. We need consistent public messaging to stop buying Chinese goods simply because they are cheaper. A way to help that process and our exporters in the bargain is to let the rupee slide to a level of ₹100 to the dollar. Former chief economic advisor Arvind Subramanian argued this week in the *Indian Express* that ₹100 per dollar is a worthy new-year resolution for the Reserve Bank of India (RBI), not least because China and East Asia have kept their currencies cheap to exploit foreign markets: "The markets are trying to do a desirable job that policymakers have been unable or unwilling to do." Indian companies are savvy enough to hedge their currency exposure.

We should do more to help our most labour-intensive industries: 'Make in India' needs to be rebranded as 'Hand-Make in India.' A much-needed pen-stroke reform, says Laila Tyabji, founder of Dastkar, is to "simply remove GST on handlooms: it needlessly increases the paperwork and end price." I buy handloom or hand-dyed cotton and walk 400 metres from my apartment to a tailor who adeptly makes shirts out of Kerala *mundu* material and even delicate *jamdani* that looks like candyfloss.

Consider renaming Ease of Doing Business as a more truthful 'unease of doing business,' thus focusing on reducing the complexity of dealing with the government. It is wonderful, of course, that we can pay our taxes online almost as easily as buying a book off Amazon, but our tax system is still too complex and does little to widen the tax base. In fact, the last budget arguably narrowed it by raising the income threshold for income tax. In a country as unequal as ours, we need an inheritance tax. Most G8 countries have one.

> **There's a lot that could be done in 2026 and much of it may sound unrealistic. But that's part of the New Year spirit**

Those of us with considerable amounts of disposable income need to spend and donate more. In the spirit of Henry Ford raising wages in 1914 to raise productivity and turn factory workers into customers, we should regard paying employees more, viewing them as an investment as much as a cost. That starts at home. Recently, I couldn't help noticing the astonishment of visiting American relatives at how little the clothes-ironing person is paid. We won't 'spoil' help and service providers by paying them more or tipping a delivery 'partner' more generously. Instead, we will help alleviate the country's demand problem that is holding back corporate investment.

The government could do its bit by thinking more like a service provider and less a judge, jury and overlord. Says Arvind Singhal, chairman and founder of Technopak: "The bureaucracy, especially the IAS/IPS/IRS, needs to reform fundamentally, so that it can align with our present and future (rather than being a remnant of our British past)." RBI governor Sanjay Malhotra is proving a good role model. Not only has RBI made it easier for foreign companies to invest in Indian banks, it has also made it easier for banks to make loans for mergers and acquisitions. While it still spends tens of billions more than it should propping up the rupee, 5,673 circulars have been scrapped by RBI since he took over, *CNBC* reports.

The problem, at every level of government, is that mind-numbing references to precedent abound. Mumbai airport's Terminal 1 is a relief for its sensibly sized trays for security checks, which are less than half the size of those in Delhi and Bengaluru and thus allow much faster clearance. Even so, I counted at least 10 notebook registers being maintained by security personnel. One can't help wondering what the "Tools In/Out register" tabulates or the "Dispatch English outgoing register" records.

India's 48-hour weekly rest rules for pilots are among the most generous globally, while all around us are inefficient Indian companies demanding 13-hour workdays, often for six days a week. Meanwhile, according to a column in *The Hindu* by R. Geetha and Prithi Narayan, protections for construction workers are "threatened or entirely repealed" by the country's labour code revisions. A new central code is to replace existing (mostly ineffectual) site inspections with "web-based" compliance, which makes little sense in this context. Construction workers work in pre-Dickensian conditions. It is not just airline pilots who deserve well-regulated work conditions. Much of this is naive and over-optimistic, but a new year beckons.

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MY VIEW | MYTHS AND MANTRAS

The principles of investing don't change but portfolios often must

Investors must check if their investments align with their goals and make clinical decisions in 2026

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The year 2025 has gone by as quick as a wink—I dare say so has the first quarter of this century. It's 26 years since Y2K!

This is a time to look back and look forward. So what is it that you should be doing as far as your investing life is concerned? Some of what I suggest may reiterate what I have spoken about because good investing is boring. Core investing advice does not change every two weeks and even every two years.

First off, use all annual market forecasts of where the index will be and the five best stocks for next year as pure entertainment. Because data in every single market shows that these projections have absolutely no correlation with reality. A study in *Mint* illustrated how stock picks by experts and well-known financial institutions did worse over the years than the average stock. You are literally better off throwing darts at a board. *Bloomberg* analysed annual US index projections over several decades from all well-known banks and Wall Street firms and found them to be off by an average of 15 percentage points—meaning they were not worth the paper they were written on.

However, for this year, there is something that gives me a pointer to what may happen in Indian markets. Lately, most media people and experts have been enumerating risks in the market. Also, most investors are questioning themselves as to why they are investing in Indian stock markets when everything from fixed deposits and gold to US markets has given better returns this year. After all, the Indian market has been in the bottom 10% globally.

The sentiment is downbeat partly because the average stock has not even done as well as the index. Here is the kicker: sentiment is a contra indicator. When there is uncertainty, fear, anxiety, and questions like this abound, the next period's returns are usually above normal. When 30% returns appear to be available for the taking, as was the case in the first 8-9 months of 2024, you should be wary.

By this yardstick, the returns in 2026 may well be better than what we have seen of late because history shows that sharp market rises come at a time of such despondency. So, the lesson is to stay invested to the extent of your equity allocation, which should not be 100% of your investment portfolio.

Then comes the hard part. Once the new year festivities have died down, take out a couple of hours and look at all your investments. Where are you invested currently? How much in equity, whether directly or via mutual funds, portfolio management services, etc, and how much in fixed income via fixed deposits, tax saving schemes and fixed income mutual funds? Similarly for gold, real estate, cryptocurrency or any other asset that you may have.

Now see whether this is the ideal asset allocation for your goals, when you need the money and so on. If not, decide what changes you want to make and make them latest by the end of January.

Now come to the equity space. Dig out your Depository Participant (DP) statement, grit your teeth and go through it right till the end. I can guarantee there will be many entries that would make you want to squeeze your eyes shut and not think about them. But get rid of all the junk. Anything you will not buy today at today's price, you should not be holding at all.

Most investors hold on to losers for too long instead of moving on to what are the best investments as of today. For the same reason, you should never wait for a stock to return to your purchase price. Book the loss, invest in a better place and move on. The market doesn't care what price you bought it at and many stocks (for example, those that may have done well in the small- and micro-cap boom of 2024) will never come back to those prices again. Your objective is to maximize wealth from your portfolio. It does not have to come from the same stocks. Be clinical.

At a core level, for your equity investments, ask: What is the criteria you are using to pick stocks? Do you even have one? And if you do, such as certain growth numbers, return ratios and governance parameters, do the stocks you have in your portfolio reflect that criteria or have they been bought mostly based on whims and tips? Some reflection is needed on this. It will bring you to the question of whether you should be a do-it-yourself investor or not—something I wrote about in my last column, 'Should you invest yourself or let professionals do the job for you.'

If you want to make an investment resolution for the year, tell yourself that you will never invest in anything because of FOMO (fear of missing out), because that is the beginning of many investing mistakes. Chasing yesterday's hot theme, asset class, sector or stock is a surefire way of ensuring under-performance. Unfortunately, financial services companies prey on this. Related to this is the question of whether someone selling you a product actually has the relevant expertise.

As someone who has been advocating global diversification for a while, I watch with trepidation many with no background in global markets launching global products simply because of FOMO feelings among investors.

Step back. Be deliberate and objective in your investment decisions.

Have a great 2026!

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OUR VIEW

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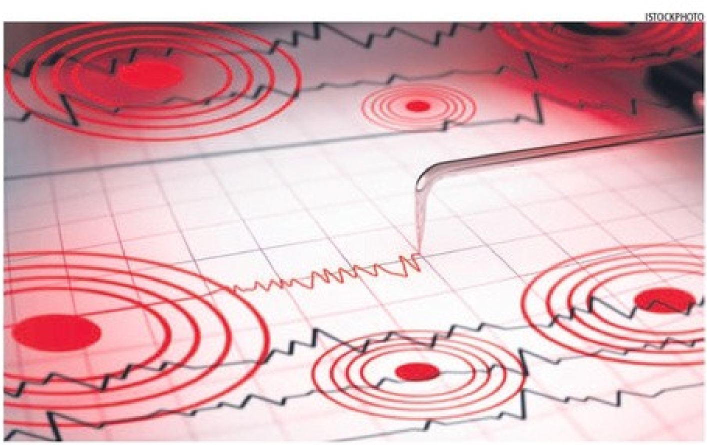

Even a tremor-free 2026 would test our resolve

In a world shaken up by tariffs, wars and AI, India's economy fared well in 2025. The public policy response was sharp but the private sector must display much greater determination

John Lennon wrote and recorded a song in 1975 with these evocative lyrics: *So this is Christmas/ What have you done?/ Another year over/ And a new one just begun*. This song was part of his anti-war activism, but the words could apply to various causes. As the sun sets on 2025 and the calendar gets reset for 2026, it might be worthwhile to take a moment to reflect upon what whizzed past as a means of getting a better handle on what awaits us. Two big-picture events and one big technology trend monopolized headlines over the past year. The sharpest dissonance was caused by US President Donald Trump's illogical and unilateral tariff impositions against a host of countries that disrupted global trade flows and dampened growth impulses. This came on top of existing geopolitical frictions that had erupted into armed conflicts: Russia-Ukraine and Israel-Palestine, among others. But capital markets shrugged all this off in their zest for artificial intelligence (AI), a productivity tool that bullish traders expect will reshape the economy—like how electricity and the internet did—and enable significantly faster growth in the near future. The jury is still out on the scale of any such AI boost, however.

It must be said that India has shown remarkable resilience amid global turbulence. The economy managed to not only notch up impressive growth, but also meet its tariff challenge head-on. India's merchandise plus services export receipts went up by over 5% during April-November 2025, marginally higher than import growth over the same period. This is reflective of how the government leveraged the trade crisis to overhaul its export strategy, both in terms of products and markets. Over the past year, the commerce ministry sealed trade deals with the UK, Oman and New Zealand, fast-tracked one with the EU and expanded ties with Mercosur. We can also expect the early harvests of pacts signed earlier with Australia and the European Free Trade Association. The broad gains of all this should show up in GDP data. The government also reformed some aspects of import policy that were keeping inputs for export products costly. Reformist moves were made in many other spheres too. Both inflation and the rupee dropped in 2025, even as consumption perked up in many sectors. Of course, monetary and fiscal enablers—such as low rates of interest and GST—deserve macro-level credit for brightening the economy's growth prospects.

Yet, we must also point out that it was not all hunky-dory. The private sector has been largely missing from the action, with the government still doing the heavy lifting to foster growth. With private players holding back investment, the economy's expansion remains sub-optimal. Oddly, most of Corporate India's demands have been met, with a revision of labour codes just the latest to ease long-cited bugbears. Private businesses must now start investing at home rather than overseas. They should also update their governance systems to improve plans for everything from cybersecurity and climate action to social responsibility and succession. It might be time for the private sector to renew its commitment to our economy, polity and society. We began with a song and it might be appropriate to end with another, this time from the indie rock band Death Cab for Cutie: *So this is the new year/ And I have no resolutions/ Or self-assigned penance/ For problems with easy solutions.*

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The Times They Are A-Changin': Iconic American Singer-Songwriter Finally Bags Lit Nobel
"But as far as songwriting, any idiot could do it... Everybody writes a song just like everybody's got that one great novel in them."

"From Orpheus to Faiz, song & poetry have been closely linked. Dylan is the brilliant inheritor of the bardic tradition. Great choice"

"Want to thank him for influencing three generations with his songs, transporting people from their crazy lives to an alternate world."
SWEDISH ACADEMY PRAISES DYLAN'S POETRY FOR THE EAR
AROUND THE WORLD » 17
Let Him Be

RBI, Now Go GDP Figure!

Mythili Bhusnurmath

India's June-September 2025 GDP numbers, released by NSO last week, beat even the most optimistic of estimates. At 8.2%, growth is not only the fastest since Q4 of the last fiscal but it's also way above RBI's estimate of 7.0% released in early October, as well as those by all brokerages and multilateral organisations.

Granted, part of the bump-up is due to the exceptionally low rate of growth (5.6%) during the comparable period last year. But that can't take away from the fact that the economy has demonstrated unexpected (exceptional?) resilience during a period marked by huge uncertainty post-Trump tariffs, subsequent flip-flops and geopolitical tensions.

With the exception of mining and quarrying, which recorded a negative 0.04%, every sector has performed well. Most heartening of all, manufacturing, long a laggard, has put in a strong showing, with a growth of 9.1%, well above 2.2% in the comparable quarter of the last fiscal.

China vs India GDP Growth Rate, 2010-23

Together with robust growth in agriculture (3.5%), these two sectors, which together employ close to 70% of the labour force, laid the foundation for a strong consumption push. The only fly in the ointment is the decline in gross fixed capital formation, or investment, from 7.8% in Q1 to 7.3% in Q2, indicating a slowdown in government capital spending.

India's growth is the fastest among all major economies. Our Q2 growth rate is actually far ahead of China's 4.8% for the comparable period.

Better still, a trend line of GDP growth of the two countries from 2010 (see graph) shows that, except for 2020, when our GDP declined 5.8% while China's grew 2.2%, India's trend line is upward sloping, while China's is downward, suggesting something unimaginable less than a few years ago.

Even as our growth rate increases, China's will decrease. True, the Chinese economy is 4.6× ours. It's also true that China's growth is on a higher base and, hence, will be lower. But it would be unfair to belittle our achievement.

India seems to be in a sweet spot, enjoying the best of both worlds. At a time when most countries are having an undershoot of growth and overshoot of inflation, India is experiencing exactly the opposite — an undershoot of inflation (0.25% in October) and overshoot of growth.

US inflation is 3.01%, against its target of 2%. GDP numbers for the July-September quarter are likely to be declared only in December, thanks to the prolonged government shutdown. In Britain, growth is down to 0.1%, inflation at 3.7%. Japan's economy contracted during the same quarter.

Reason enough to uncork the bubbly? Not quite. As IMF's October 2025 World Economic Outlook warns, 'The rules of the global economy are in flux. Prolonged policy uncertainty could dampen consumption and investment. Further escalation of protectionist measures, including non-tariff barriers, could suppress investment, disrupt supply chains, and stifle productivity growth.'

Add to that the possibility that the coming months could see the AI bubble bursting, plunging the world into a repeat of the dotcom bubble burst, and we must temper our exuberance.

Moreover, the latest estimates come with a caveat. Ministry of statistics and programme implementation is revising the base year of national accounts from FY11-12 to FY22-23. Quarterly estimates are likely to undergo revisions due to changes in estimation methodology. But since the next quarterly GDP estimates for Q3 FY26, based on the new series, will be released only in end-February, budget calculations for FY27 will be based on these numbers.

This is good news for the FM. Nirmala Sitharaman starts her preparations for Budget 2026 on a good wicket, and deservedly so. GoI has done its bit to support growth, whether through I-T concessions or GST rationalisation, notifying new labour codes, QCOs and export support packages.

Unfortunately, what is good news for GoI is not good news for RBI. On the contrary, NSO has bowled a googly at RBI and its rate-setting MPC that meets this week. With growth above estimates and inflation below, what is it to do? Sit tight, perhaps, for the third consecutive time.

Market aficionados are bound to protest. It's not cricket, Sanjay Malhotra will be told. But he can silence his critics by emulating Mohandas Gandhi's words, 'When doubts haunt me, when disappointments stare me in the face, and I see not one ray of hope on the horizon, I turn to the Bhagvad Gita and find a verse to comfort me.'

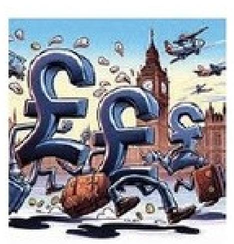
So, if quizzed about his inaction, the governor could turn to Chapter 4, Shloka 18, and point out how 'Those who see action in inaction and inaction in action are truly wise among humans.' Amen.

How Britain 2025 is Hastening Brexit 2.0

Taxing the affluent can't be the answer

Britain had been padding up for wealth tax for a while. What it received last week in its budget, instead, was stealth tax. Chancellor of exchequer Rachel Reeves has tied herself in knots over her promise not to raise income-tax, and the workaround — trapping taxpayers in high brackets — lays it on the chin of the affluent, not the rich. Their turn is due, though. The Labour government will push through with taxes on profits, inheritance and even migration, which is seeing a flurry of m/billionaire exits to more placid shores. The most high-profile departure could be that of Lakshmi Mittal, the irony contained in his name not lost on Indians worldwide. Winston Churchill held an apocryphal low opinion on how Indians would go about taxing themselves. His prescience would, by some accounts, not be amiss in c. 2025 Britain.

Since Brexit, every chancellor has walked on a razor edge while presenting the budget. This year, Britons were especially focused on what their government would unveil. Reeve has made her job even harder by delaying her budget. Embarrassing leaks and irresponsible presentation of economic forecasts added to the mood. The freeze on tax slabs hurts those about to become rich, including doctors in the National Health Service. Labour's taxes are designed to protect the NHS. Not quite the way to go if doctors start fleeing the island state. Then there's some explanation needed why inheritances in other countries need to be taxed in Britain. Reeve has judiciously left that fight for another day.



Britain has a history of muddling up taxes. It's gone to war on their account. It is now battling to keep capital within the country to maintain a quality of life that draws in the rich from across the world. Taxing them unduly surely can't be the answer. Not when their businesses are spread outside the country and businessmen are relocating to the likes of Dubai, Italy and Switzerland. Britain has to apply its mind to growing business at home, with some help from expat businessmen. It certainly can't afford a taxing brain drain.

02 Dec 2025

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Let Him Be

STATE OF PLAY Russia should shed the Soviet lens on India, and embrace its growth story

IT'S THE ECONOMY, VOVA!

Pranab Dhal Samanta

That line there shows the latest GDP numbers

As Vladimir Putin boards his presidential aircraft for India this week, it's time to cast a longer view on the enduring India-Russia strategic partnership that's now in desperate need to repurpose itself to new economic logic. The current interaction is skewed with a massive trade deficit. This requires urgent correction that will serve strategic interest of both countries.

Trade numbers between India and Russia following the break-up of the USSR were never great — $10-13 bn until the Ukraine war. Then, it jumped because of India's soaring oil imports, taking bilateral trade in the past 3 yrs to over $68 bn in 2024-25. It was encouraging enough for both sides to now want to set a $100 bn trade target by 2030.

But here's the rub. India's exports to Russia are barely $4.8 bn. Which means a deficit just shy of $64 bn, comparable only to the $99 bn deficit India has with China. Yes, the deficit has widened because of oil imports, and may shrink after recent sanctions on Russian oil. But so would volume of trade. In 2019-20, India-Russia trade was at $10.11 bn. This went up to over $13 bn in 2021-22, soaring to $49.36 bn in 2022-23 due to oil and fertiliser imports following the outbreak of Ukraine war, and has risen since.

But beneath the surface numbers lies a reality of how far India and Russia had drifted apart economically, until the Ukraine war compelled Moscow to look at New Delhi with a different economic lens. Through the 1990s-2000s, Russia focused its survival on a commodities-led economic model directed at Europe and China. Its oil, gas, minerals and other related exports were to these geographies. With India, priorities largely remained the same old Soviet staple of guns, crafts, related machines and nuclear reactors.

India also grew economically. But Russia wasn't the centrepiece of that growth conversation. India looked westwards and eastwards, but rarely to its trusted northern partner for economic expansion.

In this backdrop, the past 3 yrs have been an eye-opener. The Ukraine war forced Russia to look at markets beyond Europe. In the process, it rediscovered India. While China reinforced itself as Russia's biggest economic partner, Moscow also got a taste of the economic opportunity New Delhi can put on the table.

India, which has refocused its energies on manufacturing in a world of uncertain geopolitics, also found in Russia a potentially reliable and affordable commodities source for oil, fertiliser, coal and other minerals necessary to fire up its industry and agriculture. This path isn't devoid of political challenges, given Russia's own problems with the West. But, bilaterally, the road ahead for long term lies in Moscow connecting its economic engine with India's growth story.

The Ukraine war forced Russia to look at markets beyond Europe. While China reinforced itself as Russia's biggest economic partner, Moscow also got a taste of the opportunity India can put on the table

India offers an opportunity for Russia to start derisking itself from China. China's exports to Russia are diverse across different product categories, while for Moscow, it's just crude that provides advantage

Geopolitically, India offers an opportunity for Russia to start derisking itself from China. China has emerged as the biggest importer of Russian crude. The trade in 2024 touched $245 bn, with a $19 bn trade deficit in Russia's favour. But of the $129 bn exports to China, $64 bn was crude, while of the $119 bn of China's exports to Russia, the highest comprised cars at little over $11 bn. It shows that China's exports to Russia are diverse across different product categories, while for Moscow, it's just crude that provides advantage.

In comparison, India-Russia trade is much lower than Russia-China, even if one considers the $100 bn target for 2030. But the trade deficit for India is way higher than what Russia has with China. This means India, like China, must diversify its exports to Russia. Which is where lies the importance of Putin's call. Indian pharma, small cars, light engineering goods, and project labour are goods and services that have often been identified as areas where Russia can find viable alternatives to China.

But despite all strategic congruence, Moscow is yet to break out of the China clasp to consider these options. The post-Ukraine experience, however, ought to change India's frame of reference in Moscow, from just a country that bought defence articles to a large economy that can offer effective alternatives to China.

India needs to take this conversation forward not just with Russia but also with the West. For all the US-China G2 talk, the fact is that Donald Trump met his match in Xi Jinping, who was able to outstare the American and get a better deal for Beijing, underlining China's ability to leverage supply chains to its political advantage.

So, for the West, Russia's economic diversification away from China is a long-term positive from a geopolitical standpoint. A potential peace deal with Ukraine could hasten this process, because turning Russia's rich resources/commodities solely into a preserve for China's economy would be a strategic mistake, if not a blunder, given the backdrop of oversight that led to China's entry into WTO in the 1990s.

The India-Russia relationship needs a reset. And the way forward won't come from additional defence or nuclear purchases, but through a fundamental reorientation of the economic conversation. The time has come for Russia to shed the Soviet lens on India's economy, and embrace its growth as a new opportunity. A transformation it achieved with China, but somehow has staggered with India.

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02 Dec 2025

Crypto's Wild West Moves Need Taming

Regulation can stabilise this asset class

The new element in the latest crypto crash — bitcoin (BTC) fell over $5,200, or nearly 7%, in just 2 hrs on Monday — is the presence of institutional investors in the market. This represents 'normal' money in the crypto system, which tends to react normally to market fluctuations. Attitudes towards risk, thus, become normalised, with unforeseen consequences for cryptocurrencies that have a predictable boom-bust cycle. One, share of crypto diehards has shrunk, making recovery difficult. Two, the correction can deepen with institutionalised risk management at play. Besides, crypto adoption is stalling, and that affects the bullish argument for the asset class. The crypto market is acquiring a bias for deeper dives and shallower climbs. Unless participants can fix the lopsided market, regulators will have to step in.

Odds are the crypto market will find its feet because of factors causing the tilt. More normal money flowing in will dampen crypto riskiness. Stablecoins will also achieve the same effect by allowing crypto functionality, while curbing fluctuations. These will also improve crypto adoption. Ultimately, cryptos have the potential to morph from an asset class into currency. So, the evolutionary path will be well-defined in terms of regulation. The speculative element in crypto trade will have to conform to risk-reward trade-offs that the broader financial markets are comfortable with.

Cryptos need to be regulated for financial stability and cybersecurity. This must be a coordinated effort because of the interconnected nature of financial markets and globalised threats to cybersecurity. Crypto markets should benefit from deepening via institutional presence. Swift enforcement action in cases of manipulation also brings down the Wild West quotient of cryptos. The financial structure is becoming decentralised, and cryptos are becoming stores of value as regulators amp up risk mitigation. The rollercoaster rides crypto investors are accustomed to may lose some of their intensity, which is good for the world's youngest asset class.

03 Dec 2025

Case of More SIMmed Against Than Sinning

Risks isolating app users from global pool

India is taking a huge gamble by asking online messaging apps to bind users to SIM cards. The other DoT directive to preload a GoI cybersecurity app in handsets is also a matter of concern, even as other countries — well, like Russia — have issued similar directives. The argument for both is security. But it could very easily snowball into Big Brotherly issues, despite the telecom minister clarifying that the Sanchar Saathi app can be deleted by the phone's owner. The move could alienate global tech majors as well, for inconveniencing user-consumers by being persistently tied to SIMs and having a perceived pesky app running in the background.

India is a huge market for mobile devices and OTT messaging apps, but not big enough to alter their architecture. It risks isolating its users from the global pool, which would dilute the USP of apps like WhatsApp, and the security promised in an iPhone that provides seamless connectivity worldwide. The gains in traceability could cause unacceptable levels of reduction in privacy. India, remember, is still two years away from a full rollout of its data protection regime.

The case for regulating device-based services as intensely as SIM-based services is made out of a value proposition. But the two services are distinct. OTT communication is far more popular than SMS for a reason. There are other ways to address the traceability-privacy trade-off. ID verification at the point of creating an account on a messaging app provides additional security without impinging on user freedom. This approach can be made more or less intense, according to the inherent risks of specific forms of communication, say, those involving financial transactions. Develop analytics tools to track suspicious activity on messaging apps. These are becoming more sophisticated and avoid subjecting the entire subscriber base to technical fetters. Finally, SIM-binding can be applied selectively to categories of communicators, thereby limiting user friction. DoT may have to adjust its dos and don'ts.

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Let Him Be

SIM-binding apps and pre-installing a GoI portal in phones create more problems than solutions

DON'T JOIN THE DoT

Much Too Trigger 'Appy

Subimal Bhattacharjee

Last Friday, in a remarkable display of regulatory urgency, Department of Telecom (DoT) launched a two-pronged assault on the ₹22,800 cr cyber-fraud crisis plaguing the country. In simultaneous directives, DoT mandated continuous SIM-device binding for eight major messaging apps, while ordering that GoI's Sanchar Saathi mobile app be pre-installed on all smartphones manufactured or imported for India. Telecom minister Jyotiraditya Scindia has since clarified that Sanchar Saathi is 'optional', and can be deleted from phones.

Together, these measures signal serious intent. But do they address the vulnerabilities in their entirety?

The SIM-binding directive targets a genuine security loophole. Messaging apps like WhatsApp, Telegram and Signal currently function even after their associated SIM cards are removed or taken abroad. This disconnect allows fraudsters to authenticate accounts using legitimate Indian numbers, then operate from overseas havens beyond law enforcement's reach. The mandatory 6-hr logout for web sessions aims to prevent indefinite remote access that facilitates account takeovers and mule operations.

The Sanchar Saathi mandate takes a different approach — as universal deployment of a citizen-facing security tool. By pre-installing GoI's portal for checking registered mobile connections, blocking stolen phones and reporting fraud, DoT hopes to put preventive and responsive capabilities directly in users' hands from day one.

Both initiatives demonstrate understanding of how cyber-fraud infrastructure actually works. The SIM-binding requirement borrows from banking apps' playbook, creating continuous verification that makes mass fraud operations exponentially harder to sustain. When criminals must repeatedly prove physical control of devices and SIMs, economics of large-scale scamming deteriorate rapidly.

Sanchar Saathi pre-installation addresses a different problem: user awareness and accessibility. Many fraud victims don't know such tools exist until *after* they've been compromised. Pre-installation eliminates the discovery barrier, potentially catching fraudulent connections before they're weaponised for scams. For a population where many users barely venture beyond pre-installed apps, this bundling strategy makes intuitive sense. But then comes the rub.

The 90-day deadline for SIM-binding implementation demands that global platforms fundamentally re-architect their Indian operations. Continuous device-SIM verification isn't trivial. It requires persistent background checks that raise battery consumption concerns, compatibility issues across India's diverse smartphone ecosystem, and potential conflicts with device operating systems.

What happens during legitimate SIM replacements, device switches or temporary network issues? Will millions face authentication loops that drive them toward unregulated alternatives?

The Sanchar Saathi pre-installation order creates its own complications. Manufacturers must integrate a government app into their supply chains and update processes. Will this delay device launches? How frequently will the app require updates? Who manages that across thousands of device models?

Moreover, pre-installation guarantees presence, not usage. An app sitting unused in a folder, or deleted, provides no security benefit. DoT's directive doesn't address user education or engagement strategies.

Here's the uncomfortable truth: both measures respond to current fraud techniques, but don't anticipate how criminals will adapt. Sophisticated fraudsters already operate through multiple SIM cards, use technical methods to spoof or clone identities, and constantly probe for new vulnerabilities. If SIM-binding creates friction only for legitimate users — while determined criminals pivot to encrypted platforms outside the directive's scope — we've gone about what we intend to secure the wrong way.

'Digital arrest' scams, government impersonation calls and investment frauds that have been plaguing the country for a while now often succeed not because of technical vulnerabilities, but because of social engineering. Criminals exploit fear, greed and authority bias. No amount of SIM-binding prevents someone from believing they're speaking to a CBI officer demanding immediate payment, especially when the call displays sophisticated spoofing techniques that these measures don't address.

Hello? Now you're scaring me

Neither directive tackles several critical gaps:

▶ There's no mention of real-time fraud detection systems that use AI to identify suspicious patterns — mass messaging, rapid account switching or geographic anomalies.

▶ Cross-border cooperation remains absent from the discussion. Many fraudsters operate from neighbouring countries where Indian regulations are irrelevant.

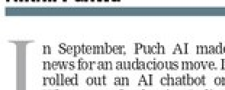
▶ Financial intermediaries — payment gateways and cryptocurrency exchanges where fraud proceeds actually flow — aren't addressed.

The Sanchar Saathi approach assumes users will proactively check connections and report fraud. But research consistently shows that most people don't engage with security tools until after victimisation. Pre-installation, without aggressive user education and simplified interfaces, may achieve favourable optics, without intended result. Moreover, privacy implications remain under-explored and exposed. Continuous SIM verification requires persistent access to device identifiers and telecom data.

These directives represent important tactical moves in a strategic war the country is still learning to fight. They're necessary, but insufficient — security theatre if poorly executed; progress if part of a broader, evolving defence strategy.

The writer is a commentator on digital policy issues

So, Telecom Binds Digital



Nikhil Pahwa

In September, Puch AI made news for an audacious move. It rolled out an AI chatbot on WhatsApp after buying India's most expensive mobile number: 9090909090. This wasn't a gimmick. Almost every single internet user in India uses WhatsApp, and it's easier to reach them on it than get them to instal your chatbot app. It's also why a large part of India's startup and SME ecosystem uses messaging apps for automating purchase, sending transaction messages that include tickets and QR codes, and provide customer support on WhatsApp.

A move by GoI is about to end this. Last week, DoT directed messaging applications like WhatsApp and Telegram to enforce SIM-binding. This means that for these services to work, they have to work from a device that has a linked SIM card present.

All virtual CRM (customer relationship management) software used by startups and SMEs to integrate with WhatsApp or Telegram rely on server side architecture. There's no scope for inserting SIMs. SIM-binding, on the other hand, relies on the coupling of apps, SIMs and devices. This means that millions of businesses will no longer be able to use messaging services to service their customers.

Apart from this, regular users won't be able to use messaging on tablets without a SIM card, or the same account on multiple devices. Every six hours, they'll get logged out of web and desktop versions of messaging apps, which many working professionals use for remote work, and to transfer files and communicate with colleagues.

People travelling abroad won't be able to use WhatsApp or Telegram with a local SIM, unless their phones support dual-SIM usage. Many people who move abroad for studies or work switch to a local SIM, but continue using their Indian WhatsApp account, retaining the same chats and groups for continuity, even if their number changes. This won't be possible because their WhatsApp account won't work without their old Indian SIM physically present.

In countries like the US, where dual-SIM phones are hard to find, and devices are carrier-locked, this would be simply unworkable. This is an enormous forced cost for ordinary people and businesses. It also gives telcos a free hand to increase roaming prices. Which may explain why they lobbied for this move in the first place.

SIM-binding won't prevent scams using smuggled SIMs either. Scammers can still take Indian SIM cards outside India and use it over WiFi, because they use physical SIM boxes and GSM gateways. Frauds perpetuated by other means like SMS, VoIP, caller ID spoofing, username-only accounts, online-only messaging services, email, fake apps or phishing sites, including fake customer care websites, are not impacted by this. Most fraud in India succeeds because of social engineering and leaked personal data, not because scammers lack SIM-binding.

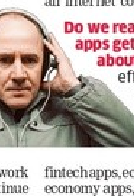
After SIM-binding, any SIM replacement, even with the same phone number, will trigger creation of a new messaging account number. A stolen phone will also become a single-point of failure for the user. It can give the thief access to the user's messaging accounts even if the stolen device is locked.

From a privacy standpoint, forcing apps like WhatsApp and Telegram to constantly verify physical presence of a SIM means they must repeatedly check SIM identifiers, device identifiers and network status, creating a far richer stream of metadata than users currently generate. Do we really want these apps getting more data about us? SIM-binding effectively hardwires your messaging identity to your telecom identity.

So, this new directive makes ordinary users' lives harder, makes businesses less efficient, and turns WhatsApp and Telegram into a brittle, SIM-dependent system that collapses the moment SIM is lost or inactive — while impact on frauds is minimal.

This directive is also built on a weak legal foundation. When Telecommunications Bill 2023 was passed, the then-telecom minister Ashwini Vaishnaw had told this paper that internet companies are out of the ambit of the law, and will be regulated by the IT ministry. Yet, earlier this year, the telecom ministry passed a regulation that stated that a company that uses mobile numbers as identifiers is now a 'telecommunication identifier user entity' and regulated under the Telecom Act.

The mobile number, not email address, is the primary identifier for most online services in India. This brings all internet companies — including fintech apps, ecommerce services, gig economy apps, online streaming services and dating apps — under telecom regulation. It's like saying that if a retail shop stores customer email addresses in its CRM as a customer identifier, it comes under internet regulation. This is a jurisdiction grab, and it makes Digital India subservient to the telecom ecosystem.



Do we really want these apps getting more data about us? SIM-binding effectively hardwires your messaging identity to your telecom identity

Once the regulation was notified, DoT rushed out the SIM-binding directive with no public consultation, relying primarily on inputs from a vested interest — telecom lobby group Cellular Operators Association of India (COAI). That absence shows.

The regulation illustrates that the ministry simply doesn't grasp how millions actually use these services. It not only doesn't have a legal basis for regulating online services, it also doesn't deserve to.

The writer is founder, MediaNama

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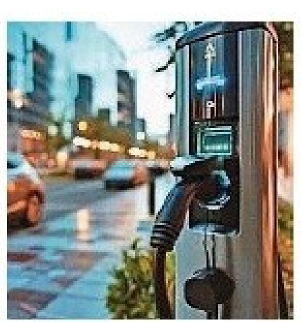
More Charge of the EV Light Brigade

Faced with low-voltage sales, Tesla is reportedly planning to set up home charging units, superchargers in major metros, and chargers at malls and hotels. Yes, EVs in general need a push. Despite policy support and growth in EV charging stations — from 1,800 in early 2022 to over 30,000 in mid-2025 — India's EV ecosystem remains woefully inadequate, posing the biggest barrier to faster EV adoption. The country has 5 charging stations for every 100-odd km of roads. China has 100, Norway 180. This shortage is reflected in the share of EVs plying on roads — 5% in India, 48% in China, nearly 100% in Norway. Revving up EV sales will require ramping up infrastructure. If it's built, sales will happen.



An ambitious goal of 30% EV penetration by 2030 requires a 44× scale-up of charging stations — from 30,000 to 1.32 mn — in less than 5 years. Adequate public funds underpinning policy and programmes are in place, such as PM E-DRIVE with an outlay of ₹2,000 cr. But government funding alone won't charge things up. The public EV ecosystem must leverage the infra being set up by auto companies like Mahindra and Tata Motors, and partnerships with charging point operators. The infra must be interoperable and single platform, for user charges will help augment the network efficiently.

But before revving up, existing problems need fixing. Of the 30,000-odd charging stations in India, only about 15,550 are operational. Many of these are slow chargers. Unreliable power supply hinders functioning, as does poor maintenance and theft of components. Location of chargers must be planned to help broad-base adoption across geographies. A focused approach to building the EV infra ecosystem will create consumer confidence. That's the push to convert into a shove.

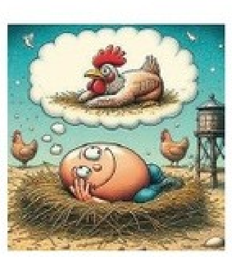
04 Dec 2025

All That's Pledged Isn't Investment

Political will, economic conditions convert MoUs

Last month, during Mohammed bin Salman's Washington visit, Donald Trump said Saudi Arabia had pledged $1 tn in US investments. With no details of any timeframe, it would be wise to take this claim with an oil drum of salt. The cleverness of such an announcement is that this is something that the Saudis needn't deny even if it is an exaggeration or plain untrue. And if MbS, indeed, has held out a promise he can't fulfil, there's little that the Trump regime — or its successor(s) — can do about it.

The problem with investment commitments is the lack of enforceability. Indian states routinely trot out giant numbers of *promised* investments, a big chunk of which never materialises. Take West Bengal. Almost none of the much-touted MoUs materialise, despite the annual jamborees and photo-ops. Real investment is typically pledged conditionally, with specific and general expectations about ease of doing business. If these issues stay unaddressed, 'understandings' fail to turn into horses that beggars plan to ride. Chronic under-delivery on investment signals progressive weakness in the business environment when competing states improve their investment prospects.



Greenfield investment is driven by a definite set of economic parameters, such as proximity to resources and markets. If a political establishment wants to speed up the process, it must offer another set of governance deliverables. Besides, governments may need to commit additional investment to fill gaps in physical and social infra. These steps improve the investment climate, but don't ensure enforceability of pledges. Business conditions may alter, affecting planned investments. The business cycle could alter, affecting capital timelines for capital infusion. The idea would be to reduce governance risks to a point where businesses feel comfortable to commit. But in most cases, announcing romantic intent itself is trotted out as fixing a wedding date. As anyone on their first date knows all too well, that's merely political, not financial.

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Let Him Be

SWAMISPEAK Q2 marks structural shift not out of one superstar reform, but smaller ones

8.2% India's '83 Moment?

Swaminathan S Anklesaria Aiyar

India's GDP growth of 8.2% in Q2 FY26 has astonished even seasoned observers. This is not merely 'better than expected', or 'excellent'. It's, as one analyst put it, 'almost surreal'. Surreal not because India has never grown at this pace. But because it has done so in one of the most difficult global economic years in recent memory, marked by Trump tariffs, supply-chain fragmentation, geopolitical volatility and anaemic world demand.

One quarter does not make a revolution. But India has been exceeding analyst expectations quarter after quarter, year after year, in its post-pandemic revival. India's long-term growth rate since 2000 has been 6.5%. This is also the rate projected year after year in the Economic Survey. But India now exceeds that figure so comfortably as to suggest a structural shift.

Resist the search for a single magic explanation. The story of India's recent growth is not that of one superstar reform. It looks like a composite story — of many small and medium changes over many years, finally compounding into a visible structural shift.

Its economic moment resembles, in spirit, India's 1983 cricket World Cup victory. Then, a team that had never been considered among the world's best, won the trophy in splendid style. It was not a triumph of one or two dominant players. It was the collective effect from all 11 players that won a championship.

A similar convergence may now be reshaping India's economy. That is good news. But remember that after 1983, Indian cricket suffered many ups and downs. The same might happen with economic performance, unless India constantly adjusts to meet challenges.

The latest GDP print is remarkable not just for its topline number, but also for the structural drivers beneath it. Overall GVA (excluding agriculture and public administration) grew 8.5% y-o-y in Q2 FY26 — far above 5.6% recorded in Q2 FY25. Core of the economy — industry and services — is in fine fettle.

- **Agriculture** grew 3.5%, a healthy improvement, despite climatic uncertainty.
- **Industry** clocked 7.7%, double the 3.8% growth of a year earlier.
- **Manufacturing**, long India's Achilles' heel, grew a fine 9.1%, compared to 2.2% in Q2 FY25.
- **Services** expanded 9.2%, powered by strong 10.2% growth in financial, real estate and professional services.

With GDP growth averaging 8.0% in H1 FY26, analysts such as SBI chief economist Soumya Kanti Ghosh estimate full-year growth at 7.6%, even allowing for a coming slowdown. A year ago, India appeared to be flirting with a mild stagflation scenario — growth losing momentum, even as price pressures mounted. Today, the situation is almost inverted:

- Inflation has fallen to almost zero.
- GDP growth at 8.2% is far above IMF's estimate of 6.6% for the year.
- Trade deficit has doubled but remains within our comfort zone, and a sharp rise in imports of capital goods suggests a vibrant economy.
- Investment-GDP ratio is up to 34%, well above the 2024 figure of 30%.

India's 8.2% growth is 'almost surreal', not because India has never grown at this pace, but because it has done so in one of the most difficult global economic years

Catching on

What explains the reversal? GDP growth of 9.2% in FY24 was dismissed by critics as a statistical mirage driven by an exceptionally low deflator. So, the next year would bring us down to earth. Instead, FY25 delivered a strong 6.5%. The 2-yr average was 7.85%, far beyond the 'deflator washout' hypothesis.

In FY26, the economy has opened with 7.8% in Q1, and 8.2% in Q2. Even if the next two quarters soften — as they realistically might — India will comfortably exceed 7% growth in a year when global growth will fall to 2.5%. Clearly, something deeper is at work.

Today's numbers suggest an unanticipated improvement in productivity. Earlier, India had an incremental capital output ratio of around 5, suggesting it needed investment of 40% of GDP to get to 8% growth. But the ratio was just 30% in 2024, and 34% in the most recent quarter. It seems India is getting more output per unit of capital.

Where is this productivity coming from? Not through a single reform, but many reinforcing ones:

- GST and tax reforms, reducing logistical frictions.
- Digital public infrastructure that lowers transaction costs.
- Fiscal discipline, aided by asset monetisation.
- Lower inflation, improving planning horizons.
- Public capex, upgrading roads, ports, railways.
- Stable policies that have encouraged 1,600 MNCs to open GCCs in India. These are no longer in low-skilled call centres, but in design, R&D and AI. They have spillover effects: engineers and scientists skilled by MNCs are later hired by top Indian companies. Some have become entrepreneurs.
- India has attracted global inflows of PE and VC to fund thousands of startups that had no financiers two decades ago. This has helped India breed over a hundred unicorns.
- Opening of new sectors like defence production, space and now nuclear power to private players has attracted many startups.

None of these changes was dramatic in isolation. But together, they appear to have created a quiet revolution. It's too early to be certain of this. But the prospects look good.

04 Dec 2025

Ease of Biz Starts in the States

Ajay Shankar

The modern industrial economy has been getting increasingly complex. There is greater need for better standards for safety, health and environment. No inherent contradiction exists between this and improving ease of doing business.

The problem is the legacy mode of thinking in government. While large firms can find resources for coping with excessive regulatory burden, MSMEs and startups find the burden too heavy. Much of the work that needs to be done is the job of state governments, and municipal and district authorities.

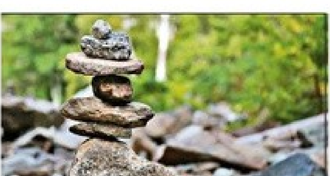
All regulatory requirements across all agencies in a state should be listed. They should be subject to a fresh independent scrutiny. Only those that pass the test of a professional regulatory impact assessment (RIA) should be retained. Officers heading departments and agencies normally don't have time or inclination for this.

GoI could take the initiative and start working in partnership with willing chief ministers to put together an expert team for undertaking a wholesale review exercise. This team should take one sector at a time and make recommendations. This would be a new model of central and state government partnership. This exercise could be guided by a few suggestions:

❶ **Do away with prior permission** For instance, a radical reform would be having European pollution control standards for an industrial plant, with sensor-based real-time measurement of air and water emissions to be logged in a control room. There would be pre-programmed escalating financial penalties for breaches, and time-bound closure till processes are rectified to keep emissions within permissible limits.

TRADE-OFF

This would be better than the present lengthy process of experts going through pollution control technologies proposed, and recommending environment clearance. Prior clearance could be done away with. Adequate capacity and codes would need to be built to operationalise this.



Between federalism and a hard place

❷ **External certification** Government inspectors could be replaced with a credible, real-time data-logged third-party inspection and certification process. The latter would, in turn, need to be subject to audit, and strong penalties in case of breaches, to ensure quality.

❸ **Reduced record-keeping and reporting requirements** This can reduce costs of regulatory compliance substantially. Institutionalisation of regulatory impact assessment and undertaking of cost-benefit analysis would be crucial. The exercise would make transition to digital governance more efficient. But someone would have to read forms with a fresh mind, and see what can be eliminated, merged or simplified.

As the work proceeds, legal provisions, rules, regulations, implementation and government orders would need to change. There is huge inertia and resistance to change in government agencies. Patient, transparent consultation with all stakeholders, in an effort to generate a broad consensus, would be essential. This would make it so much easier for a CM to use her or his political capital to steer the transformation.

Success in any one area would have the effect of getting other states to study and see whether they can do something similar. A grassroots constituency for reforms could emerge and gather momentum. This would generate a sustainable momentum for reform across departments.

This initiative would need backing of a strong central leadership. Test of success would be honest feedback from small entrepreneurs and startups, whose growth would be the proof of the pudding.

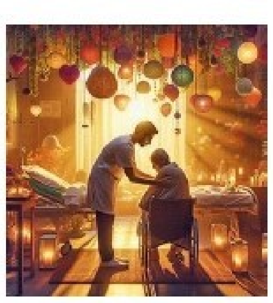
The writer is former secretary, Department of Industrial Policy and Promotion, GoI. This article is part of an expert series on trade policy curated exclusively for ET by CUTS International

04 Dec 2025

India Needs to Take Care, Ease the Pain

Caring for a loved one with a terminal illness becomes an overwhelming physical and emotional struggle. For an overwhelming number of families, it is also a financial ordeal. Globally, WHO data shows 56.8 mn people need palliative care. Only about 14% receive it. In India, 7-10 mn require such care every year, but fewer than 4% access it. A new Aiims study, 'Building Palliative Care Capacity in North India: A Multicenter Approach', underscores how thousands endure avoidable pain because palliative care is still misunderstood (often reduced to 'end-of-life care'), under-used, and poorly integrated into healthcare.

This is a critical gap, since India's demographic shift is accelerating. Close to 19,500 Indians turn 60 every day. This cohort, larger than Japan's population, will increasingly live with cancer, dementia, organ failure or chronic pain. For them, palliative care can help them sleep better, breathe easier and retain dignity. India has a National Programme for Palliative Care. But without a dedicated budget, its impact is limited to well-meaning documents and pilot initiatives. Private providers have stepped in, sensing demand. But at prices out of reach for most and concentrated in urban India.



Yet, progress is possible: training doctors and nurses in pain relief, symptom management and communication reduces patient distress and cuts unnecessary hospitalisations. What India needs now is political will and stronger systems. District-level palliative services, better availability of essential medicines and proper funding for building a care system that supports every Indian who needs it — availability of high-value service for those who can afford it, as well as for those for whom good care is financially still out of reach.

04 Dec 2025

Regulators, Declutter Like RBI

Aditya Sinha

In Franz Kafka's The Trial, Josef K never learns the rule he has supposedly broken, yet finds himself trapped in a maze of clerks, sub-clerks and shadowy authorities. No one intends tyranny, it grows organically from the system's momentum. This is the paradox of regulators. Even well-meaning regulators, driven by asymmetric accountability and fear of type-II errors, drift toward adding rules rather than removing them. Over time, the regulatory state behaves like a self-referential organism, expanding its boundaries to reduce uncertainty, even when that expansion creates more complexity than clarity. Against this backdrop, the RBI has done something almost unimaginable: it has voluntarily shrunk some regulations.

On November 28, the apex bank announced that it has consolidated more than 9,000 circulars, guidelines and instructions into 244 function-wise Master Directions (MDs), a 97% reduction in regulatory clutter.

Across 11 categories of regulated entities, including commercial banks, small finance banks, payments banks, NBFCs, cooperative banks, All-India Financial Institutions, asset reconstruction companies, credit information companies and others, RBI collapsed nearly 3,500 active instructions into coherent MDs while marking 9,445 circulars as ready for withdrawal.

Draft MDs were released for public comment in October, eliciting over 770 submissions. After filtering out suggestions that sought substantive regulatory changes (beyond the scope of consolidation), the RBI finalised a clean, authoritative library of instructions that now replaces decades of overlapping amendments and un-repealed circulars.

This template can be adopted by other regulators. However, it is not easy, as regulators tend to regulate and, in most cases, over-regulate. There are several reasons for this.

▶ **Asymmetric accountability** Regulators are punished far more severely for failures of omission than for failures of commission. When the political cost of a missed risk is high, rule accretion becomes rational self-protection.

▶ **Path dependence and institutional lock-in** Bureaucratic systems, once set on a trajectory, reinforce their routines through sunk costs, procedural memory and justificatory narratives, making expansion easier than recalibration.

▶ **Knowledge asymmetry vis-à-vis industry** In sectors characterised by high technical complexity and rapidly evolving risks, regulators respond to informational disadvantage by erecting broader and more conservative guardrails, a tendency often called 'regulation by approximation'.

▶ **Legislative and judicial incentives** Statutory mandates often emphasise consumer protection, prudential safety or risk aversion, not efficiency, leading agencies to hedge politically by over-specifying compliance requirements.

Deregulating from within the system is even harder, and there are several reasons for this.

▶ **Bureaucracy favour expansion** As William Niskanen's theory of bureaucracies shows, agency budgets, staffing and prestige are positively correlated with regulatory scope, making reduction counter-incentivised.

▶ **Loss aversion and institutional risk aversion** Daniel Kahneman and Amos Tversky's prospect theory applies to regulators too. Removing a rule carries the risk of blame if something goes wrong, whereas adding a rule distributes costs diffusely across society.

▶ **Legal entanglement and procedural inertia** Once a regulation interacts with multiple statutes, appellate decisions and internal guidelines, removing it requires coordination across agencies, ministries and courts.

▶ **Absence of sunset clauses and feedback loops** Most rules are designed to be permanent by default, without mandatory review mechanisms, so rules linger long after the original risk has changed or disappeared.

The impact of this regulatory accumulation is multidimensional.

▶ High regulatory density increases transaction costs and compliance burdens, disproportionately affecting small firms.

▶ Regulatory complexity reduces innovation incentives, as excessive ex ante approval requirements suppress experimentation.

▶ It generates interpretive uncertainty, causing firms to over-comply or 'self-censor' activity.

▶ It entrenches incumbents and reduces competition, as complex compliance regimes increase fixed costs that only large players can absorb, leading to market concentration.

▶ It weakens state capacity by diffusing attention. When regulators must enforce thousands of micro-rules, they shift from outcome-based supervision to form-based policing, reducing strategic capability and creating 'regulatory overload'.

Against this backdrop, RBI's move provides a coherent framework for other regulators to adopt. Regulatory consolidation must focus on these steps:

▶ Establish a single, authoritative library of instructions by collapsing all circulars, notifications and amendments into unified MDs organised by function rather than chronology.

▶ Conduct a full audit of the existing rulebook, identifying obsolete, duplicative or superseded provisions, and formally marking them for withdrawal to prevent regulatory sedimentation.

▶ Enable structured public consultations that filter substantive policy changes from clarity-enhancing suggestions, ensuring that consolidation does not become a backdoor for new rule-making.

▶ Embed periodic review mechanisms, sunset clauses, repeal cycles and regulatory impact assessments, so that the rulebook remains contemporary and proportionate.

▶ Internally, agencies must strengthen technical capacity to reduce reliance on over-specification driven by information gaps, while rebalancing incentives so that officials are rewarded for clarity, coherence and proportionality rather than the volume of instructions issued.

▶ Consolidation must be linked to a shift toward outcome-based supervision, which allows regulators to simplify ex ante rules while enhancing risk-based, ex post oversight.

Pack a punch

The writer is a public policy professional

05 Dec 2025

Sleep Tight, Don't Let The ₹@90 Bug Bite

There's little to gain from a fixed exchange rate

We're delighted to learn that the chief economic adviser isn't having sleepless afternoons over the rupee, which slipped past ₹90/$ for the first time on Wednesday before hovering just under, at ₹89.96, on Thursday. And he's right to believe his siesta isn't under threat. RBI, too, should chill. Like any other central bank, it confronts an impossible trinity of a fixed exchange rate combined with free capital flows and independent interest rates. The way RBI goes about it is by imposing controls on outward capital movement and letting the rupee float within acceptable limits. These measures free up policy space to focus interest-rate moves on inflation control and, consequently, economic growth. For an economy running persistent fiscal and trade deficits, this approach results in a gradual depreciation of the rupee, and RBI's intervention is required to smoothen currency market volatility.

This is the best course of exchange rate management available to RBI. Were it to target a specific value for the rupee, it would have to tighten capital controls, or surrender independence over interest rate movements. There would also be little to gain from a fixed exchange rate. Pegged low, it would favour exports while disfavouring imports. Any gains in the trade balance would be offset by adverse effects on the fiscal balance. Pegged high, the fisc would gain at trade's expense. These are the guard rails within which India's exchange rate policy must operate.

Following the efficient market hypothesis, freer capital movement would achieve similar outcomes. But it would make interest rates rigid, while amplifying exchange rate fluctuations. Adjusted for inflation and sovereign risk, the interest rate differential yields positive returns for foreign investors in GoI securities after considering exchange rate movements. So, RBI isn't diverging too much from the free-float exchange rate. The variance will narrow as India is included in more global bond indices. There are no psychological levels to defend for INR, and RBI won't be unduly perturbed about any dent to India's prospects or image with ₹@90.

05 Dec 2025

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The Times They Are A-Changin': Iconic American Singer-Songwriter Finally Bags Lit Nobel

"But as far as songwriting, any idiot could do it... Everybody writes a song just like everybody's got that one great novel in them."

"From Orpheus to Faiz, song & poetry have been closely linked. Dylan is the brilliant inheritor of the bardic tradition. Great choice"

"Want to thank him for influencing three generations with his songs, transporting people from their crazy lives to an alternate world"

SWEDISH ACADEMY PRAISES DYLAN'S POETRY FOR THE EAR

AROUND THE WORLD » 17

Let Him Be

Family-sponsored AIFs aren't about chasing trendy products, but about control and freedom

Ctrl + Alt, the New Wealthy

Puneet Gupta & Siddharth S Singh

A quiet structural shift is underway in India's wealth management landscape. For decades, affluent families allocated wealth through mutual funds, portfolio management services, insurance-linked products, and discretionary mandates offered by private banks. These vehicles were convenient, regulated and administratively simple.

But they shared a limitation. They were designed for short-term financial returns, not for long-term stewardship of multigenerational fortunes.

As India enters a generational transition — from first-gen entrepreneurs of the 80s-90s to second- and third-gen successors — wealth creators are asking a deeper question: how do you build governance and investment structures that outlast the founder, protect capital and preserve a coherent philosophy? The answer increasingly lies in alternative investment funds (AIFs).

Industry figures show committed capital has crossed ₹14.2 tn. Estimates suggest nearly 80% of that amount comes from promoter families and family offices. What began as a structure built primarily for private equity and venture capital funds is now being repurposed as a family institution — one that blends investment management with legacy planning and institutional governance.

The move toward family-sponsored AIFs isn't about chasing trendy products. It's about control, flexibility and the freedom to pursue a long-term view. Traditional wealth structures leave families bound by others' decisions, disclosures, risk models and regulatory rules. MFs and portfolio management services impose strict mandates, diversification norms, concentration caps and liquidity constraints.

For wealth creators who succeeded through bold, concentrated bets, those limits often feel misaligned with how they think and invest. By contrast, a self-sponsored AIF allows a family to:

▶ **Design investment philosophy** Families can design bespoke strategies, set asset-allocation rules, rotate managers, define risk frameworks and build investment committees that add independence without losing control. AIFs transform wealth from a passive pool into a purpose-built investment house reflecting the family's values, appetite and ambitions.

▶ **Flexibility** Private equity, VC, private and structured credit, real estate, infrastructure, cross-border deals, and family club deals all fit neatly within the AIF framework. Families are no longer limited to public markets or mass-affluent products. They can now pursue long-term themes, business adjacencies, or opportunities requiring sophisticated underwriting and governance, building portfolios closer to global endowments and sovereign wealth funds than to traditional retail vehicles.

▶ **Tax efficiency** Category 1 and 2 AIFs enjoy pass-through status for many income categories, ensuring that taxation occurs at the investor level rather than the fund level. This avoids the double taxation common in corporate or trust structures, and provides flexibility for families with complex capital gains and business holdings. Over time, this tax efficiency compounds into meaningful retained wealth, particularly for promoter families with significant liquidity events or ongoing business cash flows.

▶ **Governance** As first-gen wealth creators pass the baton, governance is emerging as the real currency of longevity. AIFs enforce institutional discipline: investment committees with independent voices, formal risk oversight, audited reporting, third-party validation, and clear segregation of roles between trustees, managers and owners.

Wealth creators are asking a deeper question than short-term financial returns: how do you build governance and investment structures that outlast the founder, protect capital and preserve a coherent philosophy?

The new fit

These mechanisms help families avoid interpersonal conflicts and ad-hoc decision-making that often erode fortunes during generational transitions. Many families have begun to see AIFs as structures that embody not only their financial strategy but also their philosophy, ethics and decision-making frameworks.

This approach is already visible in India's most sophisticated family offices. Premji Invest, Catamaran and Burman Family Office show how professionally governed platforms can deploy capital across public markets, private equity, venture capital, credit, real estate and philanthropy with cohesion and long-term discipline — a template now being adapted by thousands of emerging promoter families at a smaller scale.

Governance mechanisms help families avoid interpersonal conflicts and ad-hoc decision-making that often erode fortunes during generational transitions

Rise of promoter-backed AIFs also has implications for India's financial ecosystem.

▶ Wealth managers and private banks can no longer rely on product distribution as their primary value proposition. Families require advisory capabilities — investment architecture, governance design, outsourced CIO models, access to high-quality private markets, and specialised tax and cross-border structuring.

▶ Legal, audit, trustee and fund administration providers are seeing an increase in demand for bespoke, institutional-grade services tailored for single-family AIFs. The emergence of GIFT City is accelerating this transition by offering a globally competitive jurisdiction for cross-border capital pooling and investment.

India's increasing pool of domestic long-term capital — run through AIFs — is strengthening the country's financial resilience. Domestic capital is patient, counter-cyclical and better attuned to India's risk environment. It reduces reliance on foreign PE and VC, enables deeper financing of innovation, and supports the development of strategic sectors from RE to manufacturing to technology.

The shift from MFs and PMS structures toward family-sponsored AIFs is more than a tactical adjustment, it marks a new phase in India's economic maturity. Families are no longer content with merely investing. They want to build institutions, ones that embody their values, encode their governance philosophy and provide continuity across generations. In doing so, India's wealth creators are not just preserving capital, they are defining the architecture through which that capital will shape the country's future.

Gupta is adjunct faculty member, Institute of Management Technology, Ghaziabad, and Singh is faculty member, Indian School of Business, Hyderabad

06 Dec 2025

Beware the hubris of effective monopolies, one of which is holding Indian air travel hostage

IndiGone's Cancel Culture

G R Gopinath

Doesn't look 6E at all

On Friday, GoI put in abeyance the new flight duty time limitations (FDTL) rules for pilots. This, after more than 1,000 IndiGo flights were cancelled on Friday alone, leaving nearly 2 lakh passengers stressed and stranded, and a nation, hostage to the market leader, in utter disarray.

FDTL, or maximum flight duty period (FDP), is a set of regulatory rules that define the maximum time pilots and cabin crew are allowed to work, fly and be on duty to prevent fatigue and maintain flight safety. The rules, for example, may specify that a pilot can fly 900 hrs in a year, but not more than 100 hrs in 28 days. Or not exceed 8 hrs at a stretch with two pilots, or 13-16 hrs with 3-4 pilots on a single day, with not more than 5-6 stopovers, and less landings at nights.... Duty time starts from when a pilot reports 1 hr before flight time, till the aircraft comes to a complete stop at the destination.

International Civil Aviation Organisation (ICAO) sets down global standards that individual countries adapt. Two main regulatory bodies, US Federal Aviation Administration (FAA) and European Union Aviation Safety Agency (EASA), together operating the largest number of airliners in the world, follow ICAO guidelines. They strictly comply when new rules and regulations are introduced, something that been happening over the years.

India's Directorate General of Civil Aviation (DGCA) was following FDTL guidelines not in consonance with ICAO, or FAA and EASA. There was pressure from Indian Pilots Association and other related bodies that lobbied to bring FDTL on par with ICAO guidelines. They were unhappy that airline managements were exploitative, forcing pilots to fly flouting international norms making their jobs unsafe and stressful.

DGCA held wide-ranging consultations with airlines management, pilot bodies and other stakeholders, and keeping safety utmost in their mind, notified new FDTL rules in May 2024. Implementation was in two stages: July 1, 2025, with Phase 2 completed on Nov 1. Which implied that after 20 mths, airlines and pilots had to be compliant with the new regulations. Clearly, IndiGo didn't comply.

While Air India, Akasa Air and SpiceJet diligently recruited, trained and absorbed pilots, IndiGo pointedly brushed matters under the aisle carpet

IndiGo has grown to a mammoth size, with a fleet size of 420 aircraft in the 20 yrs since its inception, an enviable trackrecord of efficient and near flawless operations, on-time operations, young and spotless aeroplanes, well turned-out cabin crew, zero fatal accidents, incredible growth in revenue and profitability, and a meteoric rise in market capitalisation reaching about $22 bn. But somewhere down the line, it morphed into a cocky and arrogant behemoth.

With the 2012 collapse of Kingfisher, and Jet Airways and GoAir going bankrupt in quick succession (2019 and 2023), exit of some 300 planes, shrinking of SpiceJet from 100 to 20-odd aircraft, and Air India doddering even after the Tatas bought it and merged their two other airlines, AirAsia and Vistara, with it, everyone flocked to IndiGo. For all practical purposes, the airline is now a monopoly. And what comes with monopolies is indifference.

After 20 mths, airlines and pilots had to be compliant with the new regulations. Clearly, IndiGo didn't comply

Airlines skate on the twin blades of safety and profit. With low flying hours on planes, and too many aircraft in hangars for maintenance, an airline will go belly up. But if you compromise and cut corners, there are consequences. So, safety, a product of training and professionalism, and profit, which comes with speed, efficiency and innovation, go hand in hand.

IndiGo, like other airlines, had 20 whole months to be ready for compliance with the new regulations. This required recruitment of more co-pilots, captains and cabin crew. Induction of pilots means looking ahead and thorough planning. IndiGo reportedly has a huge shortfall.

While full-service carriers like Air India and British Airways need 11 pilots per plane as they fly less hours, low-cost airlines that fly more hours require 13-14 pilots per plane under the new guidelines. It is widely believed that IndiGo's senior management thought that it would be able to convince the civil aviation ministry, by dint of their sheer market size, not to enforce the new FDTL rules. Fewer pilots flying more hours make cash counters jingle.

IndiGo should have listened to flight operations and rostering departments that must have predicted the storm they were getting sucked into. While Air India, Akasa Air and SpiceJet diligently recruited, trained and absorbed pilots, IndiGo pointedly brushed matters under the aisle carpet.

Pilot recruitment and induction take time and diligence. As does updating crew rostering software and data integration of flight times of 5,000-6000 pilots and calculate route flying hours — outsourced to global companies like Sabre-CAE and airlines software supplier AIMS. With increased winter schedules, glitches and what IndiGo's statement termed 'multitude of other unforeseen operational challenges' with the new restrictions, the system collapsed.

IndiGo's aggressive expansion, with wet leasing of wide-bodied Boeing 787 Dreamliners and Boeing 777s, ordering Airbus 350s, and launching new international routes, may also have distracted its management from looking into the 'boring' nitty-gritty.

The IndiGo mayhem also holds a lesson for government and regulators. A country cannot grow robustly with duopolies, or effective monopolies, in any sector. If we had a dozen low-cost airlines, a catastrophe of the scale of IndiGo crippling India would not have happened.

The writer is founder, Air Deccan

06 Dec 2025

It's Time to Become Export Experts

Rahul Kansal

India can breathe a sigh of relief. After months of anxiety triggered by Trump tariffs, merchandise exports have held steady, and some sectors have even surprised us on the upside. Coming as this does when the rupee has breached the 90/$ mark, now is the time for India to place exports at the centre of its economic strategy.

Over the past 4 mths, exporters have been pushed out of their comfort zones and into new markets. Seafood has found buyers in China and Vietnam, gems and jewellery have tapped demand in South Korea, Saudi Arabia and Canada, and garment exporters have picked up orders from the UAE, Europe and Japan. These gains were not quite the result of a grand design, but of a crisis that forced businesses and policymakers to scramble.

Having discovered that Indian firms can respond nimbly when pressured, the worst mistake now would be to slide back into business-as-usual once tariff threats recede. No country has ever escaped the low- and middle-income trap without riding an export wave. Export markets gave the Asian Tiger economies scale, forced them to compete on quality and productivity, and created millions of jobs.

India's exports of goods and services have hovered at 20-22% of GDP for years, even dipping below the earlier peak of about 24% in 2013-14. Among the world's 10 largest economies, India ranks near the bottom on the export-to-GDP ratio, ahead of only the US and slightly better than Brazil. For an economy that aspires to grow fast — and for long enough — to lift hundreds of millions into prosperity, such under-performance on exports is a central constraint.

A big part of the problem is that India has been seduced by the idea of its large domestic market. For small countries like the Asian Tigers, the logic of chasing global markets was obvious: their home base was not large enough to support scale.

India, a subcontinent-sized nation, seems to have told itself that it can grow by selling mainly to its own consumers. That narrative is economically limiting, denying us the opportunity of a market that's 30 times larger. Besides, a big domestic market can

Up, up and away

easily become a comfortable trap, where firms are protected from the discipline of global competition.

Rather than treating exports as a bonus when world conditions are friendly, India must view them as a strategic necessity. That means using the momentum not as a one-off escape from tariffs and hookline for rupee-dollar returns, but as the beginning of a new phase. Even when the Trump-era tariffs are rolled back and the rupee climbs, we need to guard against the temptation to relax, allowing new markets to slide while old patterns reassert themselves.

Now is the time to double down on new opportunities. Trade diplomacy should focus on securing more predictable access to key markets, and on resolving non-tariff barriers that hamper exporters. At the same time, industry and GoI must jointly identify sectors where India can build global strengths.

Focus must be on labour-intensive manufacturing. Services exports — from IT to BPO and GCCs — have been a blessing. But they alone cannot absorb millions entering the workforce each year, many with modest education and skills. Manufacturing, by contrast, can create mass employment, from industrial clusters in coastal states to small factories in the hinterland.

Within manufacturing, labour-intensive industries like garments, footwear, toys, light engineering and food processing match India's natural advantage in lower-cost labour and enormous need for jobs. The past few months have shown how many of these sectors can respond quickly when markets open. With the right support in promotion, logistics and credit, these and similar sectors can become durable export engines, rather than temporary bright spots.

Post-Trump tariffs agility must not be treated as an emergency-only feature. It should become the new normal, embedded in how the country thinks about its economic policy. Exports are the rocket booster India needs if it's serious about powering into the ranks of developed nations.

The writer is board member, BCCL

The House Always Wins in the Arms Biz

New exporting nations trying to muscle in

It's been another good year for death merchants. Revenues from sales of weapons and military services by the 100 largest global arms-producing companies reached a record $679 bn in 2024, according to Stockholm International Peace Research Institute (Sipri). Topping the list of hotspots are Ukraine and Gaza. But there have been other flashpoints like Iran and Pakistan. Buying and selling weapons have also become part of strategic 'trade relations'. Today's era, like previous ones, *is* an era of war. What's new is a fresh crop of arms-exporting nations trying to muscle in on the action that feeds McProliferation. The form of conflict is changing as well, bringing in new demand from non-state actors for heavy duty munitions. The bazaar is bustling, even as homilies are delivered with the straightest of faces.

The weapons business pencils in a threshold of conflict that keeps them in business no matter what. Phases of heightened conflict are followed by relative peace. Separately, countries are in a constant game of one-upmanship. They step back when stockpiles grow too big to manage safely. Newer toys enter the picture as warfare morphs towards unarmed combat. Chips are making way for magnets. The model is impeccable — weapons sold to 'both' sides, the 'house' always wins.

Long-held assumptions about globalisation are being tested as countries suit up for protectionism. This creates an environment of distrust that allows disagreements to turn hostile. Balance of power is also shifting as a group of economies acquires economic heft to challenge the established order. New tech like AI speeds this process along, implanting within nations fear of disruption and hope of pulling ahead. It's not conflict alone driving arms sales. Relations between countries — 'allies; included — are being radically altered by an uncertain future. Post-WW2 pacifists like Japan and Germany are rethinking in the name of protectionism in its most literal sense. All this, while the military-industrial complex laughs its way to the bunker.

06 Dec 2025

MACROECONOMICS

Making Hay While Inflation Isn't Hot

Rarely does a central banker face a Goldilocks moment. Sanjay Malhotra and his co-members in MPC didn't let the opportunity slip, slashing the repo rate by 25 bps to 5.25% on Friday. It's a great time to cut interest rates and amplify the tax stimulus announced by GoI over the course of the year. Better still, Mint Road has turned on the liquidity tap, as the odds of the economy overheating appear slim. The sum of this year's interest rate cuts is the most aggressive since the pandemic-era monetary easing, and there's still some steam left. Another rate cut, and more liquidity injections could be in the offing.

Part of a central banker's job is to talk down prices — but not the reverse. Malhotra's messaging remains upbeat, with inflation expectations firmly anchored and market confidence sustained. Investors largely shrugged off RBI's upward revision of growth and downward revision of inflation, signalling resilience. The economy now faces a prolonged period of low rates, which should continue supporting debt and equity markets, though the rupee will bear the brunt of US tariffs. Delays in finalising a US trade deal continue to weigh on headline stock indices, but a Fed rate cut this month could spark a Santa Claus rally in India.

Easing, alongside an anticipated interest rate cut, should accelerate monetary transmission and lower credit costs. The banking regulator's efforts to extend financial sector deregulation do not stop there. RBI has allowed banks to operate multiple entities in the lending business, reversing a regulatory guideline issued last year. Rules for non-financial holding companies to operate MF, insurance and pension businesses have also been relaxed. Incremental deregulation should improve the financial sector's ability to function as an intermediary.

08 Dec 2025

DGCA, Get a Grip, Clear the Air

India's airlines must meet global safety norms

The civil aviation ministry must follow up on its exemption to IndiGo on pilot rostering regulations with strict enforcement once the airline restores normal operations. Aviation safety protocols are independent of market structure, and the inability of India's dominant airline to make the switch within the stipulated period is an instance of management failure. The ministry has acted on predatory pricing following IndiGo's mass flight cancellations, but the situation could have been contained well before the crisis with effective oversight. Changes in rules require follow-up action to ensure these are implemented. The audit of IndiGo's operations that the ministry is seeking now would have averted widespread passenger hardship in the run-up to the new rostering deadline.

That other Indian airlines have successfully made the transition does not make the case for satisfactory implementation any stronger when the country's most complex airline operation failed to do so. IndiGo has put in place a crisis management team that should be in continuous communication with GoI over its resolution. The dialogue should continue until the new safety procedures are in place at IndiGo. Rostering requirements are international, and there should be a wealth of information available on how airlines of IndiGo's scale have managed to implement them overseas.

GoI does not need to defend itself over market concentration in Indian aviation. It extended a lifeline to the industry during the pandemic and followed it up with privatisation of Air India. Indian airlines are better capitalised than they were a decade ago, and GoI expects them to build enough muscle to take on West Asian carriers. This can only happen when the safety and operational metrics of Indian airlines match international yardsticks. And it must coincide with ambitious fleet expansion plans that involve more complex operations. Regulation of aviation would benefit from a handholding approach that preempts crises rather than reacts to consumer stress.

08 Dec 2025

Don't Let IndiGet Away With It

M Muneer

Air travel is a contract of not just service but trust as well. Passengers exchange money, certainty and personal safety for the promise of mobility. When an airline breaks that promise not out of unavoidable force majeure but due to operational negligence, it is not misfortune — it is corporate apathy and failure.

IndiGo's inability to meet DGCA staffing norms, resulting in mass cancellations, delays, chaos and stranded passengers without food or shelter, is, therefore, not a weather event. It is a service collapse — one with economic, emotional and career consequences for thousands of paying customers. Yet once again, GoI stood back, offering silence instead of accountability.

This is capitalism without regulation — a duopoly disguised as efficiency, where companies privatise profits and socialise pain. And India has seen enough of it.

IndiGo's disruption stranded passengers in airports overnight, ruined weddings, cost job opportunities, forced families into expensive last-minute hotel bookings and pushed travellers into exorbitant (as high as 10x) alternative tickets. Call centres collapsed, airport counters were abandoned and passengers were treated not as humans but as logistical burdens.

In most mature aviation markets, this lack of response would trigger fines, lawsuits, class actions and regulatory intervention. In India, it triggered… nothing. Even passengers blame it on their karma!

When the aviation regulator responds to mass disruption with advisory statements rather than enforcement, it signals one truth: consumer rights are ornamental.

India's aviation sector behaves like a cartel. Just two carriers dominate, pricing is opaque, GoI protectionism is selective and passenger rights are advisory rather than mandatory. This has incentivised airlines to apologise but never compensate.

Corporate power thrives where government tolerance is high and public pushback is low.

Europe offers a brutal contrast. Under EU Regulation 261, passengers receive:

- €250-600 compensation for delays or cancellations.
- Mandatory meals, refreshments and accommodation.
- Reimbursements or re-routing obligations.
- Penalties for airline non-compliance.

The low-cost Ryanair tried dodging these rules — courts forced it to pay. Lufthansa's IT failures in 2023 led to thousands of compensated passengers.

- After British Airways' 2017 outage, regulators compelled the airline to compensate stranded travellers.
- In the US, following Southwest Airlines' 2022 meltdown, public outrage and litigation forced a government probe and millions in reimbursements. Passengers received hotel coverage, meals, rebooking assistance and refunds.
- In Canada, Air Passenger Protection Regulations impose compensation between C$125-1,000 for disruptions due to airline fault. Australian aviation watchdogs fine airlines for misleading or harming passengers.

Push back

The global message is clear: when airlines fail, passengers are compensated, not abandoned. India in the regulated era of yore did that, though — refunds, refreshments and alternate flights. But over the last decade or so, it has been poorly enforced, inconsistently applied, and rarely punitive. If the carrier shrugs and claims 'operational issues', the passenger has little more than frustration and a printout of their itinerary to show for it.

What can consumers do to force accountability?

- **Document everything** Passengers must document delays, record announcements and communications, take pics of long queues, abandoned counters and staff behaviour, etc., and keep bills of meals, hotels and alternate flights. Such evidence is needed for consumer forum remedy.
- **File complaints, not tweets** File cases on DGCA AirSewa portal, lodge consumer complaints at district consumer courts and send a legal notice under breach of service. India's consumer courts have repeatedly awarded compensation. But people rarely use them.
- **Use collective litigation** Groups of affected passengers can file class petitions to government, PILs and joint compensation suits. Collective voice amplifies pressure.
- **Penalise brand reputation publicly** A sustained LinkedIn campaign by CXOs and frequent flyers hits harder than angry tweets. Airlines fear business travellers more than regulators.
- **Engage corporate travel desks** Large corporations can suspend or renegotiate contracts with repeat violators… nothing terrifies airlines more than losing bulk business.
- **Demand regulatory reform** Civil society organisations must push for a version of EU261 for India — automatic compensation for airline-caused disruption.

What should change now? India needs binding consumer protection where:

- Airlines must provide minimum refreshment and shelter.
- Compensation must be automatic, not request-based.
- DGCA penalties should be financial, escalating per violation.
- Corporate travel associations can enforce blacklisting.
- Failure to staff operations should be treated as negligence, not 'inconvenience is regretted'.

This is not radical — it is a global standard and much needed for a Viksit Bharat.

IndiGo's incident is a symptom: Indian passengers are captive to duopolistic behaviour enabled by soft regulation. Airlines know they can apologise, offer token refunds and move on. Until passengers push back — against rogue airlines as well as an uncaring regulator and ministry caught napping — nothing changes.

The writer is co-founder of Medici Institute for Innovation

THE ECONOMIC TIMES

Strategic autonomy in AI needs public investment across data, models, talent and governance

Create, Don't Just Consume

Nishant Chadha & Deepa Mani

Upload our world, not just download theirs

India harbours bold ambitions for harnessing AI. A critical question assumes importance: who is producing the tech that a growing number of Indians are consuming? The answer reveals insights about the structure and development of India's AI market and, more importantly, questions about the nation's sovereign tech capabilities.

An October 2025 CCI study, 'Market Study on Artificial Intelligence and Competition', characterises India's AI ecosystem as a structure linking upstream infrastructure to downstream innovation that comprises four layers:

❶ **Compute and data** At the foundation, lies cloud services, chips and data systems that make large-scale AI training possible.

❷ **Foundation model** Dominated by big global players that develop or control large general-purpose models.

❸ **Tooling and development** Frameworks, APIs and MLOps (machine learning operations) tools that enable firms to adapt or fine-tune these models.

❹ **Application** Domain-specific products and services in diverse areas across finance, retail, logistics, education and healthcare.

Investment in talent development is essential to ensure that generative AI capabilities and applications reflect local priorities and diversity, rather than imported templates

The report shows that 67% of surveyed firms operate only in the application layer, with core compute and model layers still dominated by global players. The ecosystem is also heavily reliant on open-source tools. 76% use frameworks like TensorFlow and PyTorch and models like Ollama and GPT. (The report conflates subscription-based model access with open-source frameworks. But the distinction matters less for a structural analysis.)

The emergent structure of the AI market in India is, therefore, one where Indian application developers rely on compute infrastructure, foundational models and open-source frameworks, largely controlled by global tech firms, to deliver sector-specific solutions in domains such as BFSI, healthcare and education.

Independent research corroborates and extends CCI's findings. 83% of Indian AI startups are in the application layer, versus 76% in the US. The US is also creating far more new startups in foundational layers. This means India's reliance on global foundational models and AI infrastructure will intensify rather than diminish over time.

This trajectory of AI development in India embeds significant structural vulnerabilities:

▶ Innovation in India's application layer depends on globally concentrated power in compute, foundational models and proprietary APIs, areas where India has little control.

▶ Most open-source frameworks have a single powerful sponsor — Google for TensorFlow, Meta for PyTorch and Ollama — while also holding major stakes in downstream apps. This creates clear conflicts in standard-setting and future control, as Android has shown.

▶ India is a major user base for global AI firms, but not a major revenue source. So, their investment priorities remain focused on the US and Europe. As with OpenAI's ChatGPT and Anthropic's Claude, the same models are deployed everywhere. Yet, performance often favours users in those core markets, revealing clear geographic bias.

India's AI ambitions can't be realised through innovative AI applications built atop foreign-controlled AI infra

As a result, model developers face an optimisation problem: improving performance for India can leave US quality flat or even actively degrade it, given that these are unified models. Rationally, they invest where returns are highest — that is, North American and European markets.

This pattern has precedent. Social media platforms have demonstrably invested significantly less in content moderation for developing markets, concentrating instead on developed ones where regulatory scrutiny and revenue concentration align. A strategic response comprising 4 complementary forms of public investment could be:

❶ **Vocal for local** Investment in local language and region-specific datasets would make AI systems more inclusive. However, such public data resources may inadvertently strengthen global incumbents that possess superior models and technical talent, thereby raising entry barriers even as Indian users derive positive benefits.

❷ **Invest in development** Direct investment in model development — whether foundational models or domain-specific architectures designed for local economies — would create public digital infrastructure akin to UPI or ONDC. This investment in targeted model development focused on challenges endemic to the 'global south' yields fewer spillovers to incumbents and greater potential to enhance consumer surplus through reduced monopoly power.

❸ **Invest in talent** Investment in talent development is essential for broadening participation and ensuring that generative AI capabilities and applications reflect local priorities and diversity, rather than imported templates that are vulnerable to downstream effects of biases and exclusion.

❹ **Invest in governance** Investment in technology governance — through regulatory innovation calibrated to the Indian context — is necessary to balance imperatives of privacy, trust and data availability. Policy interventions must be crafted in the context of India's development strategy.

Consider digital privacy regulation as an illustrative case. While overly permissive frameworks risk consumer welfare losses and erosion of trust in the digital economy, overly restrictive regimes may exacerbate an already severe scarcity of relevant training data. Adoption of frameworks such as the EU's GDPR may not be the answer.

India's AI ambitions cannot be realised through innovative AI applications built atop foreign-controlled AI infrastructure. Strategic autonomy in AI will require coordinated public investment across data, models, talent and governance — investments calibrated to India's distinctive economic and developmental context. These investments will determine whether India emerges as a creator of one of the most fundamental technologies of our time, or a mere consumer.

Chadha and Mani are director, policy and research, and professor of information systems, respectively, Indian School of Business, Hyderabad

08 Dec 2025

Relationship Status: Still Committed

Vladimir Putin's two-day visit to New Delhi last week, ostensibly a celebration of 25 years of Declaration on Strategic Partnership between the two countries, was more a display of India's policy of strategic autonomy and Russia's policy shift towards Asia and the 'global south'. The visit was a display of the multifaceted, mutually beneficial bilateral relations spanning political, strategic, military and security cooperation, trade and investment, energy, science and technology, nuclear, space, cultural, education and humanitarian cooperation. It allowed New Delhi to signal, particularly to the US, that it continues to value its relationship with Moscow.

If the past two decades was about diversifying, this visit was about establishing how diversification did not mean abandoning a long-standing relationship. Both leaders reiterated last year's agreement on the programme for Development of Strategic Areas of India-Russia Economic Cooperation till 2030 that targets increasing bilateral trade to $100 bn and the early conclusion of an FTA with the Eurasian Economic Union. The focus was on expanding trade and joint manufacturing opportunities in pharma, textiles, energy, especially nuclear, and defence. The engagement is broadening to new segments such as critical minerals, shipping and shipbuilding, and joint manufacturing opportunities in defence spare parts and pharma. Talks also focused on opportunities for skilled Indian workers in Russia.

Ukraine does not figure in the joint statement, but India has made it abundantly clear that it does not support Russia's war efforts. Rather than making heavy weather, Europe and others would do well to recognise that Russia presents an economic opportunity that India cannot ignore, one that can help provide space for a resolution.

09 Dec 2025

₹-backed stablecoin brings little gain, but it puts stability and bank deposits at considerable risk

But is It Able to Be Stable?

Ateesh Tankha

The clamour for a 'rupee-backed stablecoin' has begun to pressure GoI into regulating—and regularising—its use. This, as collapse in the USDT (stablecoin) premium over US dollar has, over the last few days, upset the applecart of using stablecoins instead of bank transfer to move foreign currency to India.

Stablecoins were introduced in 2014, when BitUSD and Tether (USDT) enabled swift payments on US crypto exchanges at a time when bank transactions took days to settle. Since then, they have grown in popularity—especially fiat-collateralised cryptocurrency, pegged to a specific currency and associated treasury bills (T-bills) and g-secs—because they ostensibly offer the fluid advantages of cryptocurrency without the attendant price volatility.

Currently, the estimated global market capitalisation for stablecoins is $280 bn, of which 99% are pegged to the dollar. Which would all have remained interesting trivia, if sundry Indian crypto enthusiasts, in search of the next shiny investing idea, had not begun to clamour for a ₹-backed stablecoin. The campaign, which also promised to promote India's exanimate e-₹ (CBDC), received a fillip when the US promulgated the GENIUS (Guiding and Establishing National Innovation for Stablecoins) Act 2025 in July. This exacerbated the fear that the almighty dollar would now become an unassailable digital asset.

Consequently, GoI agreed, despite strong RBI reservations, to explore the need for stablecoin regulation in its annual Economic Survey, slated for January 31, 2026. In anticipation, two firms—Polygon, a blockchain network, and Anq, a fintech player—are said to be developing ARC (asset reserve certificate), India's first ₹-backed stablecoin, for launch in 2026. This is questionable for three reasons:

Sound the horn: Appupen's 2025 cover illustration of Perumal Murugan's adaptation of 'Vaadivaasal' (1949) by C S Chellappa

❶ For a '₹-backed' crypto to be beneficial, its value would need to derive from faster and cheaper cross-border transactions and remittances — including instant settlement for usually delayed MSME export payments. Speed and cost savings are attributed to blockchain tech, and the use of India's CBDC, e-₹, for settlement. But there are two fundamental issues with these assumptions:

(a) While ₹-backed stablecoins may be quickly transferred from one entity to another across borders, the conversion to fiat currency will attract fees. This will be a small sum when converting stablecoins to the same currency in which they are denominated, but larger amounts when converting to a foreign currency, analogous to bank remittances. Using e-₹s for this purpose will not help, unless RBI chooses to underwrite these fees.

(b) Speed of payment settlement is often linked to mandated anti-money laundering (AML), countering financing of terrorism (CFT), narco-financing and forex protocols, which regulators would be loath to relax for stablecoin issuers.

₹-backed stablecoin is also supposed to drive internationalisation. But this diffusion will be a function of demand, not of supply-side technological convenience. Other nations will hold rupees if they believe that the currency is stable, Indian treasuries are desirable, there are sufficient trade flows to justify rupee accumulation, and the rupee is likely to appreciate in value against their own currencies over time. In this context, India has a long way to go.

Moreover, a ₹-backed stablecoin is not proof against the hegemony of the dollar either. A certain amount of interoperability will need to be maintained with other (principally $-denominated) cryptos, which will result in maintaining status quo in the stablecoin format.

> **₹-backed stablecoin is supposed to drive internationalisation.** But this will be a function of demand, not of supply-side tech convenience

❷ Even if a ₹-backed stablecoin can achieve what is described above, despite BIS and RBI (with e-₹) being unsuccessful in this regard, the term 'stablecoin' is a misnomer. It implies that these cryptos are stabler and safer than others because they are pegged 1:1 against the rupee, are fully collateralised against short-term T-bills and FDs, and will allow daily reconciliation of ledgers and periodic audits of reserves to enable transparency.

This is more reassuring on paper than in practice. For starters, short-term T-bills will adversely affect profitability, tempting firms to look for higher-yielding g-sec and other investments. This could easily cause a maturity mismatch, where the stablecoin issuer's short-term liabilities (promise to convert stablecoins into e-₹s or bank payouts) are linked to longer and less liquid g-secs and other investments.

Then there is leverage, a fintech penchant for financing their business through too much debt, which could lead to bankruptcy. Either of these situations could precipitate market panic, contagion and a run on stablecoin exchanges, leading to a possible fire sale of their reserve assets, diminishing the resilience of Indian bond markets.

❸ ₹-backed stablecoins could siphon off bank deposits. This is because while they are supposedly meant to spur cross-border payments, 80% of all trades in stablecoins are used to buy other speculative crypto-assets on exchanges, 95% of which are denominated in dollars. With the rupee in free fall, this could become the popular partial monetary substitute that the e-₹ could never be, but one that RBI does not want.

In August 2025, China, sensing a threat to its monetary sovereignty, directed all private and public work on stablecoins to cease. India, too, may wish to reconsider, or decelerate. Otherwise, GoI may repent at leisure what it initiated in haste.

The writer is founder-CEO, ALSOWISE Content Solutions

More Power to Navel Gazing

Seema Sirohi

Washington: The new National Security Strategy (NSS) is a hard look in the mirror and stark declaration that the US is done carrying the weight of global leadership. The document reimagines the US' role in the world, flips equations deemed sacred, cuts through puffery, and takes a sharp turn right to come home.

And 'home' is the Western hemisphere, where a Trump Corollary to the old Monroe Doctrine will be enforced to reassert US pre-eminence. If the original doctrine aimed to oppose European influence/colonialism in the Americas, the latter-day version puts new actors such as China on notice. Beachheads of China's BRI are seen as a direct challenge.

That hemispheric dominance was on the cards was clear from Day 1 when Trump signed an EO, allowing criminal organisations and drug cartels to be declared 'foreign terrorists', thus granting himself legal authority for military engagement. US warships, including the largest aircraft carrier, have since been deployed to the eastern Pacific and Caribbean Sea. The US military has conducted 22 strikes since September against alleged drug boats with few questions from the US Congress.

India is mentioned as a partner in an imagined economic coalition to counter China, with no sense of irony or recall of the 50% tariffs the Trump regime imposed on Indian exports. But an assertion is made that the US 'must continue to improve commercial (and other) relations' with New Delhi to contribute to Indo-Pacific security, including through the Quad. How the administration plans to coordinate with allies/partners while simultaneously waging tariff wars against them is not addressed.

The 29-pg document has shocked Europe for its harsh assessment, frightened Latin America, confused Asia, deprioritised West Asia, and probably comforted and alarmed China in equal measure. Africa is cited more for extraction than aid. Ending the Ukraine war and reestablishing 'strategic stability' with Russia are mentioned as a 'core interest' of the US.

The overall strategy is America First, both in substance and priorities, with a drastic pruning of obligations accumulated over decades. Burden-shifting and burden-sharing are key, not shared values or an avowed faith in multilateralism.

Some see the document as a retreat because many of the foreign policy establishment's favourite pet projects don't find a mention. In fact, the mostly empty phrase — 'rule-based international order' — is cited once, and that too mockingly. Just as well. Powerful countries, including the US, have routinely broken rules, launched wars to change regimes, and imposed sanctions to cause economic havoc, only to go on a soapbox about values. That pretence is gone.

A new twist is bringing immigration, culture wars and concept of 'traditional families' into the realm of national security. In fact, the thread runs through the document. Europe is chided for losing its character and facing 'civilisational erasure' because of unchecked migration. 'It is more than plausible that within a few decades, certain Nato members will become majority non-European' and may question the military alliance signed by an earlier generation.

NSS spells the end of traditional organising principles of the post-Cold War world — political ideology, democracy promotion, liberal internationalism — while raising economic strategy to the top. No more laundry lists of wishes, vague platitudes and talk of global burdens. Affairs of other countries will be a matter of concern only if 'their activities directly threaten' US interests. Does that mean spheres of influence are ok?

'The days of the United States propping up the entire world order like Atlas are over.' Going forward, the focus will be narrower, sharper and on maintaining the US' economic and industrial primacy. Countries desirous of US cooperation/blessings must participate in the project. Open yourselves to deals that mainly benefit the US, or forever hold your peace. Or piece.

US Nat'l Security Strategy

Atlas shrugs

China is identified as the primary long-term rival and acknowledged as a 'near-peer'. This means it *has* risen, and Washington must deal with reality. The language is restrained and sometimes accommodative, talking of 'prioritising reciprocity and fairness to restore American economic independence'. The document talks of a 'genuinely mutually advantageous economic relationship' between the two. Is this Trump's way towards a new kind of partnership with China, something Xi Jinping suggested back in the days of Barack Obama?

NSS does talk about the need to keep a free and open Indo-Pacific. Asia must be safe from predatory, unfair trading practices, IP theft and industrial espionage — all codes for Chinese practices. Working with treaty allies and partners is deemed necessary but to safeguard 'our prime position in the world economy'. America must come first, no matter what the race.

So, Align Tariffs To Strategy?

Harsh V Pant & Kartik Bommakanti

Trump 2.0 unveiled its first US National Security Strategy (NSS) last week, clearly departing from previous NSS documents by emphasising that 'to focus on everything is to focus on nothing'. Irrespective of the veracity of whether previous NSS documents tended to frame US interests too expansively, Trump 2.0 certainly sees a more circumscribed role for the US in global politics.

Significance of the Western hemisphere as a vital interest should not come as a surprise. The Trump regime's repeated statements come often enough regarding the criticality of hemispheric defence since the president's second term in office. Mention of Trump brokering peace between India and Pakistan might continue to alarm — and irritate — many in New Delhi. The latter can understandably construe it as Washington's reversion to hyphenating India with Pakistan.

Yet, the Indian foreign and defence policy establishment must be careful to not read too much into the NSS effort to credit Trump's role in finding a resolution to India-Pakistan tensions, especially after the two neighbours' brief military encounter earlier this year. This is Trump's attempt to show his political base that he's a peacemaker, and the appeal peace has to him personally as a businessman-politician.

On the positive side, NSS clearly underlines the need for preserving and defending Indo-Pacific security, especially encouraging India to work with Quad's three other partners. That the Trump regime has not discarded the idea of strengthening Quad should hearten many in New Delhi, as Washington confirms that it sees the grouping as a crucial pillar of US grand strategy in the Indo-Pacific.

More notably, NSS categorically uses the phrase 'Indo-Pacific', bringing some relief to New Delhi. India has been increasingly concerned about the Trump regime's gestures that suggest a move to cement a 'G2' arrangement between Washington and Beijing. That has been somewhat allayed.

NSS mention of China's predatory economic practices and unconcealed effort to dominate Asia's key waterways and sea lanes like the South China Sea is a clear signal to Beijing that the US remains committed to preventing China's control of the First Island chain, and deter hostile action by Beijing against Taiwan.

Another key takeaway is the NSS' emphasis on cooperation between the US, its European and Asian allies, including India, to cement and improve joint positions 'with regard to critical minerals, in Africa'. This will also reassure many sceptics that Washington is serious about extending cooperation with Europe and Asia in this critical sector. It also dovetails well with GoI's emphasis on New Delhi's cooperation and development assistance to the 'global south' where Africa finds considerable focus.

At a more strategic level, developing coalitions and leveraging each ally's 'comparative advantage in finance and technology', which NSS states, is laudable. It demonstrates the extent to which Washington takes Chinese investments — without actually mentioning Beijing — in Africa's critical minerals sector seriously as a core economic and strategic challenge. The document's exhortation that India, along with the US and their European and Asian allies, coordinate strategy and cooperate is also a sign of the limits Washington wishes to go it alone.

Deeper bilateral engagement between the US and India on defence has not become a casualty to Trump 2.0's capriciousness. There is no specific mention of it in the NSS, yet, the document embraces it in spirit, if not in letter. NSS' revival of the idea of Quad in one line — an idea that seemed comatose of late — will add weight to bilateral defence relations and deepen Quad military engagement.

The document particularly mentions naval power as vital to the stability and security of the Indo-Pacific. This should encourage New Delhi to invest more resources in Indian Navy's power projection capabilities. An Indian Navy that has a consistent and regular operational presence 'east of Malacca' will reassure and ameliorate the fear of many countries of Chinese aggression in the Indo-Pacific.

Nevertheless, NSS' view of India as a crucial partner in the Indo-Pacific is somewhat jarring against the backdrop of recent trends. Contradiction between Trump tariffs slapped on India and NSS intention to cement deeper cooperation with New Delhi will remain a challenge. Given that 'America First' forms the foundation of Trump 2.0's security manifesto, it will compel New Delhi to hedge and remain cautious about Washington's future moves and intent.

So, resolving the currently under stress economic and trade relationship between Washington and New Delhi will require urgent attention. Trump tariff pressure on India will need to be resolved at the earliest if NSS is to find ballast, belief and momentum.

The writers are with a New Delhi-based think tank

09 Dec 2025

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The Times They Are A-Changin': Iconic American Singer-Songwriter Finally Bags Lit Nobel

"But as far as songwriting, any idiot could do it... Everybody writes a song just like everybody's got that one great novel in them."

"From Orpheus to Faiz, song & poetry have been closely linked. Dylan is the brilliant inheritor of the bardic tradition. Great choice"

"Want to thank him for influencing three generations with his songs, transporting people from their crazy lives to an alternate world."

SWEDISH ACADEMY PRAISES DYLAN'S POETRY FOR THE EAR

AROUND THE WORLD » 17

Let Him Be

Banking System Has No Alternative

Stablecoin stability might be exaggerated

Overseas money changers that have been using USDT, a stablecoin, to transfer NRI remittances to India have been wrong-footed by the collapse of the premium at which it traded over the rupee-dollar exchange rate. The idea behind stablecoins is straightforward: they should serve as a digital currency, allowing for instantaneous and inexpensive money transfers. Stablecoins are meant to be a safer form of cryptocurrency, but their stability may be exaggerated. Regulations are evolving on who can issue them, and the audits of their reserves are not comprehensive. This makes the prospect of the stablecoin market growing to $3 tn in the next 5 yrs a disquieting prospect. Since the market is being driven by money transfers, issues around effective regulation will gain traction in India, the world's biggest recipient of remittances.

Doubts over the stability of stablecoins persist because their issuers are not subject to standards set out for banks. Deposits are also not secured by insurance. Although stablecoin issuers are barred from paying interest, there are workarounds. These risks are amplified by US patronage to drum up demand for dollars, which feeds its trade deficit. If stablecoins reach a market size of $3 tn by 2030, up from $300 bn now, they would rival the Fed's pandemic-era QE. This could push down US interest rates by 0.4 percentage points, and the dollar would strengthen due to the enlarged capital flow. Stablecoins are not only a threat to banks, they pose risks for central banks as well.

Naturally, the rest of the world will resist dollarisation by keeping their banking systems efficient and by issuing stablecoins pegged to their currencies. The Trump administration sees stablecoins as a way of getting around the Fed's policy independence. Other nations are unlikely to follow that route and will work towards retaining an independent interest rate mechanism. Stablecoins will be regulated to this end. They must be truly stable to provide an alternative to tightly regulated financial systems.

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The Times They Are A-Changin': Iconic American Singer-Songwriter Finally Bags Lit Nobel

"But as far as songwriting, any idiot could do it... Everybody writes a song just like everybody's got that one great novel in them."

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AROUND THE WORLD » 17

Let Him Be

Be Humane, Not Nasty, When Deporting

Last month, an unexpected voice spoke on a subject everyone is holding forth on these days: Pope Leo on immigration. 'No one has said that the United States should have open borders,' the head of state of Vatican City stated with perfect pragmatism, 'I think every country has a right to determine who and how and when people enter.' But what he added was compelling: that in enforcing immigration policy, 'we have to look for ways of treating people humanely... with the dignity that they have.' Suggesting humaneness as a necessary ingredient in any policy sounds shockingly naïve in these times of marauding ICE agents being normalised. It should not.

The pope went on to state that there are ways to treat illegal migrants — courts, a 'system of justice'. Yes, the system is flawed. But that is why it needs fixing. The same can be said about CJI Surya Kant's recent rhetorical remark about whether to 'roll out the red carpet' to illegal immigrants entering India. Again, it's not a matter of welcoming them in, but about seeing that their exit or non-entry follows due process and is humane.

Nastiness towards 'outsiders' — illegal *and* legal — is growing fashionably competitive these days. You can see it in the US, Britain, Europe, India.... India doesn't legally separate categories of illegal migrants and refugees, listing both as foreign nationals and then piecemeal regulations guided by courts deciding outcomes. When Indians who had entered the US illegally were sent back in handcuffs, the furore was legitimate — not because they were sent back, but because of the *manner* in which they were treated while being returned. Surely, while keeping your country from being overrun by illegal immigrants or refugees, a sense of humaneness can prevail.

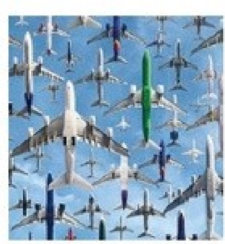
10 Dec 2025

Turbulence, But Flight Path's Clear

Demand for air travel, cargo still booms

It has not been a good year for Indian aviation. The country experienced its deadliest air disaster in decades this June when an Air India Boeing Dreamliner crashed immediately after take-off from Ahmedabad, killing 242 passengers and crew. IndiGo, the market leader among domestic airlines, is in the middle of widespread flight cancellations after new pilot rostering rules were introduced. Both events have major financial implications for the Indian airline industry. The crash will increase insurance premiums across the board at a time when Air India and IndiGo have placed large orders with aircraft makers Boeing and Airbus. Operational issues with IndiGo, over which it faces regulatory strictures, have, predictably, hurt the airline's stock price.

Yet, neither issue is likely to cause extended pain in the world's fastest-growing aviation market. Higher insurance premiums will be spread across large fleet acquisition plans, and airlines will be able to absorb them. Decline in market capitalisation should be temporary, and IndiGo's valuation is likely to right itself as operations normalise with the new safety protocols in place. Air India being an unlisted entity in the Tata Group, too, should recover from valuation concerns. India's airlines have emerged from decades of capital drought and are much better placed to take on international competitors. Their strength can only grow as India's vast population of first-time flyers takes to the sky.



Most flights in India are nearly full, even though airline fleet strength is rising and airport infrastructure grows at a rapid pace. Sustained demand, helped with a quick recovery from the pandemic disruption and growth rates, have remained robust since. This scenario is projected to continue as aviation capacity, both aircraft and airport, expand to meet the latent demand for air travel and cargo. Aviation is in a structural bull market as supply-side issues are addressed. The sector can weather the current turbulence. Because the outlook for Indian skies is by and large sunny.

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The Times They Are A-Changin': Iconic American Singer-Songwriter Finally Bags Lit Nobel
"But as far as songwriting, any idiot could do it... Everybody writes a song just like everybody's got that one great novel in them."

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SWEDISH ACADEMY PRAISES DYLAN'S POETRY FOR THE EAR
Let Him Be

CURSOR Ensure state-level detailed planning and zoning, realistic project reports and costing

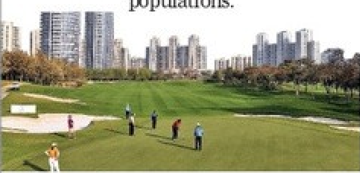
Let a Hundred Cities Bloom

T K Arun

Fast-growing countries urbanise, and the share of urban population rises. Since India hasn't had a census since 2011, size of the current urban population is an estimate. World Bank puts it at 37%, below the world average of 58% and China's level of 66%. Towns are where bulk of economic activity, particularly in the modern, evolving sectors, takes place. If India is to grow, so must its total urban space.

In 2023, GoI gave up a scheme to build 8 new greenfield cities. Now, it offers states some special borrowing accommodation, whether for expansion or densification of existing towns or building new towns. There's no reason why greenfield and brownfield urban expansion should be mutually exclusive.

Some economists and town planners oppose the idea of artificial cities, and seek to focus on organic growth. Of course, there's a case for organic growth where it's economically feasible, especially by redevelopment of already-built areas that can house larger populations.



Noida and Greater Noida will become buzzing urban centres, rather than adjuncts to Delhi, once Jewar airport gets going

But to rule out building new towns from scratch is to forgo the ease of incorporating modern concepts and ingredients of an efficient town in a new venture, and ignore evidence of dysfunction in overcrowded old cities and flourishing of brand new towns in China, and other parts of East Asia.

It used to be fashionable, even 10 years ago, to scoff at China's 'ghost towns'. China built towns in advance of urgent demand for occupancy, and these vacant structures served as butts of jokes. But over the years, they have been filling up, bustling with industries working at frontiers of technology and finance, while India's Silicon Valley crawls in gridlock, BP rising over aborted meetings and wasted hours stuck in traffic.

Literally, New Town, Kolkata

In 2017, China started a new city 100 km to the southwest of Beijing: Xiong'an New Area. It should come as no surprise if it rivals Pudong New Area, Shanghai's financial hub. Zhengdong New Area, in Zhengzhou, Henan province, built from scratch from a master plan finalised in 2001, has grown to over 1,400 sq km, almost the size of Delhi, and houses advanced manufacturing in IT, biomedicine and the like.

India's experiment with new towns has not produced spectacular successes like Shenzhen or Zhengdong. New Raipur struggles to do as well as even relatively sedentary Gandhinagar. Indore's new extensions are a remarkable success, however.

Navi Mumbai is poised to create its own vibrant identity, now that the airport has become functional. Noida and Greater Noida will become buzzing urban centres, rather than adjuncts to Delhi, once Jewar airport gets going.

Modern business is global. Modern business hubs need to be globally connected. That means an airport with predictable flights within easy reach of any new town, and rail links to other cities, preferably high-speed ones.

Another desirable feature of a new city would be a new university, with a focus on research, rather than skilling. Skills are transient. Students who spend time in education learning skills waste their potential. Their time at places of education — school, college or university — should be spent on developing and expanding the mind, so that India's young can contribute to creating new knowledge and would be prepared to learn any new skill that comes in vogue, before it turns redundant and yields space to a new skill.

It used to be fashionable to scoff at China's 'ghost towns'. But they've been filling up, bustling with industries working at frontiers of tech and finance, while India's Silicon Valley crawls in gridlock

The challenge is to locate new towns in places resilient in the face of climate havoc, have access to water, are in reasonable proximity of highways and rail routes, and have zoned, planned space to expand, and can house an airport with at least a couple of runways. When new cities are designed from scratch, metro rail can be built underground first, along with sewer networks, and tunnels for pipes to carry electricity cables, optical fibre and water. Ideally, cooking should use electricity as fuel, rather than gas.

India needs to upgrade the urban planning syllabus, still based on old, car-dependent US ideas of segregated work, residential and recreation areas. Energy efficiency comes from planning for mixed land use to avoid lengthy commutes, city design that focuses on mobility rather than roads and parking, incorporating public transport, planned last-(or first-)mile connectivity, cycle lanes and pedestrian pathways, rather than merely deploying EVs or complying with LEED (Leadership in Energy and Environmental Design) or GRIHA (Green Rating for Integrated Habitat Assessment) norms for buildings.

Building plans must be vetted not just for standalone efficiency but for locational optimality to prevent the build-up of heat islands. Public areas for assembly, and recreational as well as organised sports, must be incorporated. Every drop of water should be recycled, solid waste sorted for recycling and bio-digestion. What remains must be filtered for noxious substances, and the rest incinerated with carbon capture.

Urban governance must be instituted with accountability, for both officials and citizens. Civic education must be backed up with ease of compliance: garbage bins, efficient collection, repair. Ghettos and slums should be eliminated by design. States should determine the minimum share of property value to be collected by towns as tax. Except in remote areas, city grids should be connected to the state power grid, with appropriate islanding and back-up generation using natural gas with carbon capture or hydrogen.

The key is detailed planning and zoning at the state level, realistic project reports and costing, and political consensus, so that elections and a change of guard don't stall projects, as happened with Amaravati. India can and must have new cities.

Clip Wings for Errant Flyers

Dhanendra Kumar

Going by DGCA data, IndiGo controls 62-64% of India's domestic airline market, with Air India a distant second at around 26%. When such a market leader cancels hundreds of flights, thousands of passengers are left stranded and held hostage to piracy-level ticket prices.

In the last two years, DGCA has fined IndiGo ₹20 lakh for 4 tail-strike incidents, and another ₹20 lakh for using unqualified simulators for pilot training, penalties that the airline itself told investors would have no material impact on its financials or operations. Pilot associations have gone further, accusing IndiGo of long-running 'lean manpower' strategies, and suggesting that widespread cancellations are being used to 'arm-twist' DGCA into diluting new working norms.

So far, this has been treated as a safety-and-operations story. It is also a competition law story. Under Section 4 of the Competition Act 2002, abuse of dominant position is prohibited. Competition Commission of India (CCI) is empowered to investigate and remedy such abuse. IndiGo's market share, network reach and control over slots at key metros justify a fresh look at whether it enjoys dominance in a relevant market for domestic air passenger services.

CCI is no stranger to aviation. In 2015, it penalised IndiGo, Jet Airways and SpiceJet a combined ₹258-odd cr for cartelisation in fuel surcharges on air cargo. If the commission were to find that a dominant carrier deliberately ran its operations so lean that any tightening of safety norms translated into mass cancellations, or used its position to push for regulatory relaxations that competitors couldn't replicate, that could fit classic categories of abuse.

The toolkit goes well beyond fines. After the 2023 amendments, the Competition Act allows for settlements and commitments in abuse-of-dominance and vertical-restraint cases (Sections 48A and 48B). At the outer edge of the toolkit sits Section 28 — power to order division of an enterprise enjoying a dominant position to ensure it doesn't abuse that dominance. And, then, there's the statute's 'nuclear button' option: CCI can break a dominant undertaking.

This brahmastra has never been invoked so far, precisely because of its drastic nature and complexity of splitting a large enterprise. But credible threat of Section 28 matters. If repeated safety and compliance lapses by a dominant airline continue despite sectoral fines and softer competition remedies, a structured breakup — for instance, separating domestic and international businesses, or carving out slot-heavy metro operations — can be on the table.

Structural remedies in network industries are neither unprecedented nor fatal to growth. In the US, Standard Oil's decision in 1911 and AT&T's divestiture in 1982 used structural break-ups to unwind entrenched monopolies and open the field to new competitors, with long-run benefits in prices, innovation and consumer choice.

EU antitrust authorities have routinely insisted on structural concessions. Korean Air's acquisition of Asiana was cleared only after agreeing to divest Asiana's entire global cargo business and fund a rival's entry on overlapping routes. Lufthansa's investment in ITA Airways and IAG's bid for Air Europa have been conditioned on handing over a substantial share of slots and routes to competing airlines. Section 28 is India's way of saying we, too, are prepared to go that far if softer tools fail.

So, what should happen next?

▶ DGCA must finish its investigation into current disruptions, and robustly enforce safety and passenger-rights obligations — including refunds, compensation, transparent rebooking and meaningful penalties.

▶ Aviation ministry or DGCA should formally *refer* the matter to CCI, inviting it to examine whether IndiGo's conduct and business model amount to abuse of dominance in a market where it carries nearly two-thirds of India's air passengers.

▶ CCI should use its new commitments framework to demand enforceable operational and governance changes backed by rigorous monitoring.

▶ Dominant undertakings must stop treating Section 28 as only a decorative clause.

If IndiGo, or any future market leader, knows that persistent disregard for regulatory limits could ultimately result in being structurally broken up, incentives change overnight. Competition law is not about punishing success. It's about ensuring that success does not morph into unaccountable power.

The writer is former chairman, CCI

ENHANCING COMPETITION

Too close to the sun

Regulate, Don't Throttle

Dhiraj Nayyar

Debate on regulation tends to be a tug of war between GoI and regulators on one side, and businesses and entrepreneurs on the other. The DGCA-IndiGo fiasco has highlighted that the most important stakeholder of regulatory outcomes — the citizen — is marginal to decisions and outcomes. In a modern market economy, the ordinary person, most often as a consumer but also in other roles like that of a jobseeker, must be at the core.

It can be argued that GoI is meant to act in the larger public interest. At least in India, the government is elected by the people. On the other side, a properly functioning market should lead to superior outcomes without the need for regulation. But the world is imperfect. Government, particularly bureaucracy, often acts in its own interest. Regulations are a means of extending power and rent-seeking opportunities of the machinery. In markets that are not competitive, businesses can hold consumers to ransom.

If the DGCA order is non-negotiable for safety, then it should not have been withdrawn. If it's not core to safety, then it need not have been introduced

Ideally, there should be two reasons for regulation: to promote competition in markets, and to ensure health and safety. Ostensibly, the recent DGCA order to limit crew working hours is a safety measure. If the order is non-negotiable for safety, then it should not have been withdrawn. If it's not core to safety, then it need not have been introduced.

At the least, consumers should then have been warned of disruption in advance, and told that it is for their safety. A timeline should have been agreed upon by DGCA and the airlines that would have caused no disruption.

Aviation is a perfect case to reevaluate the purpose and structure of regulation and make it consumer-centric. The civil aviation market is a duopoly after Air India's sale to Tata. So, there is a question about the *degree* of competition.

The sector is growing rapidly. So, there will be a need to monitor and upgrade safety. The sector needs a single regulator at arm's length from the ministry, which can have one branch for safety and another for competition issues — something similar to, but not identical with, the US Federal Aviation Administration (FAA).

It's a good time to reorient India's regulatory approach to focus on how it benefits the ordinary Indian, either by increasing competition or by improving health and safety. The country's simplified new labour codes are a welcome change. They have some progressive provisions for gig workers. But, fundamentally, do they protect the interest of average Indian?

Given that three-fourths of the workforce is in the unorganised sector, who benefits from the continued restrictions (at a slightly higher threshold) on hire and fire? Only a small labour aristocracy. Most jobseekers are worse off. India's advantage is cheap labour. Distorting the labour market with excessive regulation, apparently to protect workers, ends up 'protecting' the majority from jobs.

Consider the banking sector. Where is the effort to increase competition? There have been hardly any new bank licences granted in the last two decades. Financial innovation, which could lead to better and more affordable products for the masses, is frowned upon. The logic of regulation is to keep the ship in harbour. But it's of no great use to anyone if the ship isn't sent out to sea.

Competition and its corollary, innovation, need to be encouraged by the regulator if India is to efficiently finance its rise to prosperity. And while it's good to reorient regulation — some sectors like labour, finance, aviation and telecom will always need regulation — it's equally important to deregulate sectors where there is competition.

In manufacturing, where duties are in single digits, and with multiple FTAs, this is a given. Competition from imports will always keep manufacturers honest. There is no need for any sector-specific regulation. There may be some general sector-agnostic regulations about environment, health and safety, and land use. But these can be put into a short booklet of rules and self-certification can be permitted. Any violation can be penalised heavily.

Competition is the one modus operandi that will best serve wider public interest. Regulators should be facilitators of it. They need to remove or lower barriers, not create them.

The writer is chief economist, Vedanta

11 Dec 2025

Trump Tariff Fails To Rein in China

Trade surplus can weaken US, hit emerging mkts

China's trade surplus topped $1 tn this year despite US tariff pressure, data released on Monday showed. The two countries have reached a fragile truce in their trade war, and Beijing's strategy of diversifying its exports and moving into advanced manufacturing is strengthening its negotiating position. The Trump administration will have to up the ante if it wants China to back down from its investment-led growth strategy. In his second term, Trump does not have time on his side, but the protectionist rhetoric will not die down. Despite G20 economies putting in place industrial policies, China's share of global exports is poised to climb. This is not a welcome development in a deglobalising world economy.

The US risks isolating itself and allowing China to drive global trade. The financial markets will have to adapt, with consequences for the dollar as the primary reserve currency. Instead of Washington making Beijing see reason over underconsumption, clarity could dawn on the US to rein in overspending. The two must reach common ground and, even then, will face some degree of decoupling. Whether US production or Chinese consumption ramps up to levels desired by their respective policymakers, the outcome will still be a fractured trade order.

The rest of the world will have to adjust. Chinese exports less reliant on the US will limit their ability to grow. The effects on income inequality are adverse because exports provide the clearest pathway for emerging economies. The US model of globalisation has been beneficial for the developing world. A China-led model may not be so. There will be some gains to world trade from supply chain diversification, but these could be offset by rising Chinese concentration of exports. The worry is that China is gaining share in a rising market. Strong measures like an all-out trade war may not be able to stop the juggernaut. It will be left to China's political leadership to bring about a course correction.

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The Times They Are A-Changin': Iconic American Singer-Songwriter Finally Bags Lit Nobel

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GST Leaks Need Plugging

Najib Shah

GST 2.0 has, by and large, settled in. RBI pegs GDP growth at roughly 6.8%, and international agencies continue to endorse India's resilient growth prospects. Revenue collections remain buoyant despite significant rate rationalisations and fewer slabs. But the upbeat headline masks two persistent weaknesses: first, rate cuts do not always translate into lower final prices because input taxes can remain higher than the tax on the finished product, and, second, evasion through fake invoices has not abated and, in some cases, appears to be flourishing.

▶ Scrap is gold — and trouble The single commodity most vulnerable to misuse is scrap. Almost all scrap — battery, plastic, steel (glass being an exception) — attracts an 18% duty. Scrap is a vital feedstock: reclaimed materials are reprocessed to make new products, which themselves typically face an 18% levy. That creates a loop in which scrap and scrap-derived goods are taxed at the same rate, increasing the attractiveness of invoice-based fraud.

Anecdotal evidence suggests the scrap trade produces as many fake invoices as genuine scrap. Under GST, the invoice is the lynchpin: it unlocks input tax credit (ITC). If an unscrupulous manufacturer obtains a bogus invoice from a dubious scrap dealer, the manufacturer can discharge a large part — sometimes the entirety — of its tax liability through fake input credit. The simplest fraud chain involves a supplier issuing fake invoices, booking fictitious supplies, pocketing the net tax paid by buyers, and then deregistering to evade scrutiny. The frequent cancellations of registrations provide a visible indicator of the scale of this phenomenon.

Official data underline the damage. A parliament reply shows that, of 30,056 GST-evasion cases detected in FY25, more than half related to ITC fraud, with evaded tax estimated at ₹58,772 cr. Fake invoices do not merely dent revenue, they distort competition, penalise honest recyclers and undermine the environmental gains of a circular economy.

Rate rationalisation could have been used as a blunt but effective anti-fraud tool. Reducing the GST on scrap and products manufactured from scrap to 5% — and disallowing input credit on these transactions — would eliminate the arbitrage that fake invoices exploit.

A lower tax with no credit would encourage legitimate recycling by lowering the effective tax burden on genuine recyclers while removing the margin that fraudsters currently extract. It is a policy that aligns fiscal and environmental objectives: recycling is green, and it should not be an invitation to cheat.

▶ Provisional refund The last GST Council recommended provisional refunds of up to 90% in certain export cases, and this was implemented from November 1. This is a welcome procedural simplification. Yet, tax administrations have a long history of sluggish finalisation of provisional orders. That delay undermines exporters' liquidity at a time when global demand is volatile.

There is a further, bolder step available: self-refund. Taxpayers have been trusted to self-assess across income-tax, customs and GST — they classify supplies, compute liabilities and pay up, with only a small risk-based selection subjected to detailed checks.

Applying the same logic to refunds makes sense. Where a taxpayer's initial refund claim has been fully scrutinised and sanctioned, subsequent claims in similar facts and circumstances could be permitted as 'self-refund', subject to safeguards: automatic provisional credit, mandatory submission of supporting documents within a short window (say, 15 days), and targeted risk-based verification afterwards.

Legal amendments would be required, just as they were for introducing self-assessment. Controller General of Accounts and GSTN would need to be integrated into the process because funds are routed through government ledgers. But the benefits would be tangible: fewer accusations of rent-seeking, faster cash flows for exporters, and improved refund efficiency and optics for the tax administration.

Taken together, the two proposals — lowering rates on scrap products while denying credit and enabling a tightly conditioned self-refund for trusted taxpayers — would attack both the supply-side incentive for invoice fraud and the demand-side liquidity problem facing exporters.

They would strengthen enforcement by freeing up scarce compliance resources for higher-risk areas, improve business confidence, and support a cleaner, greener recycling ecosystem. The sooner policymakers examine these options, the better.

No overflow, please

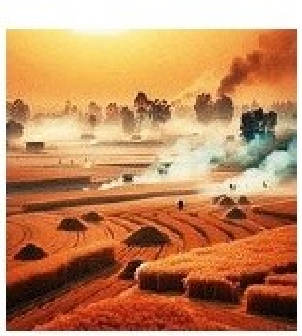
The writer is former chairman, Central Board of Indirect Taxes & Customs

11 Dec 2025

Stop the Smoke Where There's Fire

Contrary to rumours, stubble burning-induced farm fires are now down. The system has reportedly been gamed with many farmers burning crop residue post-3 pm, long after the monitoring satellite passes over the region, thereby avoiding detection. This is yet another example of India's penchant for jugaad-dodging, finding a way to beat the system at the cost of society at large. If India is serious about tackling its pollution terrorism, it needs to put in place a policy that incentivises compliance and penalises jugaad-dodgers.

Gaming of the system means that Delhi-NCR's pollution forecasting is off, as it relies on Indian Institute of Tropical Meteorology's (IITM) Decision Support System, which uses satellite fire-count data to estimate how much stubble burning contributes to Delhi-NCR's $PM_{2.5}$ levels. That automatically has policy implications. Any effort to tackle pollution at source will require policymakers to game out all possible behavioural patterns. Which means throwing the kitchen sink at problem and its peddlers. Even when it comes to the use of satellites, GoI needs to use different satellite and technology options that ensures something close to round-the-clock monitoring. This would require ground truthing, creating economic opportunities so that farmers see value in selling crop residue, as well as putting in place fines and disincentives that impose economic cost to burning stubble.



Yes, administrative costs do go up. But given the costs that poor air quality imposes on productivity, health and the economy, it is well be worth the extra spend. A clear structure for penalising non-compliance can balance the extra cost in the short term, while long-term efforts to transition away from residue-burning become the norm.

12 Dec 2025

Amazon Grace, How Sweet Your Sound

Scale, policy push and tech edge draw firms

Amazon's $35 bn investment commitment in India, announced on Wednesday, reflects the country's market opportunity. India is Amazon's fastest-growing major market globally because of its untapped potential and consumer acceptance of new digital retail formats such as quick commerce. Producers are shaping their marketing strategy around Q-commerce, which bypasses several hurdles in distribution through improved analytics. The size of India's consumer market allows new business plans to be tested at sufficiently large volumes to iron out initial glitches. By the time a technology-driven service establishes itself in the country, such as digital wallets, it becomes ready for export to other markets.

This leads up to claims for sovereign control and local resilience over technologies that are being developed in the country by global companies. Microsoft, which announced a $17.5 bn commitment by 2030 to develop AI and cloud services in India, shows that such claims are legitimate. The combination of resources, policies and market conditions helps create an Indian stack that encourages localised innovation. In this case, too, investment pledges are readily executed due to the unique mix of attributes available in India. This addresses the issue of enforceability of investment commitments other economies may have to tackle.

Technology investment in India has been receiving special policy attention. It has translated into an enviable Indian stack of DPI on which a wide spectrum of virtual commerce is hosted. India's policy environment has evolved along with technological advances to drive dispersal. This helps bring down costs for emerging technologies and makes the country a go-to destination for Silicon Valley. As global competition intensifies, firms increasingly view India as a strategic base for long-term growth. US immigration restrictions could widen the investment funnel. The Chinese market is relatively less accessible for US technology giants. India is a safer bet in many respects.

12 Dec 2025

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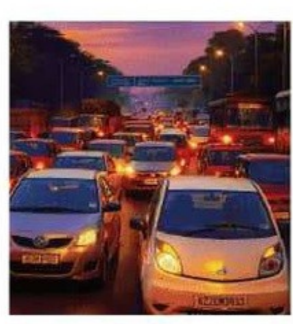
AROUND THE WORLD ▸▸ 17
Let Him Be

Real Cuts Need More Than Just Car Rules

India's proposed CAFE-3 norms, released on September 25, have split the ₹22 lakh cr automobile industry down the middle. Effective from April 2027 to March 2032, the draft rules tighten fuel-efficiency and emissions targets sharply: average fuel consumption must drop from 3.7 litres per 100 km in FY28 to 3.01 litres per 100 km by FY32, while CO_2 emissions must fall to 91.7 g/km. The norms also offer a weight-based exemption for small cars: vehicles with an unladen mass up to 909 kg, engine displacement up to 1,200 cc, and length under 4 m get an additional 3 g/km CO_2 credit, easing compliance slightly.

The debate around CAFE-3 revolves around three points: fuel efficiency, safety, and incentives for tech upgrades. Small-car makers, including Maruti Suzuki, argue that stricter targets hit light vehicles hardest. Upgrading engines or adding hybrid tech would be costly. Larger-vehicle manufacturers counter that exemptions distort competition, reduce incentives to invest in cleaner tech, and could create safety risks if light cars rely excessively on weight-based credits without structural reinforcement. Additionally, CAFE-3 is a fleet-wide regulation, meaning that a manufacturer must meet average emissions and fuel-efficiency targets across all its vehicles. Companies with a strong small-car line-up can offset emissions from heavier models more easily. Competitors lacking enough small or efficient vehicles may struggle.



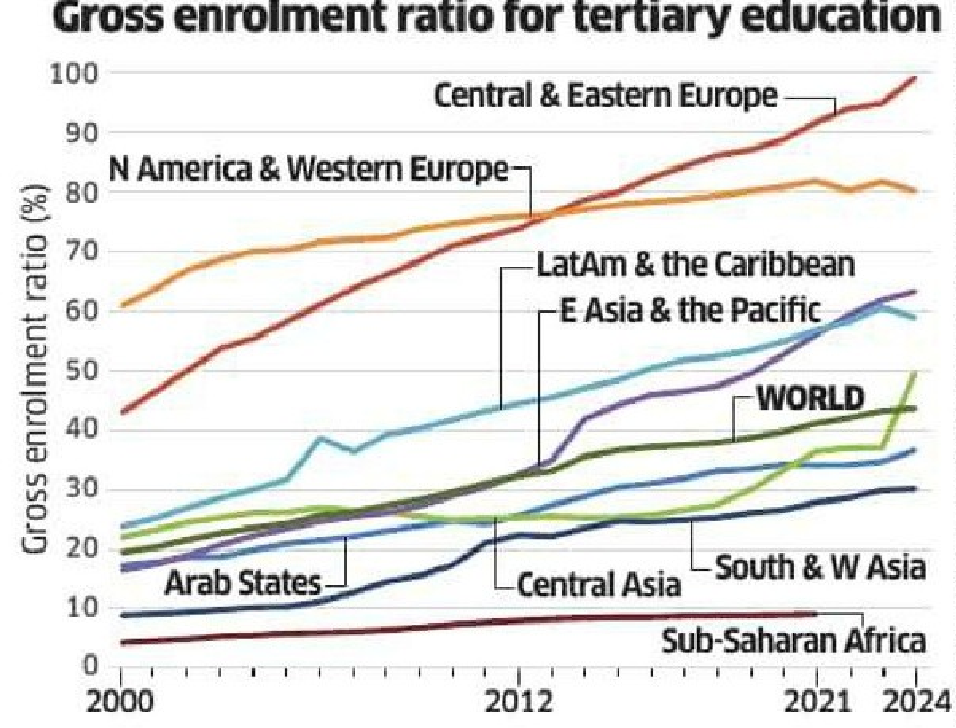
Focusing solely on vehicle-level compliance, however, misses the broader picture. Real reductions in emissions and improvements in road safety require better public transport and fuel quality, smarter urban planning, stricter traffic management and disciplined driving. Only when carmaker regulations are integrated with these broader solutions can meaningful reductions in emissions and safer mobility for all be achieved.

12 Dec 2025

Higher Education

Higher education access has improved in recent decades. Global gross enrolment more than doubled between 2000 and 2024, rising from 19% to 44%, driven by improved progression through primary and secondary education, increased enrolment in low- and middle-income countries, and higher participation among women. Despite this growth, significant disparities persist across regions...

Gross enrolment ratio for tertiary education



Source: Unesco's The right to education

Select countries

	2024
US*	79.36%
China	76.88%
Japan**	64.89%
Brazil*	60.39%
Russia	60.39%
India	34.42%
S Africa**	23.49%

*2022; **2023

13 Dec 2025

How to Deal with US-Pak Arms Biradari

Charlie Wilson's War is a 2007 film on the Texas Congressman who was pivotal in getting the US to come to the aid of Afghan mujahideen trained by Pakistan against the Soviets. In one scene, Wilson is at a gathering with Pakistani army officers where President Zia-ul-Haq turns to him and says, 'I don't need courtesy. I need airplanes, guns and money.' Wilson tells the general that the US has just doubled the CIA's budget — from $5 mn to $10 mn. Flabbergasted by the paltry amount, some of the gathered ask whether it's a joke. 'No, sir!' Wilson responds, to which Zia explains, 'Congressman, what they are saying is that $10 million from the United States to fight the Russian army is such a low figure that it can be mistaken for a joke.' Wilson tells him, with due respect, that he had caught on to the sarcasm.

In a different era, Pakistan's officer class has replaced sarcasm with flattery when dealing with US leadership. So, forgoing unrequited courtesy, Donald Trump has lined up $686 mn military aid for Pakistan, this time to sustain interoperability in counterterrorism operations and joint exercises. The US Defense Security Cooperation Agency (DSCA) proposal to Congress this week will be reviewed over a 30-day period.

DSCA's pitch: the F-16 sale is vital to US national security. New Delhi, keeping a stiff upper lip in its dealings with the Trump regime's good tidings towards Asim Munir's regime, is understandably aghast. Trump throwing in an F-16 modernisation package for Pakistan's fleet seems like Washington throwing in the sink in a hostile kitchen. But instead of airing its displeasure, India would do well to treat this US-Pakistan weapons biradari as further rationale to continue and extend its policy of strategic autonomy.

13 Dec 2025

Are Companies the New Learning Guilds?

They teach skills, but not the art of learning

A college degree is just not what it used to be. Graduates are less assured of landing a decent job, and tuition fees are eye-watering. Palantir, a US tech company, thinks it has a fix. It is offering fellowships to high-school students who will forgo a college degree to learn on the job. Not exactly a novel idea, but can it be made to work now? The world has come to regard a college education as essential for any form of high-paying employment. The glass ceiling is thick today and only extraordinary individuals — Bill Gates, Steve Jobs and Mark Zuckerberg — are likely to break through. Alex Karp, Palantir's CEO, holds degrees from US and German universities even as he expresses his disdain for the state of higher education.

Companies can be good teachers in a narrow sense. They are best at equipping employees with the skills they need. Colleges serve a wider curriculum while shaping learning abilities. Young adults gain more by acquiring a world view as they sharpen their livelihood capabilities. Universities are melting pots with something for everyone. Not exactly replicable in a corporate hierarchy with a common goal of profit maximisation. There's hardly any space to wander around. Much as companies rail against falling academic standards and the politicisation of campuses, they don't have a better alternative.

Companies drinking at a common watering hole are better served than those who dig their own wells that must be guarded more strenuously. Delving deeper into education risks creating bureaucracies that hinder innovation. The market works best when employees move in and out of companies — skills are transported to where they are most in need. The fix is not in setting up a new school, but in setting right what is wrong with the old one. Business can help academics by growing faster and creating more jobs. Learning outcomes improve with college placements. These also lower student debt distress.

13 Dec 2025

Banking On the Last-Mile Deliverers

Dharanidhar Tripathy

Over the past decade, India's business correspondent (BC) network — comprising agents appointed by banks to provide financial services in unbanked and underbanked areas, acting as a low-cost extension of the bank branch — has been an invisible infrastructure behind the country's financial inclusion story. It carried banking to places where bank branches were unviable, turned cash into apparatus of savings, created confidence for millions of first-time users, and made PMJDY one of the world's largest inclusion programmes.

Today, that foundation is under visible strain. Attrition, thinning margins and weak infra threaten to erode the last-mile access that made BCs such an asset. If the trend continues, India could quietly slide from 'universal access' to 'unrealised inclusion'.

Already, nearly 1 in 5 PMJDY accounts lies dormant. With decreasing numbers of active customer service points (CSPs) in rural and remote centres, the situation may further deteriorate. Once CSPs are closed, millions may be deprived of various banking and non-banking services.

With BCs especially tapping Casa (current and savings accounts) deposits, small deposits may be hardest hit. Dormancy and the number of inoperative accounts have already increased during last 5 yrs.

BCs are the last-mile conduits for DBTs — from MGNREGA wages to pensions and subsidies. Any disruption in this layer delays payments, triggers customer frustration and weakens trust in the formal system. The impact is not uniform. Over 55% of PMJDY accounts are held by women, and more than two-thirds are rural. These groups will feel the deepest brunt of any service disruption, reversing years of progress in gendered financial empowerment.

Also, cash management remains a persistent operational vulnerability, with delays in settlement and reconciliation, often leading to liquidity mismatches or unreconciled floats. Moreover, 100% cash has to be arranged by BCs to effect daily transactions. There's also a growing concentration risk. As smaller corporate BCs struggle for viability, banks are becoming dependent on fewer aggregators, creating single-point vulnerabilities in the system.

Financial inclusion, when underutilised, becomes costly. Dormant accounts and low transaction velocity increase cost per active user, challenging the sustainability of inclusion for banks. Weak BC reliability discourages regular transactions, reducing Casa flows and monetisation potential of PMJDY customers. Replacing BC networks with branches or ATMs would be prohibitively expensive in low-density areas, effectively pricing rural India out of the system.

Keep the link intact

For millions of first-gen users, trust in the banking system is fragile and hard-earned. Repeated service failures — from cash-outs to denied transactions — can rapidly reverse behavioural change. The BC model is also a source of rural employment and social capital. Its decline could trigger local discontent and draw political scrutiny, damaging the credibility of the inclusion mission itself.

As banks struggle to retain control over the BC ecosystem, non-bank players who don't have a rural orientation and experience are moving into the financial inclusion space. This shift may gradually displace the banking system from its current leadership position through PMJDY. Social security schemes and other financial inclusion initiatives, mainly driven by BCs, may get hit.

On the tech front, many corporate BCs still operate with low-grade systems vulnerable to data leakage and endpoint compromise. Yet, the ultimate liability rests with the sponsor bank. Due to frequent changes in systems and lack of support from banks, BCs are not in a position to invest in tech and AI.

The BC model is not just a delivery channel or service provider. It's the infrastructure of social inclusion and lifeline of rural banking. Its fragility has macro, social and reputational implications that go well beyond the banking sector. Unless systemic gaps are addressed — through revision of commission, stronger incentives, digital upgrades and a rethink of BC economics — India risks stalling its most transformative policy success of the past decade.

The writer is CEO, Business Correspondent Resource Council, New Delhi

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"Want to thank him for influencing three generations with his songs, transporting people from their crazy lives to an alternate world."
SWEDISH ACADEMY PRAISES DYLAN'S POETRY FOR THE EAR
AROUND THE WORLD » 17
Let Him Be

India, like many other countries, has expanded the jaded definition of Westphalian sovereignty

BRAND NOTION-STATE

Shivaji Dasgupta

The nation-state as a brand is living and thriving, increasingly as a state of mind rather than a set of actions. While systematically spreading its wings to newer geographies, aided liberally by globalisation and tech, both prolific allies of consumption colonialism, it is also constantly evolving, driven by relentless perception and not just a static image.

▶ The US still stands for customer-centric innovation, from automobiles to chewing gum. While outcomes move ahead with the times, this DNA remains untampered.

▶ China, more recently, has been building on a foundation of accessible scalability, quality perhaps not compromised but optimised.

▶ Japan and South Korea are relentless in tech leadership, with a fine balance of creation charisma and demand dynamics.

▶ Switzerland and Germany may have abdicated their precision sheen in recent years, as perfection in development has been martyred to the cause of profitability and escalation. Although in terms of authentic craftsmanship, the aura is intact.

▶ Britain is somewhat in no-man's-land, as the country seeks a new-age expression for global dominance, now that gunboats are out of the equation.

▶ UAE is a unique use case, seeking an identity shaped from the multifaceted acumen of accomplished invitees, while Saudi Arabia is working hard to consolidate progressive orthodoxy, with the experiment of Neom — an arcology and planned city being built in the Tabuk province — as vital as the flexibility in liquor laws.

Countries, still a swish set

India, in many ways, has expanded the classical definition of Westphalian sovereignty, both within and beyond political boundaries. Our brand credo must be upgradation, as the citizenry and its venerable institutions are constantly in search of the next big thing.

Fuelled most certainly by a foundation of governance and affluence, although constantly contested as per the norms of a happy democracy. A 70-plus state of mind racing towards the well-deserved century. A few examples of upgradation:

❶ In 2023, Parliament was upgraded, as were colonial criminal laws.

❷ Infra development costs are on the go, with budget 2025-26 allocating ₹11.21 lakh cr ($128.64 bn) in capex.

▷ Total length of expressways was about 1,004 km in 2013-14, growing to an estimated 6,059 km in 2024-25, while national highways have expanded by 60% since 2014.

▷ UDAN has grown India's regional air connectivity, facilitating over 1.56 cr passengers on 3.23 lakh flights across 649 routes, connecting 93 airports, 15 heliports and 2 water aerodromes.

▷ The length of national high-speed corridors has increased from 93 km in 2014 to 2,474 km as of early 2025.

▷ Internet penetration in 2025 is projected to be around 55.3% of the population, with over 806 mn internet users as of January 2025.

❸ Private consumer spending, which accounts for around 57% of GDP, rose 7.9% year-on-year in July-September, compared with a 7.0% rise a quarter ago.

❹ Consumer electronics market is projected to reach around $162.74 bn by 2034, while the automobile industry is slated to reach $203.25 bn by 2030 with an 8.2% CAGR from 2025 to 2030.

❺ Number of active users of connected TV has increased a sharp 87%, driven by the rise of smart TVs, while OTT users have crossed the 600 mn mark, which is around 41% of the country's population.

All these factors add up to verify upgradation as a concerted national mindset and not just an economic roadmap, driven by newly minted affluence or necessity.

Saudi Arabia is working hard to consolidate progressive orthodoxy, with the experiment of Neom — an arcology and planned city

The 35-mn-plus 'legacy' Indian diaspora is an early use case, as are the 3,500 millionaires expected to move abroad in 2025 — a motivator that unites every citizen, whether rural or urban, in seeking the next best mobile phone, personal vehicle and healthcare solution.

Once a cruising altitude is reached, the quest for the next one automatically begins, whether as a vertical progression or a horizontal acquisition. Over time, this mindset will certainly extend to the circular economy, DEI and personal weight regimes, among other causes.

All of this is rooted perhaps in the compelling cocktail of historical denial, present-day access and a constantly questioning-cum-seeking thought process.

Often the source of original brilliance and invariably the origin of the famed 'jugaad', we are a nation on an autopilot treadmill, deeply allergic to staying still. A continuing mentality that is demonstrated by concurrent physicality, no energy lost in transit.

China has been building on a foundation of accessible scalability, quality perhaps not compromised but optimised

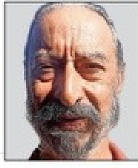
The branded identity of once advanced powers was rooted in proven legacy, while ours is being built on a foundation of accessible opportunity — thus building a truly secular and undeniably inclusive cultural core, constantly amplified by the foundation of 'Indian Upgradation'. The nation-state as an idea is unchanged. Only the anchors are changing.

The writer is an autonomous brand consultant

15 Dec 2025

Successful aviation systems align revenue potential, cost structures and policy objectives

More Than a Wing & Prayer



Amit Kapoor & Pradeep Puri

India's aviation paradox is well established. Since liberalisation, passenger volumes have expanded rapidly, particularly after the advent of low-cost carriers in the early 2000s. Traffic growth accelerated post-2004, peaked just before the pandemic and collapsed during Covid, mirroring global trends. But what distinguishes India is not volatility in demand but chronic financial fragility.

In the US, repeated bankruptcies and a merger wave (Delta-Northwest, United-Continental, American-US Airways) produced a 'Big Four' system in which four carriers account for three-fourths to four-fifths of domestic capacity, reinforcing capacity discipline and stronger unit economics.

Europe has converged on a different equilibrium: intense competition led by large low-cost groups (Ryanair, easyJet, Wizz Air) keeps short-haul pricing competitive, while airline exits have remained a recurring feature.

Empirical evidence from India's airlines confirms that the problem at home is structural, rather than episodic. Using size-neutral performance measures, such as unit revenue and unit expenditure per km, 2007 data show that the average carrier spends slightly more per km than it earns.

Inflation-adjusted figures indicate mean unit revenue of about ₹24.9 bn per km, compared with mean unit expenditure of ₹25.1 bn per km. The gap is small in absolute terms, but persistent over time, implying chronic margin pressure rather than isolated managerial failure. Crucially, this relationship holds even before shocks such as global financial crisis and Covid, suggesting that Indian aviation's fragility is embedded in its revenue structure, not merely the product of adverse cycles.

Indian domestic aviation is among the most price-sensitive markets globally. Political scrutiny of fares, public hostility to price increases and periodic intervention through fare caps have combined to anchor ticket prices well below global averages. By contrast, fuel, aircraft leases and maintenance remain dollar-linked, exposing airlines to currency depreciation without commensurate pricing flexibility.

Aviation turbine fuel (ATF) in India is benchmarked to international price indices, such as Mean of Platts Arab Gulf (MoPAG), but layered with additional fiscal burdens. Central excise duties of about 11%, combined with state-level VAT that averages 13-14% on a blended basis, raise effective ATF prices by around 24% above benchmark levels.

Unlike in many international markets, where fuel taxation is minimal or embedded within integrated aviation ecosystems, this structure amplifies price volatility rather than merely raising costs. Given the political sensitivity of fares and limited pricing power, airlines are rarely able to pass these fluctuations through to passengers.

For Emirates and Singapore Airlines, success rests on ecosystems designed for profitability — where fuel, infrastructure, labour and capital policy reinforce revenue rather than undermine it

This asymmetry has predictable consequences. Airlines expand aggressively to achieve scale, only to discover that scale without yield amplifies losses.

- Prior to its collapse, Jet Airways' international operations, where margins were higher, were cross-subsidised by a domestic network that consistently underperformed.
- Kingfisher's premium aspirations collapsed under a cost base unsupported by domestic revenue.
- Go First entered with thin capital buffers and failed at the first serious shock.

Such outcomes are not uniquely Indian, but India magnifies them. In the Gulf, airlines such as Emirates and Qatar Airways operate within ecosystems explicitly designed to support long-haul profitability: fuel pricing, airport infra, labour flexibility and bilateral access reinforce each other. In Singapore, the state plays an enabling rather than extractive role.

Singapore Airlines is commercially governed, capitalised for cyclicality and anchored at a globally efficient hub. These airlines are not immune to losses, but they are rarely existentially fragile. India's ecosystem, by contrast, has encouraged growth while systematically under-pricing sustainability.

Flight of stares

IndiGo's success is often invoked as proof that Indian aviation works. A more precise reading is that IndiGo represents the most efficient adaptation to a constrained system.

Its operating model — high aircraft utilisation, standardised fleets, disciplined cost control and strong load factors — was appropriate. IndiGo aligned tightly with India's low-yield environment and executed with consistency. When competitors exited, IndiGo absorbed demand because it had the operational capacity and financial discipline.

Yet, the balance-sheet structure underpinning this efficiency is revealing. Indian airlines rely heavily on operating leases: at IndiGo, for instance, around 80% of the fleet is operated under operating leases, with aircraft returned to lessors.

By contrast, airlines such as Southwest and Ryanair have owned between 80% and nearly 100% of their fleets, giving them tangible assets that can be monetised through sales or sale-leasebacks during downturns. Efficiency in India's case delivered scale and speed, but it did not deliver resilience.

India has liberalised entry but not revenue. It has expanded access but not resilience

Revenue consequences of this structure are visible in unit metrics. IndiGo's revenue per available seat km (RASK) is about ₹4.90. Comparable figures are materially higher elsewhere: around ₹8.20 at Southwest Airlines, ₹8.90 at Qantas, ₹11.20 at Delta Air Lines, and roughly ₹6.90 at Singapore Airlines.

Even airlines known for operational efficiency rather than yield maximisation operate within far wider revenue envelopes. IndiGo's performance, by contrast, reflects the narrow monetisation space imposed by India's fare-sensitive, price-constrained market.

The global lesson is not that India should replicate Singapore or the Gulf. Geography, income levels and state capacity differ materially. The lesson is more subtle: successful aviation systems align revenue potential, cost structures and policy objectives.

In the US, consolidation raised yields and restored profitability. In Europe, persistent yield compression has led to chronic airline churn. In the Gulf and Singapore, aviation is treated as strategic infra, with policy coherence across fuel, airports, labour and capital. India sits uneasily between these models. It has liberalised entry but not revenue. It has expanded access but not resilience. It has celebrated passenger growth while tolerating balance-sheet weakness.

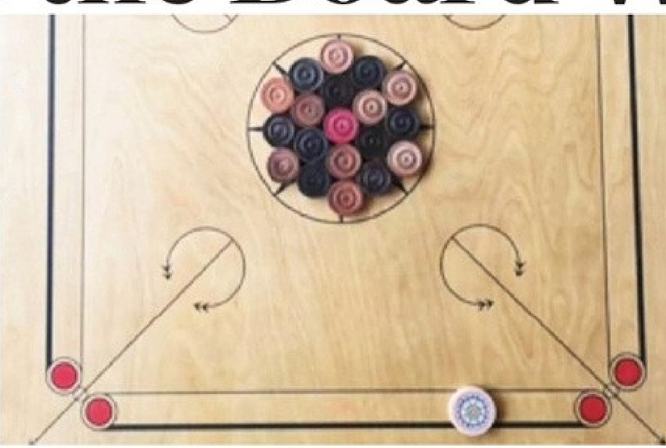
The present disruption should be read as a warning, not an anomaly. It signals that India's aviation system is operating close to its structural limits. Productivity gains alone, however impressive, cannot indefinitely compensate for weak revenue fundamentals.

Kapoor is chair, and Puri is fellow, Institute for Competitiveness. Inputs from Meenakshi Ajith

STATE OF PLAY PM's 360° systemic reforms aim to remake India and raise its global profile

Across the Board We Go

Pranab Dhal Samanta



Taking more than just a crack at it

It may be easier to draw up a list, enumerate GoI's recent reform measures and call it another 'boost' or a 'push'. But what's happening is much bigger. It's more than just tinkering with rate/tax cuts and FDI limits. It's a 360° bottom-up system overhaul defined by a 'now-or-never' strategic urgency to shape up before it's too late.

This drive is coming from the top with the PM willing to stake his political capital for across-the-board reforms, even if it means taking on the most entrenched offices and practices within the system. The ride could be tough. But it appears that Modi has determined that this is the political/strategic moment for a comprehensive shift.

Open the nuke sector The new SHANTI (Sustainable Harnessing and Advancement of Nuclear Energy for Transforming India) Bill is an indicator. It's not just about opening the sector to private players, but also recasting one of GoI's most closed organs: the atomic energy establishment. Forced to build a strategic weapons programme outside the gaze of the anti-proliferation system, Department of Atomic Energy (DAE) grew inwardly until the India-US nuclear deal nudged it to change approach.

But even Manmohan Singh reached a halfway house, which saw the establishment getting global legitimacy and access to nuclear fuel, but not technology. The Civil Liability for Nuclear Damage Act 2010 virtually killed the possibility when it included provisions that could hold the suppliers legally liable in case of a nuclear incident. Result: no private or new foreign entity, outside the old DAE-Russia collaboration, has entered the arena in the past 25 yrs.

Modi is inverting the approach and looking at the atomic sector, not just from a nuclear deterrence angle but also through the energy prism. This means laying a new frame for an ambitious transitioning from an 8 GW programme to a 100 GW one, maybe more, over the next 2-3 decades. Hence a complete overhaul of the current system, bringing the power ministry into the mix and allowing for private ownership of nuclear plants.

QCOs slashed How entrenched can systems be? A good example of this was the recent withdrawal of a host of quality control orders (QCOs) across three sectors. The exercise revealed how the system had choked supply chains in the name of self-reliance, threatening to put many small enterprises out of business.

QCOs raised the bar for importing raw material while there was not enough domestic supply to meet demand at home, the classic case being yarn for textiles. Many MSMEs began to struggle as domestic prices shot up. And this was the case across many sectors, where quality controls were imposed on items like certain specialised steel components not even made by Indian entities.

The realisation had started to set in that without bottom-up nuts-and-bolts reforms, big-ticket measures may fail to achieve desired results. So, earlier this year, a Cabinet secretary-led taskforce on compliance reduction and deregulation was set up. The panel got every chief secretary to set up a similar committee in their states. Plus, 17 central secretaries were given charge of two states each to follow up on further execution.

Small things were addressed, from changing land zoning laws to road width requirements to make it more practical for industry. This included moving the needle on flexible working hours, and ensuring conditions for women to work night shifts. This also made it easier to eventually pass the new labour codes.

But the urgency was bigger, especially with a hostile and unpredictable global economic environment, including Trump tariffs and penalties on India. This was apparent in Modi's Independence Day speech as he passed orders for setting up the two NITI Aayog reform panels the same evening.

With the SHANTI nuclear Bill, Modi is looking at the sector not just from a nuclear deterrence angle but through the energy prism

Green norms relaxed Besides withdrawal of QCOs, environmental norms were changed to reduce mandatory green cover for factories. As a result, an estimated 2 lakh+ ha has been freed up for industry. More than 30-odd industries have been up to the 'white category' (non-polluting) list, which means they are exempt from obtaining a mandatory green consent.

Limits for what define a small company were raised from ₹40 cr turnover to ₹100 cr. The change would make an estimated 5,000-plus companies be categorised as small, which means lesser compliances.

This reform panel submits a report almost every month, listing important micro measures, to reduce regulatory burden. It has the mandate to touch any segment — from working on visa categories and conditions in home ministry to weights and measures department and entrenched entities like Petroleum and Explosives Safety Organisation, which holds clearances to almost every chemical use — and see that all are under careful examination.

So, a continuous process of structural reforms at the last mile is on view to reduce government presence in business and within the middle class. This is quite opposite from the approach informing social welfare measures targeting the poor. Here, government used to be less visible at the last stretch. A big part of Modi's political success in his first decade as PM was that he was able to make government's presence felt by way of targeted and technologically efficient delivery mechanisms.

Finally, India also needs to be prepared to deal with sudden shocks like Trump tariffs and China's continued economic aggression. Modi has articulated aatmanirbharta as the mantra. But what's also needed is an understanding that this does not mean becoming insular and protective. Instead, it's about increasing Indian presence and indispensability in GVCs by stretching them *via* India, not without India.

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16 Dec 2025

Dodge US Blockades at WTO

Prabhash Ranjan

WTO's two-tiered dispute settlement system (DSS), comprising ad-hoc panels and a permanent seven-member appellate body (AB) — hailed as a jewel in its crown — has judicialised global trade relations and provided a robust means of enforcing trade rules.

Sadly, the AB became a victim of its own success. Upset by losing key cases, the US began blocking the appointment of AB members, thereby de-judicialising trade relations and weakening DSS to reclaim decision-making power. Since 2019, the AB has been dysfunctional. While countries continue using the panel process, appeals go into a void, compromising DSS and undermining the multilateral trading system.

Until AB is restored, the EU and a coalition of willing countries have set up an alternative appeal system. Known as the Multi-Party Interim Arbitration (MPIA) agreement, it includes 57 WTO members and relies on Article 25 of WTO's Dispute Settlement Understanding (DSU).

This article allows two WTO member countries to use arbitration to settle their dispute in place of the regular two-tiered process. MPIA has two parts. First, a political agreement not to appeal into the void and to use MPIA as an appeal mechanism. Second, the actual MPIA appeal process, which kicks in with the signing of a dispute-specific appeal arbitration agreement.

MPIA, which is based on arbitration, does not circumvent the panel process. It comes into existence once the panel report is available, and then countries are required to suspend panel proceedings.

TRADE-OFF

The MPIA system seems to be functioning effectively. It has resolved three cases and is currently hearing nine.

India has not yet joined MPIA, despite being a proponent of a two-tiered dispute settlement system at the WTO. It appears that India fears that accepting MPIA would undermine its demand to restore AB. This is not a valid concern. Given the existing geopolitical situation, it is implausible that the US will agree to AB's restoration.

As Anthea Roberts, professor at the Australian National University (ANU), notes, rising geoeconomic competition with China drives the US to de-judicialise AB. A dysfunctional AB removes multilateral constraints, giving Washington the freedom to act unilaterally against Beijing.

Jingle trade, Jingle trade

In this grim situation, MPIA is the new normal. It preserves WTO's original promise of a two-tiered dispute settlement. Joining MPIA demonstrates a political commitment by countries to avoid the bizarre situation of appealing panel decisions into a void. India, as a champion of the rule-based trading order, should accept this new normal. Moreover, accepting MPIA does not mean that India is relinquishing its demand to restore AB.

India may have some concerns about procedures followed in the MPIA system. For example, in the MPIA process, arbitrators are empowered to 'take appropriate organisational measures to streamline the proceedings'. Thus, they may include decisions on limiting page or word counts and time limits for parties making submissions. If India finds these procedures unfair, it can negotiate changes as a condition for joining MPIA or after becoming MPIA member. However, objections to procedural aspects do not, in principle, justify opposing the MPIA system.

Some in India seem to prefer a transactional approach toward joining MPIA. For instance, it is argued that the absence of an appellate mechanism may benefit India by allowing New Delhi to adopt trade protectionist measures unilaterally. Similarly, some believe that since India can utilise the Article 25 mechanism on a case-by-case basis, there is no need to formally join MPIA and make a commitment not to appeal into a void.

India must resist the temptation of a transactional mindset. At a time when the US is retreating from rule-based trade multilateralism, it is incumbent on developing countries like India to play a pivotal role in re-judicialising trade relations and establishing the rule of law.

Joining hands with the EU, Britain and others in MPIA would signal India's commitment to buttressing the rule-based multilateral trading order, which is the best antidote to the US' trade unilateralism.

The writer is professor, Jindal Global Law School
This article is part of an expert series on trade policy curated exclusively for ET by CUTS International

16 Dec 2025

Overseas Property? Mind the Paper Trail

OECD norms will guide scrutiny, investor action

OECD has, at the request from India during its term as the rotating president of G20, set out common reporting standards for real estate ownership and income derived from this asset class. Tax administrations do not have adequate visibility into overseas property holdings, which renders common reporting for financial assets less effective. Governments expect to plug tax leakage through shared data as overseas property ownership rises. The OECD framework covers ownership, beneficial ownership and derived income. This is a comprehensive database that would become available to Indian tax authorities when millionaire migration is on the upswing. Tax jurisdictions share information on request, but they are limited by the diversity of reporting requirements around real estate. The picture gets cloudier when overseas property is held through corporate intermediaries, where identification of the ultimate owner takes some effort.

The reporting structure planned relies on self-declaration, which will add to the compliance burden of HNIs holding or planning to buy property in OECD member states. Some of these countries are reworking their strategy of using property ownership to encourage affluent immigration. The shadowy nature of offshore real estate deals has contributed to their poor image among residents, who also smart under rising property prices despite stable or declining populations. Tax transparency should help restore public perception about property ownership by non-residents. This affects the reputation of affluent Indians, who are big investors in cities like Dubai. OECD reporting requirements have a bearing on European nations in need of immigration to arrest demographic declines.

During its G20 presidency, India pushed for multilateral reporting of crypto assets, much like offshore real estate. OECD has followed suit. These moves boost India's reputation for constructive, conservative regulation in global markets.

We Are What We Own and Buy

Shamika Ravi & Sindhuja Penumarty

Over the last 10 years, Indian consump-ion patterns have undergone a struc-ural transformation. Households are not just spending more — they are al-ocating a growing share of expendi-ure to non-food items. Food now accounts for less than half of total house-hold consumption even in rural India, while spending on durable goods has risen across all income groups. This shift signals expanding prosperity, broader aspirations and improved market access for millions.

The 2025 Household Consumption Expenditure Survey (HCES), cover-ng over 2.5 lakh households, 60% of hem rural, offers the clearest empiri-cal picture yet of this transition. The survey spans food categories like cer-eals and milk, consumables and servi-ces, such as fuel and medical expens-es, and a wide range of durable goods. Taken together, these data points capture how Indian households are navigating rising incomes, shifting priorities and changing economic conditions.

The biggest story emerging from the data is the steady decline in the share of food, and the dramatic rise in spend-ng on durables. Rural spending on durable goods has surged by 217%, from ₹170 to ₹540 per person per month. In many states, rural households have increased durable expenditure by over ₹500 per person monthly. Adjusted for inflation, this means a typical rural family of four now spends roughly ₹13,000 more per year on durable goods than it did a decade ago.

But the shift is not merely about spending more — it's about spending differently. Within the durable goods category, the composition of purchases has changed. The share of expenditure on clothing and footwear has fallen. Meanwhile, spending on asset-building items — cooking and household appliances, personal tech, and home equipment — has risen.

Across both urban and rural India, a greater proportion of households owns durable assets. Vehicles, mobile phones, refrigerators and TVs — once aspirational purchases — have become commonplace. One striking trend is the slower growth of TVs, which are shared among household members, compared to mobile phones, which are personal devices. Similarly, the growth in refrigerator and vehicle ownership demonstrates how credit access, supply-chain expansion and financial inclusion have enabled households to diversify into higher-value assets.

Taking it a gear up

Durable goods are not mere consumption items. They are investments in productivity and capability. A vehicle expands mobility and job access. A refrigerator improves food security and reduces waste. A mobile phone connects households to information, markets and digital services. The spread of such goods boosts individual efficiency and stimulates broader economic dynamism.

This rise in durable ownership brings new challenges that require thoughtful policy responses.

▶ The surge in private vehicle ownership requires investments in urban infrastructure, mass transit and urban planning. We risk deepening the crisis of congestion, pollution and deteriorating urban quality of life. Strengthening public transport is not just an environmental imperative; it is an economic one.

▶ The near-universal spread of mobile phones masks an important gap: digital empowerment. To harness the benefits of the digital economy, mobile access must be accompanied by digital literacy, awareness and consumer protection.

▶ Unlike refrigerators, washing machines have spread more slowly, exposing structural barriers. Their uptake hinges on piped water, drainage and reliable power. Fixing this infrastructure isn't a convenience — it's essential to women's productivity and agency.

At a macroeconomic level, the surge in durable consumption carries powerful implications for Make in India and the country's growth strategy. Domestic demand accounts for more than 60% of India's GDP, making it far more central to growth than in export-driven economies like China. As Indian households move into higher-value durables, the pressure — and the opportunity — to upgrade domestic manufacturing increases.

India must now push beyond assembly-based production and embrace a more comprehensive, innovation-driven manufacturing ecosystem. This requires stronger investments in R&D, better industrial infrastructure, supply-chain development and a regulatory environment that encourages quality production. The dividends of such investment go beyond meeting domestic demand: they help Indian firms climb the value chain, improve productivity and become globally competitive.

The latest consumption data are more than a snapshot of what households choose to buy. They are a window into how aspirations are rising, how economic structures are shifting, and how policy must evolve. As India enters a decade defined by rapid urbanisation, digitalisation and demographic change, understanding these patterns is essential.

Durable ownership and spending are telling us something important: households are preparing for a new standard of living, and policy must keep pace.

Ravi is member, and Penumarty is young professional, EAC-PM

17 Dec 2025

Get a Fix on Rural Employment Scheme

On Tuesday, GoI introduced Viksit Bharat Guarantee for Rozgar and Ajeevika Mission (Gramin) Bill 2025 in Lok Sabha, seeking to replace the 20-yr-old MGNREGA. While the rural economy has, indeed, evolved since 2005, the nature of the proposed overhaul suggests the issue's more than just about updating an ageing law. Although the Bill proposes to raise maximum guaranteed workdays from 100 to 125, this increase will be contingent on central allocations and approvals — unlike MGNREGA's demand-driven entitlement. Village-level plans will be drafted by gram panchayats. But these will also require central nod. In effect, the Bill restructures the programme as a centrally-sponsored scheme (CSS) with 60:40 Centre-state cost-sharing arrangement, but without MGNREGA's demand-driven character.

MGNREGA has long been dismissed by critics as a 'ditch-digging' programme, failing to create durable assets, and flagged as a fiscal burden due to its 100% central funding. For FY26, GoI released ₹68,394 cr to states and UTs, against a budgeted ₹86,000 cr. Pending liabilities exceed ₹10,127 cr till November. Under the new framework, part of the financial burden shifts to states, making implementation dependent on their fiscal capacity.

Persistence of a rural employment programme points to the shortfall in job creation. Despite being dogged by corruption — failures of systems, rather than beneficiaries — the scheme has created assets, and measures such as geotagging of works have improved transparency. Like many CSSs, its flaws are evident. Fixing them is GoI and states' responsibility, not justification for pushing costs of a leaky system onto the economically weakest amid fragile employment and fragmented politics that can have a bearing on allocation.

Unmask & Punish Feku-Makers

Shardul S Shroff, K S Roshan Menon & Himali Sylvester

Earlier this year, MeitY issued a draft of Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Amendment Rules 2025 under the IT Act. The proposed law targets harms from deepfakes. Specifically, it targets non-consensual intimate or obscene imagery, fabricated political or news content, fraud or impersonation for financial gain, and erosion of trust in information ecosystems.

To address these problems, the proposed law mandates social media platforms to label or embed metadata identifiers on all 'synthetically generated information' (SGI). This prescription is rich in technological detail. It requires at least 10% of any audio, image or video to display the label. Moreover, larger platforms are required to obtain user declarations for SGI and verify the accuracy of such user declarations.

There is value in a deepfake regulatory regime that has three stakeholders: the state, user, and intermediary. However, an approach that 'prioritises' the intermediary over the wrongdoer suffers from 3 flaws:

❶ Misconstrues intermediary's key function An intermediary doesn't create nor disseminate SGIs. Instead, it acts as a conduit for user content. For example, consider a social media platform. When a user uploads a reel, it delivers that reel to the audience selected by the uploader. Instagram does not create or modify the reel's content or target a specific recipient. Indian courts have also held this position, granting these platforms 'safe harbour', and confining their liability to taking down unlawful content only when directed by a court or an authorised government order.

In contrast, the proposed law broadens intermediary liability. It compels intermediaries to first pre-verify user declarations and subsequently apply blanket labels. This effectively recasts intermediaries as gatekeepers of AI-generated content, pushing them beyond their technical capabilities and outside their legal mandate.

Crucially, if intermediaries fail to apply SGI labels, they risk forfeiting safe harbour and being punished in a manner resembling a wrongdoer. This novel pathway to holding platforms liable is not only contrary to intermediary governance but also risks overburdening them.

This was a consideration that previously led Indian courts to adopt a nuanced, contrasting view. In 'Shreya Singhal v. Union of India', 2015, for instance, the Supreme Court categorically affirmed that platforms handle millions of items daily, and cannot be compelled to review and verify all content ex ante (as labelling would require).

All yours, intermediaries!

❷ Fails to address underlying harm For instance, in case of AI-generated non-consensual intimate imagery (NCII), platforms would label content as 'synthetic' and continue distributing it. Ideally, after a user reports such content, it would be taken down. However, deterrence is still absent, as the original uploader goes unpunished.

❸ Inconsistent with court-settled practice Courts adjudicating identity-related IP disputes follow a harm-based approach, by asking the original uploader to take down the offending material. This is how proliferation of 'identity theft', or 'harm to attributes of identity', is prevented from causing further injury to the innocent.

For intermediaries, if they remove such 'offending material' from their platforms, further damage is denied, and continuing wrong is prevented. The 'safe harbour' principle is observed, and intermediary liability is only attached in cases of 'failure to remove' the identified offending material within 48 hrs of receiving a judicial order or a government-authorised order.

How this process changed to penalise intermediaries for not labelling an SGI is anyone's guess. Unfortunately, with the proposed amendments, GoI has let the actual offending creator go scot-free, as it's much more difficult to punish the actual wrongdoer.

A theoretical approach to curbing deepfakes primarily focuses on punishing the wrongdoer and removing offending content. Regulation must accordingly be tailored to facilitate swift identification of the offender and expeditious takedown of the offending image.

Importantly, in this theory, platforms are not value-neutral bystanders. Instead, they serve as enablers and information providers. Labels may remain. But it's the actual content that must be used to verify the wrongdoer. And platforms should only be leveraged to share such verification information with law enforcement agencies, subject to proportional procedural safeguards.

On identifying offenders, extant statutes address identified harms and prescribe penalties. IT Act and Bharatiya Nyaya Sanhita 2023 criminalise NCII and impersonation-based financial fraud. Likewise, the Representation of the People Act 1951 enumerates mechanisms to curb electoral misinformation. Prioritising robust enforcement and targeted regulation will curb deepfake harms more effectively than deepfake-specific laws.

Shroff is executive chairman, Menon is principal associate, and Sylvester is associate, Shardul Amarchand Mangaldas

17 Dec 2025

For GCCs, Time To Make Merry

Hiring spree unlocks wider opportunities

India's IT services firms are becoming a speck in the rear-view mirror of hiring by GCCs. Dedicated high-value offshore units of MNCs are soaking up office space in tech hotspots like Bengaluru, Hyderabad and Chennai, hiring aggressively for roles from coding to training chatbots. GCC headcount is growing 18-27% y-o-y, far outpacing the 4-6% growth at IT services firms, according to TeamLease Digital. They also provide regular outsourced services like customer management and documentation, thereby squeezing the role of third-party IT services firms. TCS, Infosys and Wipro, which used to scoop up huge numbers from campuses, have made way for Microsoft and Amazon. GCCs are also leading the push into smaller towns.

The churn is for the good. GCCs offer Indian workers a much broader range of employment opportunities than bread-and-butter outsourcing could. These units are strategically aligned with their parent companies to deliver more value in core business functions. The Indian tech worker now has exposure to high-end functions like research and product development as well as best-in-class processes to ensure productivity. GCCs pay more than regular outsourcing and offer accelerated career growth. That they are now spreading beyond established technology clusters is a definite benefit for tech- and capital-scarce parts of the country that house a large talent pool.

Accommodative policies have made India a global draw for GCCs. States are tweaking their strategies to sweeten the welcome. GCCs offer MNCs wide latitude in negotiating immigration policies in advanced economies. India is host to GCCs from several European countries alongside the Silicon Valley bunch. The trend is catching. The argument of a dedicated pool of inexpensive talent carrying out business-critical functions offshore is persuasive in C-suites. The funnel can only widen, and India is sitting bang in the middle of it. Globalisation, GCC style, faces less political opposition in a protectionist world. Success stories from India can sway the fence-sitters.

17 Dec 2025

From global policeman to transactional bully, America's breeding chaos — affecting India, too

USA, IT'S DOWN DOWN

American Pie Slice Thinning

Swaminathan S Anklesaria Aiyar

SWAMISPEAK

The Trump regime's National Security Strategy (NSS) has been subject to much examination. Trump has been known to reverse policies in a second. Some analysts say his only strategy is his gut feel.

Yet, the NSS has two clear messages:

❶ The US respects none of its traditional friends and allies, and will skewer anybody for narrow economic advantage.

❷ It refuses to take on cost and responsibility of global policeman any more, and prefers to be a transactional bully. It retains a focus on Latin America. But tells the rest of the world that it needs to make its own security arrangements. This isn't exactly a new strategy. It's logical confirmation of what was started in Trump 1.0.

Many Indian analysts and politicians have long argued for a multipolar world. They now have it, formally spelt out in American English. Yet, it's no cause for celebration at all. China, which claims Arunachal Pradesh as its own, continues to expand its economic and technical footprint in the world. In security, India is on its own, and can't expect more than token help from outsiders in case of hostilities with China or a Sino-Pakistan front. The Ukraine war means Russia is firmly aligned with China. India is alone as never before, facing a foe more powerful than ever before.

History shows that regions flourish with a strong policeman that lays down rules and enforces them. Nothing is worse for commerce and investment than absence of rules. Global hegemons are detested for being overlords. Yet, without them, absence of rules means chaos, which is far worse than hegemony.

Pax Romana, roughly the 200-yr-long period between 27 BCE and 180 AD, made the Roman Empire the most prosperous place on Earth. BJP often cites economic historian Angus Maddison as estimating that India accounted for 32% of world GDP in 1 AD. But Maddison also calculated that India's GDP per capita then was $450, slightly below the world average. Italy was by far the richest at $809 per capita.

Italy declined sharply after the Roman Empire ended. Europe stagnated. Economist Colin Crook estimated that only in 1850, decades into the Industrial Revolution, did Britain equal the living standard of 3rd c. AD Romans. France and Germany got there in 1870, and Japan only in 1955. Prosperity we take for granted today is quite recent.

Deepak Lal, in his 2004 book, In Praise of Empires, shows how empires had been good for governance and economic prosperity in many parts of the world. This was mistakenly attacked by some critics as sanctifying colonialism. But Lal made it clear his emphasis was on the importance of rules and travails of chaos.

The US was traditionally isolationist. But after WW2, it saw the Soviet communist world — one in pursuit of a new world order with international collaboration. UN and its various arms, World Bank, IMF, ICAO, WHO and WTO, and other global institutions were created and devised rules for all countries.

This led to the greatest globalisation and explosion of prosperity the world had ever seen. Maddison estimates that between 1950 and 2003, per-capita incomes exploded from $619 to $2,160 in India, from $4,578 to $19,912 in Western Europe, and from $9,561 to $29,037 in the US. US hegemony, for all its discomforts, created unparalleled prosperity across the world.

India was among many countries that resented US hegemony. Yet, the US did not act in narrow self-interest as previous hegemons had done, and instituted what economists call public goods — rules applicable to all, including the mighty. Rules were sometimes bent to suit the mighty. Yet, the world got global institutions that had never existed before. That created unprecedented prosperity.

Previous hegemons typically tried to increase their share of the global economic pie. But after WW2, the US did something different. It concentrated on increasing the size of the pie, even while suffering a steady erosion of its own share. This 'altruistic hegemony' raised all boats. The US could afford to do this for several decades because of its post-WW2 dominance. But downsides of globalisation and rise of China have ended that era.

Joe Biden viewed China's rise as containable. Trump has abandoned that for plain Cold War. Unlike Cold War 1.0, this one is characterised by US withdrawal from alliances, pursuit of values like democracy and human rights, and international institutions ranging from WHO and WTO to Unesco and Paris climate agreement. 'Altruistic hegemony' is gone. Chaos is increasing.

India has fared remarkably well in the first year of Trump 2.0. But the US-built ecosystem that has enabled India's rise is eroding. The future is

Hegemom: 'Extra Value (After Venus)', 2016, Genevieve Gaignard

Trumpling on Good Times

Seema Sirohi

LETTER FROM WASHINGTON

In the annals of India-US relations, 2025 will fall close to annus horribilis. The year began with hype and happiness around Trump 2.0, but ends with resignation and artificial niceties.

New Delhi is compelled to question its own assumptions, a painful process, but useful nonetheless. This forced enlightenment should result in more clarity, capabilities and self-cures, especially after a careful reading of Trump's radical National Security Strategy (NSS). The geopolitical framing hints at spheres of influence with Washington, Moscow and Beijing as dominant powers.

As a former Indian ambassador told me, India has been 'assigned fixed seating on a low-fare ticket and it's not window or aisle'. To which I might add: stuck in the middle seat between Sam and Boris, India has to find a way with, around and beyond Li.

Against this background, the current state of India-US affairs is especially worrisome. The political relationship is sapped of goodwill, the economic relationship is reeling under 50% tariffs, and people-to-people bonds are strained by a growing and virulent anti-India movement. The only part of the grand-sounding 'Comprehensive Global Strategic Partnership' to escape breakage is the defence relationship. Small mercies.

Interestingly, while Trump berated or ignored India, Big Tech did not. They continue to bet on India despite active opposition from the MAGA crowd. Investment figures speak for themselves: Microsoft ($17.5 bn), Amazon ($35 bn), Google ($15 bn) and Apple ($7 bn). Perhaps inevitable, given the onerous fees on new H-1B visas. If Mohammad can't come to the mountain, the mountain will go where the talent is.

Diplomats insist the India-US relationship is moving along fine at the working level, with numerous meetings and visits. Bilateral projects continued. Launch of the Nasa-Isro Synthetic Aperture Radar (NISAR) satellite in July proceeded as planned. The 10-year defence framework agreeme-

velin missiles and Excalibur artillery projectiles worth $93 mn were approved....

But there's an equally long list of things that didn't happen despite signed and sealed promises. The first three Apache attack helicopters arrived in July after supply chain delays for a deal signed in 2020. The next three reached Britain aboard a cargo aircraft, but returned to the US on October 30 because of 'logistical issues'.

The GE delivery of 404 engines on a 2021 order for 99 engines for Tejas Mark-1A is a complicated saga of missed deadlines, constantly changing schedules and heartache. Only four engines were delivered this year. India still went ahead and signed a separate $1 bn deal for another 113 engines in November. But deliveries on that won't begin until 2027.

Think when the entire order for 212 engines might be completed. True, GE restarted the 404 production line just for India after a gap of five years. But delays have resulted in HAL missing deadlines and incurring IAF's wrath. Technical negotiations for the joint production of GE 414 engines are stuck in the forest of competing demands and control.

Trump and Modi did talk a few times during the year despite sharp differences on the India-Pakistan ceasefire and trade, if only to prevent total disaster. The pretend bon homie and pledges of friendship hide harsher truths. A trade deal remains elusive despite multiple rounds of grinding negotiations.

Even though US negotiators are 'satisfied' with India's 'best-ever' trade offer, Trump clearly is not. Is it because his MAGA eyes don't see a trade deal with India as a political win? With all the anger against India and Indian Americans gurgling within his base, a no-deal stance is safer.

A Quad summit fell to a different logic. Already low on Trump's priority list, it went lower, as the need to find a tariff fix on China and ensure a grand visit went higher. A Quad meeting would have irritated the Chinese.

That the drift with India is accompanied by Trump's energetic courting of Pakistan and its de facto ruler Asim Munir is salt in the wounds. Munir can contort his country into a pretzel for US speculators to chomp on, be it crypto or imagined treasures waiting to be unearthed. Indian leaders can't.

And how can New Delhi forget the demeaning rhetoric from Trump's cabinet members that served to kill whatever enthusiasm that remained. As the year closes, the main message from Delhi to DC: India has its own red lines and domestic compulsions. Indian MAGA — no shrinking violet — is alert to all insults.

Still, GoI has maintained a dignified stance in the face of constant pain. For Trump to force a large, democratic and US-friendly country to anti-Americanism would be folly, whatever the shape of his envisioned new order.

P.S. Indian hope rides on Trump's ambassador Sergio Gor. But can he magi-

18 Dec 2025

Does Jeff Bezos' redefinition of being wealthy as how much wealth you create for others hold up?

The Billionaire as Marxist

Santosh Desai

Spread the joy

Last December, Jeff Bezos offered an interesting reframing of wealth: think of it not as the money one accumulates, but as the value one creates for others. It is an elegant thought. It makes wealth a shared asset, something virtuous and inclusive, with the added advantage of skipping over the somewhat inconvenient fact of enormous wealth for the few. If wealth is simply a byproduct of making life better for millions, then the billionaire becomes a kind of accidental altruist.

There is something about this formulation that catches attention. To think of wealth generated rather than only wealth accumulated does shift the meaning we usually attach to it. To conceptualise businesses as agents of good, distributing social benefits in the name of enterprise, warms the hearts of those engaged in it.

But for all its surface appeal, the idea does not really stand up to scrutiny. For one, this is hardly the dominant mental model of wealth in the West. Western capitalism still venerates the individual accumulator: the heroic founder, brilliant investor, solitary architect of personal fortune. Bezos is not describing how the West thinks. He is offering Silicon Valley's preferred self-portrait, a moral alibi for sudden and overwhelming wealth.

The deeper issue, however, is conceptual. Is wealth really outward-facing as Bezos argues it should be? If that were true, professions that distribute the greatest benefit to others — teachers, caregivers, farmers, nurses — would not sit at the bottom of the economic pyramid. Wealth would naturally flow to those whose contribution is greatest, not to those whose position is most advantageous. Using this logic, Karl Marx should have been a billionaire.

TNIS IS NOT A RICH LIST

But modern markets do not reward contribution. They reward leverage, capital, proximity to money and timing. They reward being in the right place, with the right insulation, at the right moment. To turn outcomes of this system into a moral metric is to read the scoreboard as if it were the rulebook.

Hedge funds offer the clearest demonstration of this conceptual problem. Hedge fund managers can become extraordinarily wealthy. Some of the richest people on Earth belong to this tribe. And, yet, what value do they create for others, beyond their own investors? They do not build industries, create products, generate employment at scale or solve collective challenges. They redistribute, rather than create. Their gains come from the losses, or limitations of others in the marketplace.

If Bezos' equation were an accurate description of how wealth works, hedge fund billionaires should not exist. Their wealth flatly contradicts the idea that wealth measures value created for others. It measures value captured for oneself.

Bezos, then, is articulating a *desirable* fiction, rather than an economic principle. It is a plea for how wealth should be understood, not a description of how it actually arises. And when this fiction travels to India, where the architecture of wealth is entirely different, it arrives in a landscape that neither fits his premise nor directly contradicts it. Instead, it reveals an alternate logic altogether.

NOT SANTA

Indian wealth has never been an individual affair. The Indian HNI is not a solitary peak, but a densely connected node. Wealth here is embedded inside a network of expectations: family, kin, caste, community, dependents, loyalists and the many who become quasi-kin over time. Western wealth promises concentrated autonomy. Indian wealth promises diffuse continuity. In India, wealth is not a story one writes alone. It's a hive of interconnections.

Ironically, this means India has always believed in creating value for others — just not in the universalised way Bezos imagines. Our 'others' are highly specific: extended family, trusted employee, old supplier, home village, religious community.... Indian business routinely creates value for these groups: education for employees' children, medical support for retired staff, credit for old vendors, quiet sponsorship of local festivals.

But this generosity flows inward, not outward. It strengthens the circle, rather than expands it. It is based on a feudal reading of belonging, rooted in a long-term idea of reciprocity. The price of being wealthy in India is perpetual obligation. Wealth does not free you. It binds you more tightly to the world.

Even for the newly wealthy, startup founders, wealth appears to carry new meanings. But scratch the surface and familiar patterns emerge. Startups rely on family capital, teams reflect social hierarchies, and success depends on networks that predate the venture. Startup founders have a startlingly common point of origin, whether in terms of community or educational credentials. Just look at the surnames of a lot of these new founders, and the story becomes clear.

Seen in this light, Bezos' formulation becomes revealing not for what it claims but for what it obscures. By equating wealth with value created for others, it invites us to overlook economic, cultural and historical structures that determine who gets to create wealth at all, and whose contributions remain invisible. Simply renaming a certain kind of social good as wealth does not change how the world works.

Wealth does not arise from helping others lead better lives. That is governed by an entirely different set of structural factors. It's the kind of idea that looks good from a distance, but shrivels when examined up close. Even if we were to accept it at face value, it changes very little, except to help some billionaires feel better about themselves.

If wealth was really outward-facing, it would naturally flow to those whose contribution is greatest, not to those whose position is most advantageous. Using this logic, Marx should have been a billionaire

VILLAGER VISIONARY WINNER

India has always believed in creating value for others — just not in the way Bezos imagines. Our 'others' are highly specific, based on a feudal reading of belonging, rooted in a long-term idea of reciprocity

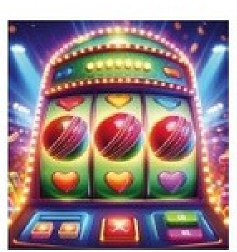
The writer is co-founder, Think9Consumer Technologies

Play Moneyball: Buy Quality at Fair Prices

IPL's smart player pickings tell a bigger story

The latest round of auctions for IPL players dips heavily into a value investor's playbook. Relatively obscure players are crashing into the million bucks category alongside established names. Warren Buffett's investment philosophy is based on the principle of buying high-quality businesses at fair prices. Effort goes into determining the quality of a business and its fair price. IPL auctions are taking this idea forward by determining prices on select performance parameters in anticipation of supernormal profits. This style of investing is also common in PE that chases alpha in startups with an uncommon risk-reward ratio. The objective is the same for value investors, VCs and IPL team owners: market-beating returns.

The long-term investor is more than likely to be a patient bloke, having done his homework before stumping up the cash. In an efficient market, value discovery becomes sophisticated to the point where passive investment may be the most productive approach. But startups — and IPL players — do dwell in deep markets and there is scope for active selection. Done right by professionals, this investment style delivers outsized returns on capital employed. The gains accrue from discovering value *before* the broader market arrives at the same conclusion.



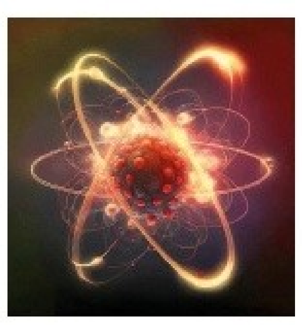
Value investing has never quite gone out of fashion since it was expounded by Benjamin Graham in the 1930s. Its most famous proponent, Buffett, has consistently outperformed the market with this strategy over a long career in investment. The idea is to 'simply' distinguish price from value and take an investment position accordingly. In the 2011 film Moneyball, a baseball team's manager says that after making one bad decision based on money, he won't make a money-based decision any more. His deputy wisely remarks, 'No. You're doing it for what the money *says*... That they're worth it.' Investment strategies have evolved beyond Graham's insights. But the concept remains a vital building block in finance. Its spread beyond the financial community speaks of its abiding value.

18 Dec 2025

Nuclear is Atomic! But It's Not Enough

With Lok Sabha passing Sustainable Harnessing and Advancement of Nuclear Energy for Transforming India (SHANTI) Bill 2025, a major step has been taken towards finally leveraging the India-US civil nuclear deal formalised in 2008. This is a long-overdue reform that will open one of India's most closed sectors, making it possible for private players to take minority equity in new nuclear power projects, and for investments by foreign companies and global sovereign wealth funds.

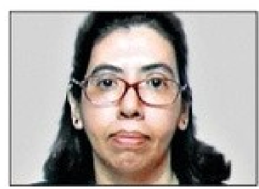
Packaged as a trade and investment outreach, it could grease wheels for clinching the India-US trade deal and bring in capital critical to cleaning'n'greening the energy system. But nuclear isn't a silver bullet to be tom-tommed in announcements and unplanned projects, with other options left by the wayside. GoI must provide a clear vision of India's energy system, including a decarbonisation roadmap that is in line with its net zero by 2070 goal. This plan must be more than just capacity-addition targets like 100 GW of nuclear by 2047. It should consider the role and share of different energy sources and their implications, be it costs, access or supporting ecosystem requirements.



The blueprint should also set out an implementation roadmap to provide clarity on rollout of the proposed decarbonised energy system, and give the right signals for investment. While NITI Aayog has taken several stabs at a long-term strategy, it now must engage in a wider and time-bound public consultation. As a growing economy that's still energy-poor, India has been a sponge, agnostically soaking in every new plant. But such an approach has its limits. A proper plan will ensure that India's clean energy transition augments energy security and improves access for all.

18 Dec 2025

Untaxing Days Ahead?



Lubna Kably

In 2025, India ushered in a new direct tax framework, marking the most significant rewrite of I-T law in over six decades. The objective of the I-T Act 2025 was to reorganise India's I-T law to make it simpler, clearer and easier to comply with.

▶ Terms like assessment year and previous year, which were confusing for individual taxpayers, have been replaced with the concept of a tax year, defined as a uniform 12-month period beginning April 1.

▶ Exemptions and deductions linked to salary income such as gratuity, HRA, leave encashment, pension and retrenchment compensation have been consolidated under the salary chapter. While this is largely a structural clean-up, it should make salary taxation easier to navigate for employees.

▶ Several compliance-related provisions have been consolidated to improve understanding. The new Act also empowers GoI to frame schemes aimed at improving efficiency, transparency and accountability in tax administration that is increasingly powered by technology. With this framework in place, perhaps the forthcoming budget can introduce policy changes that have been tried and tested in other countries and are in sync with the needs of modern-day taxpayers.

▶ Optional joint taxation for couples has been proposed by the Institute of Chartered Accountants of India (ICAI) in its pre-budget memorandum. Under the current system, each spouse is taxed separately, even though incomes, expenses and financial responsibilities are often shared.

Joint taxation would have a higher exemption threshold and allow couples to file a single consolidated return, combining incomes and deductions. Tax provisions would retain the option to continue filing individually if that is more beneficial.

For single-earner families or dual-earning couples with modest incomes, joint taxation could significantly reduce tax liability by better utilising exemption thresholds and deductions. It could also simplify compliance by reducing paperwork and duplicative filings. Several countries, including the US, Germany, Spain and Portugal, allow joint filing.

▶ The Taxpayers' Charter, unveiled in August 2020, was a welcome recognition that taxpayers deserve fairness, transparency and respect. But years later, it remains a statement of intent, not a statutory guarantee. There has been progress — refunds for many have been much quicker, faceless mechanisms have helped taxpayers — yet, the charter needs to be legally enforceable.

For instance, in Britain, if the taxpayer feels that services provided haven't met standards outlined in the charter (which are wide-ranging and include being treated fairly, being responsive and keeping data secure), they can file a complaint, which His Majesty's Revenue and Customs (HMRC) assures will be dealt with quickly and fairly.

In case of a disagreement over the decision, a statutory review is also possible, which is more cost effective than appealing to the tribunal. HMRC states that three-quarters of disagreements are settled during a review, which is carried out by an officer not involved in the original decision.

▶ In India, a supposedly low level of complaints and emergence of digital alternatives like e-Nivaran portal led to abolition of the tax ombudsman system in early 2019. However, as tax processes become more digital and enforcement more automated, the risk of faceless errors grows. Ombudsman institutions do not weaken tax collection; they strengthen compliance by reassuring citizens that when the system goes wrong, there is a fair and independent place to turn.

▷ Australia's inspector-general of taxation and taxation ombudsman combines complaint resolution with systemic reviews. The office has examined issues such as aggressive debt collection practices and digital system failures, leading to recommendations that reshape administrative behaviour. Its strength lies in treating individual complaints as early warning signals of deeper institutional problems.

▷ Canada's office of taxpayers' ombudsman functions as an independent reviewer of service-related complaints against Canada Revenue Agency. While it does not intervene in tax disputes on merits, it investigates unfair treatment, excessive delays and poor communication.

Its public reports have prompted changes in how taxpayer rights are communicated and how vulnerable groups, including seniors and low-income filers, are handled. This mechanism offers a credible alternative to litigation for individuals caught in procedural limbo.

Across jurisdictions, benefits are consistent. Tax ombudsmen provide quicker relief for individuals facing hardship, lower the cost and complexity of redress, and shine a light on recurring administrative failures. Reviving the ombudsman office — with greater independence, clear jurisdiction and time-bound resolution mandates — would provide an essential balance in the tax ecosystem.

Iron out the crinkly bits

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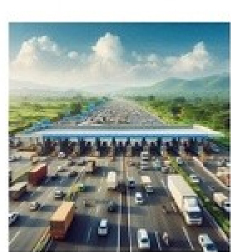
19 Dec 2025

No More Stopping or Stalling on Highways

Barrier-free tolls will improve driving comfort

Intercity driving is set to become easier with barrier-less toll collection, said Nitin Gadkari on Wednesday. Indians have become accustomed to RFID-enabled tolls, which have replaced lengthy waits at plazas when fees were collected in cash. Switching vehicles to online payments was easy, and it is an even smaller transition to a free-access tolling system. All it takes is cameras that read number plates and communicate with FASTag accounts for deduction. Annual FASTag passes make the process even simpler and provide highway operators with greater clarity over revenue. The cost of integrating cameras into the RFID system is minor relative to the economic impact.

India needs to upgrade its highway infrastructure to offer globally competitive logistics. The operational environment of a road alters over its lifespan, and effort must be directed at slowing down the reduction in its utility. Speed of travel is a key determinant of a highway's performance, and any reduction in stoppage time improves it. Several other factors come into play, such as congestion and maintenance. These must be factored into a new pricing model for building highways and determining the toll.



Barrier-free tolls are less expensive than upkeep of road surfaces and far less costly than building new highways. Toll systems should be leveraged to extract any extra mileage from highways.

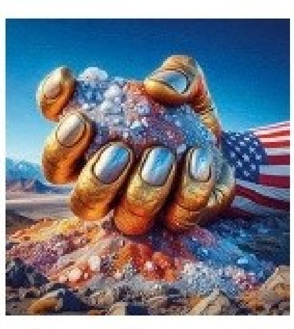
Barrier-free tolls are not at the top of the technology tree for such systems. Satellite-based systems take the process much further but involve a higher cost of upgrading, because vehicles need to be equipped with extra hardware. Navigation systems make it possible to charge for exact distances travelled and eliminate toll plazas. The highway infrastructure would take a substantial leap by switching to a satellite navigation toll system, but it will have to wait until the country adjusts to the camera-RFID approach. The new toll arrangement should be vastly superior to waiting for the barrier to rise.

19 Dec 2025

A Critical (Minerals) US Lesson for India

Taking a page out of George W's playbook, Trump has imposed an international naval blockade—his Iraq being Venezuela, his WMD being narcotics, and his Saddam being fellow strongman Nicolás Moros. This is a 'traditional' Cold War-era tactic Washington has used over time, especially in Latin America. You don't have to be a Kissinger to realise that Venezuela, a country rich not just in oil but also in deposits of bauxite, coltan, gold and rare-earth minerals (worth about $1.36 tn), is in Trump's crosshairs for reasons other than waging 'war against evil/drugs'.

Rare-earth is central to US national security and global supply chains, especially after China tightened the spigot in retaliation to Trump tariffs. The US is also scouting for more conventional routes in the form of forming strategic groups to secure rare-earth minerals, such as Minerals Security Partnership (MSP) and Pax Silica, with countries like Australia, Canada, Japan, Finland, Germany, South Korea and Britain. India is notably left outside Club Rare-Earth.



Trump deals with Ukraine and Kazakhstan, Rwanda-DRC peace deal, dumping an assiduously-built relationship with India for Pakistan, all have one thing in common: the desire of the US to secure access to critical minerals. Meanwhile, China is doing something similar with its International Economic and Trade Cooperation Initiative on Green Mining and Minerals, a supply chain bloc to counter the West, with its minerals-rich allies like Zimbabwe, Cambodia and Nigeria. Again, India does not, understandably, have a foot in this door. While it may lack leverage, New Delhi will, at some point, need to get a critical minerals supply policy off the ground. Building nirbharta conduits on this front is urgently called for.

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The Times They Are A-Changin': Iconic American Singer-Songwriter Finally Bags Lit Nobel

"But as far as songwriting, any idiot could do it... Everybody writes a song just like everybody's got that one great novel in them."

"From Orpheus to Faiz, song & poetry have been closely linked. Dylan is the brilliant inheritor of the bardic tradition. Great choice"

"Want to thank him for influencing three generations with his songs, transporting people from their crazy lives to an alternate world."

SWEDISH ACADEMY PRAISES DYLAN'S POETRY FOR THE EAR

AROUND THE WORLD » 17

Let Him Be

Surge pricing isn't – and shouldn't – be outlawed, unfair trade practices should – so regulate smartly

Control, Don't Limit the Sky

Rohit K Singh

Competition Commission of India has decided to launch an inquiry into IndiGo, to investigate if the airline broke antitrust rules. But the recent cancellation of hundreds of IndiGo flights was not merely operational failure, but also a stress test for India's consumer protection framework in a high-concentration, algorithm-driven market. Surge pricing is an easy villain. It's also a misunderstood one.

The law doesn't prohibit dynamic pricing. Nor should it. Airlines, hotels, taxis and even cloud services rely on prices that change by time of day, day of week, season, load factor and competitive response. Dynamic pricing, in itself, is simply a way of allocating scarce capacity and signalling demand.

Consumer Protection Act (CPA) 2019 does not outlaw surge pricing. What it prohibits are unfair trade practices — pricing that exploits information asymmetry, manipulates consumer choice or operates coercively.

Section 2(47) of CPA defines unfair trade practices in broad, tech-neutral terms, while Section 49 empowers Central Consumer Protection Authority (CCPA) to intervene against unfair pricing methods, including those driven by digital or algorithmic systems. The challenge exposed by the IndiGo episode is not absence of law, but absence of contextual application.

Each aviation disruption renews calls for hard fare caps. Yet, blanket caps are economically unsound. They discourage rapid supply restoration because airlines may prefer to hold back marginal capacity rather than sell it at a price that does not justify the operational strain. They incentivise inventory withdrawal, especially on thinner routes.

They also push pricing opacity underground — through bundled fares, ancillary charges, last-minute 'convenience' fees or informal channels harder to monitor. Over time, the apparent consumer win of visible fare control is offset by hidden costs and reduced reliability.

More fundamentally, hard caps treat normal peak demand and crisis demand as identical, ignoring a crucial legal and ethical distinction: consumer vulnerability. In holiday peaks, consumers

Clipping wings is wrong: 'Jatayu Vadh', 1895, Raja Ravi Varma

compare options and choose whether to travel at all. In genuine crises — mass cancellations, medical emergencies, etc — consumers are not exercising free choice but responding to compulsion. Regulation must recognise this difference, and design for it.

DGCA's civil aviation requirements (CARs) lay down obligations for refunds, rebooking, meals, hotels and passenger care in the event of cancellations and delays. Yet, pricing behaviour during such disruptions remains largely unregulated. This is the missing link.

During objectively identifiable disruption events, a temporary pricing framework should apply. This need not mean rigid price controls. Smarter instruments are available. One option is to use predefined surge multipliers instead of open-ended repricing. Fares on affected sectors during the disruption window could be allowed to move within a band, say, up to a certain multiple of recent average fare for that route and time bracket.

Another is to mandate price-stability windows once disruption thresholds are crossed. For a defined period, the fare cannot change more often than, say, once every 30-60 mins, reducing the sense of a 'slot machine' preying on panic.

Transparency can be improved by requiring disclosure of recent average fares for the same sector and time of day, enabling passengers to see how far the current fare deviates from normal. A further tool is to restrict ultra-high-frequency algorithmic repricing during crisis periods, forcing a slower, more accountable cadence of fare changes. Such measures preserve market signals while preventing panic-driven exploitation.

Airline fares today are set less by human revenue managers than by algorithms reacting in milliseconds to real-time data on bookings, competitors, holidays, events and macro indicators. To consumers, this feels predatory. Regulation must, therefore, shift from suspicion to algorithmic accountability.

CPA's unfair trade practices provisions apply equally to digital systems as to human actors. Airlines should be required to maintain auditable pricing records during disruption windows: data inputs received, active rule sets, constraints, and prices generated at different times. These records should be subject to post-event scrutiny by CCPA or DGCA. Regulators don't need to see every line of proprietary code. They need to see whether, in practice, the system led to outcomes considered unfair or coercive if a human had set them.

Much of the outrage over surge pricing is, in truth, outrage over service breakdown. When cancellations are followed by delayed refunds, uncertain rebooking, inadequate passenger care and poor communication — despite clear DGCA CAR obligations — consumers feel doubly wronged. A high fare paid willingly for a reliable service is one thing. It being paid under duress after a service collapse is quite another.

India does not need blunt price controls every time there is a high-profile aviation crisis. It needs event-sensitive regulation that recognises crises as abnormal market states, in which normal assumptions about choice and bargaining power do not hold. GoI should notify a crisis pricing protocol under CPA, operationalised jointly by CCPA and DGCA. The protocol should do four things.

1. Define disruption thresholds clearly, so that airlines and passengers know when the market has entered a special regime.
2. Activate temporary pricing guardrails — surge bands, stability windows and transparency obligations — during that regime, with violations treated as potential unfair trade practices.
3. Mandate algorithmic auditability, with airlines required to preserve and share pricing logs for independent review.
4. Link pricing behaviour to strict enforcement of passenger service obligations under DGCA CARs, ensuring that those who profit from distress also bear heightened duties of care.

Fares today are set less by human revenue managers than by algorithms reacting in milliseconds to real-time data. So, regulation must shift from suspicion to algorithmic accountability

Regulation must not freeze markets but civilise them.

The writer is former secretary, consumer affairs, GoI

19 Dec 2025

Keep Things GAAR, Not GRRR!

Ashish Karundia

General Anti-Avoidance Rules (GAAR), conceived as a weapon against aggressive tax planning, have once again taken centre stage. From high-profile GAAR panel rulings against corporate restructurings to recent judicial interpretations, developments underscore the difficulty of striking the right balance between deterring abusive tax avoidance and protecting legitimate taxpayers.

GAAR empowers tax authorities to disregard or recharacterise transactions that are designed to obtain a tax benefit without commercial substance. Intended as a backstop where specific anti-avoidance rules (SAAR) fall short, GAAR's ambit is broad, reflecting legislative intent to privilege 'substance over form'.

This breadth has now translated into heightened scrutiny of corporate arrangements. In late October, GAAR's approving panel branded Hinduja Global Solutions-NXTDigital (NDL) demerger an 'impermissible avoidance arrangement' (IAA), disallowing tax offsets of over ₹1,200 cr and triggering recovery proceedings, including interest and penalties. The panel concluded that the transaction lacked genuine commercial substance, with tax minimisation outweighing any real business rationale.

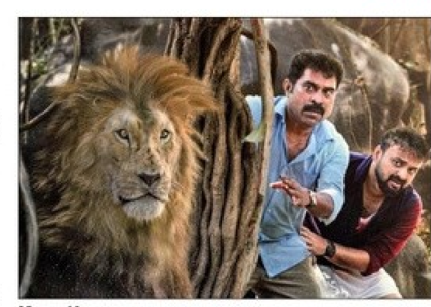
Similarly, in the Vedanta case, the panel held that the company's Mauritius holding structure — used to access lower dividend withholding tax under the India-Mauritius treaty — was engineered primarily to secure a tax benefit of around ₹1,308 cr, rather than to serve any commercial purpose.

Both rulings are under judicial review, yet, they signal a shift: GAAR now targets mainstream restructurings and long-standing treaty structures, not just artificial schemes.

Judicial responses show GAAR has limits. In Anvida Bandi v. Deputy Commissioner of I-T (Aug 2025), Telangana HC struck down its use on routine share trading, ruling that transparent market transactions can't be deemed IAA merely for generating capital-loss offsets.

The judgment matters more for its reasoning: GAAR isn't triggered by tax benefits alone. Authorities must prove a pre-arranged, contrived structure; ordinary, tax-efficient planning doesn't automatically qualify.

At the same time, the same court upheld GAAR in a bonus-stripping case, involving off-market mechanisms where commercial substance was found wanting. The message is clear: GAAR withstands judicial scrutiny when it targets artificiality, not when it seeks to second-guess normal commercial behaviour.



Keep the peace

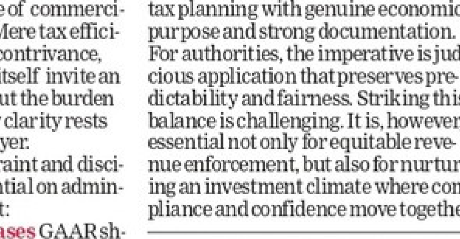
For India Inc, these developments pose a conundrum. There is a legitimate policy imperative to curb aggressive tax planning that erodes the tax base and undermines fairness. But overzealous or mechanical invocation of GAAR, without due regard to commercial realities, risks creating uncertainty at a time when India seeks to attract capital and encourage economic activity. This duality places responsibility on both taxpayers and tax administration.

For taxpayers, several principles can help maintain certainty:

▶ **Commercial substance** Arrangements driven primarily by tax outcomes — whether domestic restructurings or treaty-based cross-border structures — remain vulnerable where they lack a credible commercial or operational rationale.

▶ **Biz purpose** Tax planning should be anchored in genuine business objectives, supported by contemporaneous documentation and defensible economic justification.

▶ **Evidence and process** GAAR operates on objective statutory tests, including the 'main purpose' of obtaining a tax benefit and absence of commercial substance. Mere tax efficiency, without contrivance, should not by itself invite an IAA finding, but the burden of evidentiary clarity rests with the taxpayer.



Equally, restraint and discipline are essential on administration's part:

▶ **Material cases** GAAR should be confined to arrangements with substantial tax avoidance concerns, especially where commercial substance is genuinely lacking, and not to routine corporate activities that may incidentally yield tax efficiencies.

▶ **Legislative boundaries** GAAR should not be applied reflexively where SAAR or treaty anti-abuse provisions (e.g., limitation of benefits) address avoidance concern, unless evidence shows these provisions are insufficient. Overriding targeted statutory anti-avoidance measures without justification undermine legislative boundaries and predictability.

▶ **Consistency and predictability** Transactions presenting similar facts and commercial characteristics should be treated consistently. Divergent or disproportionate application erodes confidence in the predictability of tax enforcement and fuels prolonged litigation and uncertainty in commercial decision-making.

India's tax policy must walk a tightrope. A robust GAAR is indispensable to safeguard the exchequer in an era of mobile capital and sophisticated tax planning. But its legitimacy depends on consistent, transparent application that distinguishes abusive avoidance from legitimate tax planning backed by commercial substance.

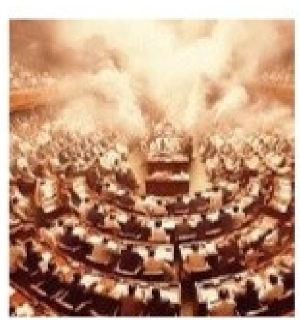
For businesses, the lesson is to align tax planning with genuine economic purpose and strong documentation. For authorities, the imperative is judicious application that preserves predictability and fairness. Striking this balance is challenging. It is, however, essential not only for equitable revenue enforcement, but also for nurturing an investment climate where compliance and confidence move together.

The writer is a chartered accountant

20 Dec 2025

More Hot Air From Our Iron-Lunged MPs

Not too long ago, air pollution was dismissed as a 'soft, First World' issue by 'We are like this only' India, buried inside newspaper pages and absent from public conversation, never mind debate. As the crisis worsened — and evidence mounted on health and economic damage — India's noxious air forced its way into daily conversations, signalling a shift in public urgency. Parliament, however, remains remarkably detached, with representatives of the people magically unaffected by what's not just a national shame, but national emergency that isn't confined to northern parts of India. One would have reckoned that a discussion would take up much of Parliament's winter session, a platform where policy is moulded and formed, not in TV studios. Yet, on Friday, winter session ended after parties agreed that the environment (sic) was not 'congenial enough' in the House to discuss pollution. You bet the *environment* isn't congenial enough.



To add a scoff to your cough, a day earlier, environment minister Kirti Vardhan Singh replied to a query in Rajya Sabha by stating that there was no conclusive data that establishes a 'direct correlation' between higher AQI and lung diseases. For GoI, it seems Indians are blessed with an incredible set of lungs. A substantive discussion in Parliament on pollution now seems unlikely before the 2026 budget session. Who knows? Maybe another round of debate on Vande Mataram will ensue. By then, the air may well have 'improved' — and voila! — pollution concerns will be put on the back burner.

The decision to walk away from discussion this week is dereliction of duty. Opposition had an opportunity to ask government tough questions — demanding answers, proposing solutions. Instead, we will get plenty more hot air.

20 Dec 2025

Let's Go for Depth, Not Just Scale

Rahul Jain

India is one of the few major economies where growth, industry and technology are reinforcing each other. A decade of quiet macro discipline is paying dividends. Unlike earlier cycles, growth today is less dependent on external demand or episodic capital inflows. Instead, it's increasingly anchored in domestic demand, policy continuity and expanding productive capacity factors that matter far more for sustained competitiveness than short-term geopolitical shifts.

Manufacturing is moving from participation to value creation. This macrostability is now converging with a broad-based industrial expansion. Manufacturing growth across electronics, telecom equipment, auto components, RE hardware, data centres and early semiconductor ecosystem is steadily integrating India into global value chains.

The $30 tn ambition hinges on a manufacturing step-change. Manufacturing has long contributed 15-17% of GDP. This must rise toward 25% to mirror the development paths of peers like China, South Korea and Vietnam. Early indicators are encouraging. Apple now manufactures nearly one-fifth of its global iPhones in India, with plans to exceed one-third by 2027.

Pharma offers a parallel story. India is the world's third-largest producer by volume, exporting over half its output while steadily moving up the value chain. Auto components, textiles, toys and clean-energy hardware are seeing similar momentum, with solar module capacity at roughly 120 GW, second only to China globally.

PLI has anchored India into reconfigured global supply chains. Across 14 sectors, including electronics, pharma, auto components, solar equipment and telecom, actual investments of around ₹2 lakh cr have been realised as of September 2025. This has driven incremental production and sales exceeding ₹18.7 lakh cr, and enabled employment generation of over 12.6 lakh jobs, both direct and indirect.

Crucially, it has anchored global supply-chain diversification toward India at a moment when companies are actively rebalancing risk. By linking incentives to output and scale, PLI scheme has attracted long-term capital into industries with sustained global relevance, strengthening India's position in reconfigured supply chains.

You wouldn't have guessed, but...

What distinguishes India's current phase from earlier manufacturing pushes is the parallel rise in tech depth. More than 1,800 GCCs now operate in the country, designing AI, cloud, cybersecurity and advanced product-engineering solutions for global markets. These centres increasingly sit at the core of innovation rather than at the periphery, creating a high-value knowledge ecosystem that complements industrial growth.

India is also emerging as one of the fastest adopters of AI at scale. A July 2025 survey of over 10,000 employees across markets shows India leading globally, with a 92% AI adoption rate vs a global average of 72%. A young workforce that views AI as an enabler of efficiency and professional growth is a key driver. While most companies are experimenting with AI, the real economic gains are being realised by more mature firms that are redesigning functions and workflows to capture productivity at scale.

Competitiveness is being built through convergence, not silos. India's strategic advantage lies in how these strengths reinforce each other. Macrostability enables long-term industrial investment. Industrial expansion creates demand for advanced tech and skills. Tech infusion lifts productivity, quality and global competitiveness. Together, they are reshaping India's manufacturing profile toward cleaner, smarter and more future-ready systems.

The next phase of growth will depend on building depth, rather than scale alone. India must accelerate investment in mid-stack capabilities, components, materials, advanced electronics, propulsion systems and R&D while improving export readiness and access to growth-stage capital.

As global power centres recalibrate economic partnerships, India's ability to anchor growth, innovation and supply-chain resilience is translating into geopolitical relevance rooted in economic substance. In that sense, its competitiveness moment is not cyclical, but structural, scalable and already further along than many realise.

The writer is India head, BCG

20 Dec 2025

AI Copyright, Dead on Arrival?

Prashant Reddy T

In the West, AI developers and content owners are engaged in litigation and negotiations over the use of copyrighted works for training AI programs. In India, a GoI-constituted expert committee has proposed a regulation model that appears to be inspired by ghosts of the licence raj regime.

The proposed approach departs from that adopted in most jurisdictions, where copyright laws have been tweaked through narrow statutory exceptions that permit the use of copyrighted content for AI training, provided developers have 'lawful access' to it. None of these international frameworks resemble the heavy-handed model being contemplated by India. There are three components to the Indian committee's proposal:

❶ Pay and use Blanket permission for AI developers to use copyrighted content for no upfront fee to train their AI programs, provided they have 'lawful access' to the content. Singapore and Japan allow for similar access to copyrighted content, but don't require any payment to the copyright owner. India will be the first jurisdiction to require AI developers to pay copyright owners for using content for AI training, although this obligation kicks in only upon commercialisation.

In theory, the 'lawful access' requirement makes it possible for copyright owners to sidestep Indian law. For example, Western academic databases, which contain the most valuable copyrighted content required by most AI developers, typically require users to agree that the licensing agreement governing access to the database will be subject to foreign laws.

Breach of those licensing requirements will result in arbitration in foreign jurisdictions. In such a scenario, Indian law makes no difference to foreign copyright owners, and Indian AI developers will have to comply with foreign law. Indian copyright owners, who can't escape Indian law, can still control who gets 'lawful access' to their content. It's safe to presume most will now require AI developers to pay hefty advance payments before they can get 'lawful access'.

❷ Revenue sharing The proposed model requires AI developers to share a percentage of their global revenues once they successfully commercialise AI products trained on copyrighted content. The rate would be set by a GoI-controlled committee.

The report justifies this intervention to fix rates on the grounds that GoI fixes prices of essential items. That analogy misses the fact that copyright has been considered by Indian courts to be akin to private property. Compensation payable for forceful acquisition of property has traditionally been handled by independent judges.

Even under Copyright Act, Madras High Court in 2016 struck down provisions giving the government control over appointments to the copyright board—responsible for setting royalties in compulsory licensing—citing a violation of the separation of powers. Determining royalties for accessing copyrighted content without the owner's permission is a judicial function, and any GoI attempt to intervene would likely be unconstitutional.

❸ Statutory body The committee proposes creating a statutory body, Copyright Royalties Collective for AI Training (CRCAT), to be composed solely of collective management organisations (CMOs) representing copyright owners.

CRCAT is to collect royalties from AI developers at rates fixed by the committee and then distribute them to copyright owners through CMOs, as per disclosures made by the AI industry about the content they used in the training process. Most likely, the most well-organised CMOs will control operations of CRCAT, and probably win disputes on royalty sharing. Authors of books and journals who lack well-organised CMOs could end up being shortchanged.

Caught in a web

The proposed model is far too complex for a state that struggles to regulate traffic on its roads. Simply put, India lacks the administrative capacity to enforce it effectively.

The committee's only accomplishment has been to block industry demands, like those from Nasscom, to adopt exceptions similar to the EU, Japan, Britain and Singapore. This is unsurprising, given DPIIT's longstanding bias toward copyright owners since taking over India's copyright policy from the education ministry, which had to balance copyright rules with the realities of education and research budgets.

So where does this 'dead on arrival' proposal leave India's AI developers? Like their Western counterparts, many are likely training AI on pirated content from databases such as SciHub and LibGen, which host vast collections of academic papers, books and journals. Detecting and suing developers for using this content is difficult, especially in India, where copyright cases—even against platforms like SciHub—can drag on for years. India's sclerotic courts are the best bet for Indian AI developers in their negotiations with copyright owners.

The writer is a lawyer specialising in IP law

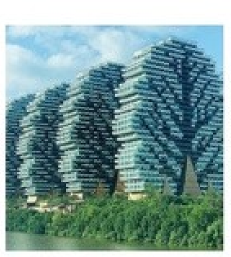
22 Dec 2025

Hainan, the New Hong Kong and More

Communist China sells capitalism to the world

China's latest free trade zone in the island province of Hainan in the southernmost part of the country caps decades of measured opening up to the global economy. Sitting at the heart of one of the world's biggest free trade blocs that counts 15 countries in the Asia Pacific as members, China needs to establish its credentials to other regional trade blocs about openness to trade and investment. The Hainan project caps a string of free trade zones that have drawn foreign investment into China. An island the size of Taiwan with no local taxes, world-beating infrastructure and a trained workforce make it an unbeatable combination. It is also China's solution to manufacturing supply chains seeking to diversify out of the mainland into other parts of Asia.

Apart from the scale of this Chinese experiment with liberalisation, Hainan is a signal of the Chinese Communist Party's acceptance of market forces. If —and it's a big if —Hainan can replicate Taiwan or Japan's success, Beijing could be convinced about exposing more of the Chinese economy to capitalism. Will democracy follow? The speed at which Hainan closes in on Hong Kong will be a metric worth following. For now though, the idea is to reverse a decline in foreign investment while trying to pump up domestic consumption. China will eventually have to restructure its economy to balance consumption and investment, and Hainan's experience should inform policy adjustments.



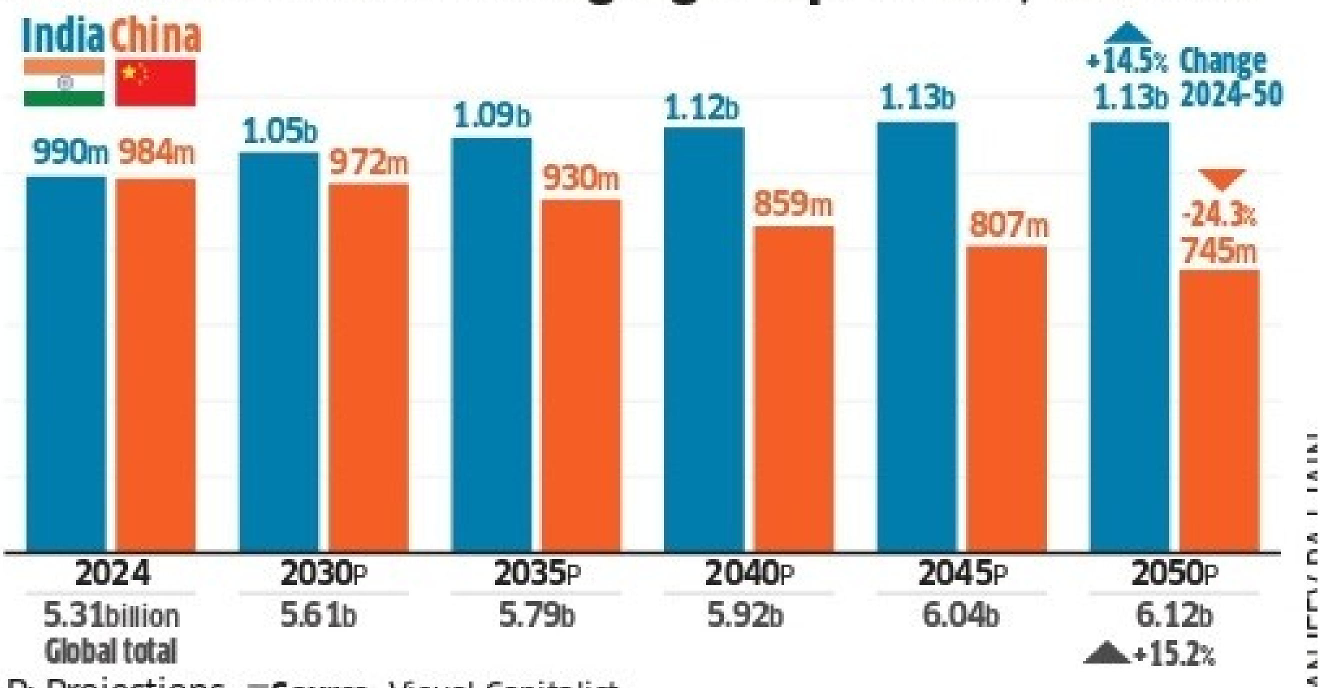
China has the biggest stake in upholding globalisation even at the risk of a trade war with the US, which on its part has to restructure its economy. Flavour of the season in Washington is protectionism. But that risks isolating the world's biggest economy. China can tame these forces by holding out the prospect of liberalisation. By making an entire province, although the smallest one, a free trade zone, Beijing has upped the ante and is selling capitalism to a world where the US is going in the other direction. The rest of the world will have to match it, if it wishes to make a dent in China's trade surplus.

22 Dec 2025

Working-Age Population

India and China are home to the world's two largest labour forces, and their demographic paths are diverging rapidly. This Visual Capitalist chart shows how each country's labour force will evolve from 2024 to 2050 and the scale of change relative to the global workforce. India's working-age population grows from 990 million in 2024 to 1.13 billion by 2050. This adds 144 million potential workers—more than the current working-age population of Japan and Germany combined...

India vs. China: Working-Age Population, 2024–50



P: Projections ■Source: Visual Capitalist

22 Dec 2025

"But as far as songwriting, any idiot could do it... Everybody writes a song just like everybody's got that one great novel in them."

"From Orpheus to Faiz, song & poetry have been closely linked. Dylan is the brilliant inheritor of the bardic tradition. Great choice"

"Want to thank him for influencing three generations with his songs, transporting people from their crazy lives to an alternate world."

If 2025 provided us with AI hors d'oeuvre, 2026 will serve a full spread of agents and robots

Grab Your Fork, But Be Picky

Jaspreet Bindra

Hungry kya?

It has been only three years since OpenAI unleashed ChatGPT. But it seems like 30. Pace of innovation has been stunning. So have been the hype and fears. If you think that AI felt overwhelming in 2025, that was just an appetiser. 2026 will be the year it will start serving the main course.

▶ **From prep-cook to chef** The coming is likely to be when agentic AI quietly runs whole workflows — closing tickets, reconciling invoices, triaging code — under light human supervision. An AI agent that monitors your inbox, spots a customer complaint, pulls up their purchase history… all before you've finished your morning coffee. The real question: how fast can companies adapt their culture to work alongside non-human colleagues?

▶ **Robots serving main course** Humanoid robots will enter warehouses and factories for pilot deployments. The first ones out are autonomous cars. Market leader Waymo is providing over 2,50,000 paid trips each week. In 2026, it will expand to 20 more cities.

▶ **Search served, not searched** Search engines will transition to answer engines, as reasoning web emerges. Web traffic to static sites will be affected as AI browsers synthesise answers rather than providing blue links. Built on clicks, ads and traffic, the web will need a new business model. The reasoning web is built on synthesis, and we'll need to figure out how creators get paid. Otherwise, we'll kill content these AI systems need to train on.

▶ **Reality on tap** As smart glasses go from novelty to normal-ish, Ray-Ban Meta-style glasses plus Apple/ Google/ Chinese rivals will start to feel like 'new AirPods'. Not universal, but no longer weird. More devices will come from OpenAI-Jony Ive alliance, and a 'new Alexa' from Amazon's acquisition of AI device startup, Limitless.

▶ **Nasdaq pops champagne** Anthropic at about $300 bn, SpaceX at $800 bn, Sam Altman dreaming of a $1 tn OpenAI IPO. If 2025 saw big IPOs in the Indian tech space, 2026 is where the Big Boys will rock Nasdaq. While Anthropic and SpaceX are shoo-ins, OpenAI will be looked at with the most interest. Google has stolen OpenAI's crown, and GPT 5.2, OpenAI's latest model, has not set the house on fire. So, unless Altman pulls a rabbit out of the hat, a $1 tn valuation looks like a road too far.

▶ **Froth settles, brew remains** There's real substance in the AI boom. But it's overshadowed by hype. There are bubble smells: convoluted crossholdings, mountains of debt, AI-washing by funding-hungry startups and enterprises taking their time adopting AI. However, this bubble will pop, not explode. Big Techs at the centre of this boom have robust businesses spewing out cash, and they can afford a downturn or two. The tech is real and fastest-growing ever. Pace of innovation is furious and there's more depth here, from infra to models to applications.

'Verified human' content will attract a premium, with brands marketing 'human-made' as a differentiator

▶ **Office diet begins** We saw the first signs in 2025, where entry-level cognitive jobs were most impacted. This will accelerate in 2026 as more sectors beyond software and customer service start being affected. This will create societal dissatisfaction and a backlash. It will also lead to structural changes in companies (humans + agents), education (more humanities), and the way young people look at jobs.

▶ **AI at the boardroom table** Corporate boards will begin using 'AI board members' (observer seats) to provide data-driven, unemotional risk analysis during strategic meetings. AI literacy will become KPI, as boards, regulators and ministries begin asking for measurable AI literacy programmes.

▶ **Human-made gets Michelin stars** As AI content floods the internet, 'verified human' content will attract a premium. Brands will market 'human-made' as a differentiator.

▶ **Junk food for the mind** A major public health crisis will be declared regarding 'cognitive atrophy' in children — the loss of critical thinking skills due to over-reliance on AI tutors. This will give rise to a 'disconnect' movement, a counterculture movement rejecting AI-mediated interactions and prizing 'analogue-only' spaces and communities.

▶ **India's AI thali arrives** The year starts with a bang with AI Impact Summit in Delhi in February. There will be announcements around some kind of DPI protocol for AI to democratise access to compute and models, like UPI for payments.

With vernacular content, AI will finally sound like India. Most of the new content consumed will be in regional languages, generated and dubbed instantly by AI. The choice of interface will be voice, as India becomes the biggest voice-driven AI market in the world.

Structural changes in companies (humans+agents), education (more humanities), and the way young people look at jobs are around the corner

IndiaAI GPU clusters will feel real, as IndiaAI's compute capacity ramps up, more Indian startups, researchers and MSMEs will train and finetune on domestic GPU clouds at subsidised prices. States will compete as AI destinations for data centres and will announce their AI roadmaps, sandboxes and incentive schemes to attract investments.

So, grab a fork, but choose wisely. Not everything on this menu is good for your digestion.

The writer is founder-MD, The Tech Whisperer

22 Dec 2025

MGNREGA Remix '25

Subhamoy Maitra

'What's in a name?' Shakespeare's question was meant to dismiss labels in favour of substance. In public policy, the same question acquires a more practical meaning. Names change, Acts are amended, Bills are reintroduced. But outcomes, especially for the rural poor, depend far more on economic design, fiscal discipline and implementation capacity than on nomenclature.

That distinction is relevant as Parliament, last week, replaced Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) with Viksit Bharat—Guarantee for Rozgar and Ajeevika Mission (Gramin) Bill, 2025, informally 'Pujya Bapu Gramin Rozgar Yojana'. While names may evolve, the economic logic underpinning the programme remains largely intact.

The original National Rural Employment Guarantee Act (NREGA) was enacted in August 2005 during the UPA 1 government and became operational in February 2006. In October 2009, it was renamed MGNREGA. The Act created a statutory entitlement to 100 days of wage employment per rural household, linking public expenditure directly to labour participation and local asset creation, an unusual design in welfare economics.

In its early years, the scheme benefited from strong administrative engagement, including contributions from Left leaders, who then played a significant role in national policymaking. That phase ended in July 2008, with the Left withdrawing support to the UPA government over the India-US civil nuclear deal. Since then, the Left's influence at the national level has diminished sharply.

Recent opposition protests against MGNREGA's restructuring, renaming, or possible expansion of the scheme must be viewed in this context — less as a response to substantive policy change and more as opposition for opposition's sake. The protests raise important questions, but their policy substance is limited. There's no indication that the programme's core economic structure is being dismantled. Wages remain linked to work. Employment continues to be demand-driven. Assets are still created through decentralised institutions.

What has changed over time is the administrative framework. Greater use of digital attendance systems, geo-tagging of assets and direct benefit transfers have reduced information asymmetry and leakage, although at the cost of tighter compliance. From a public finance perspective, these measures strengthen allocative efficiency and improve expenditure quality, rather than dilute welfare intent.

This approach stands in contrast to the expanding culture of unconditional cash transfers across several states. Such transfers are politically efficient and provide short-term consumption smoothing. But they generate limited multiplier effects and leave no durable public assets. Employment-linked expenditure, by contrast, has characteristics closer to capital formation. Rural roads, water conservation structures, land development and ecological buffers contribute to long-term productivity while supporting incomes in the short run.

Consequences of weak implementation are best illustrated by West Bengal. Official records over recent years show a sharp decline in person-days generated under MGNREGA in the state, despite persistent demand for work. Allegations of irregularities in muster rolls, beneficiary lists and asset creation led to administrative interventions and prolonged Centre-state disagreements. The result was delayed wage payments and reduced work availability.

Constructive continuity

For rural households, the impact was immediate and tangible. Income support weakened, projects stalled and labour market uncertainty increased. Importantly, this distress did not arise from legislative change or fiscal withdrawal, but from governance failures amid political confrontation. Where institutional coordination and compliance exist, the scheme continues to function as intended. Where they do not, poorest households bear the adjustment cost.

Seen through this lens, the present government's approach reflects pragmatism, rather than ideology. A third-term administration operates in a macroeconomic environment marked by climate volatility, uneven labour absorption and periodic rural distress. Maintaining a predictable employment floor serves as a counter-cyclical stabiliser, particularly when private demand and agricultural incomes are under pressure.

Discussions around extending work availability — whether through additional days, targeted provisions, or climate-linked contingencies — signal responsiveness to evolving economic realities. Rebranding the scheme through a new Bill follows established legislative practice. Names change. But policy instruments persist when they continue to deliver outcomes.

The opposition's discomfort appears to stem less from policy dilution than from loss of political ownership. The irony, though understated, is evident: a programme once closely associated with a particular ideological tradition now survives because it has transcended partisan identity.

Ultimately, what matters is not the label attached to the scheme, but its economic function. By retaining a work-based welfare framework while resisting fiscal risks of indiscriminate doles, GoI signals a preference for durable asset creation, labour participation and long-term value. In an era of competitive populism, that choice may matter more than any name.

The writer is professor, Indian Statistical Institute, Kolkata

23 Dec 2025

All That Gold Card Appeal's Yet to Glitter

These are early days. But Trump's 'gold card' visa programme launched earlier this month has had a lukewarm response, so far. As an idea, it's swell: keep your tired, your poor and your huddled masses, give me those with capacity. The trouble is, even HNIs putting up non-refundable $1 mn as 'Club America membership' fee (read: citizenship) — plus $15,000 processing fee per family member — would like a bit more certainty. With Congress yet to approve the first-class ticketing system and federal court challenges expected, non-US HNIs wishing 'to be American' as one of their identities are understandably cagey.

The preferred route remains the EB-5 — Employment-Based, Fifth Preference Immigrant Investor — programme, which offers investors (and their families) a path to conditional permanent residency ('green card') for investing a minimum amount — $8-10.5 lakh into a US commercial enterprise that creates or preserves at least 10 US jobs. The gold card is more directly transactional and, paradoxically, less certain not just for the applicant but also for the US. It's also not clear if the 'entry fee' will get applicants to the front of a considerably long queue.

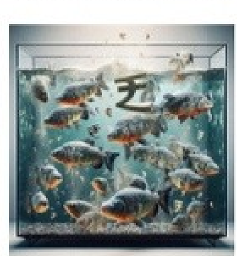
EB visas across 5 categories are capped annually by law at around 1.4 lakh annually, with EB-5 visas numbering about 10,000, and individual countries capped at 7% of the total. Limited availability means countries like India and China have long waiting lines. The ability to shell out $1 mn as 'gift' to Uncle Sam only earns one a place in the line. The 'gold card' is yet another demonstration of Trump's nifty brand-building prowess. Meanwhile, how hospitable the US will get for the world's rich — depending on which part of the world they are from — will also determine the gold card's glitter.

SMEthing Suspicious In These IPOs?

Have oversight before investor fatigue sets in

Just about half the number of IPOs by SMEs this year have made money for their investors. This underscores the need for tighter vigil by market participants for this category of paper. India is going through an IPO bull market where valuations derived by companies planning to list tend to be rich. SME IPOs represent heightened probability of the primary market price overshooting that of the secondary market. Even after listing, relative disinterest by institutional investors contributes to price volatility. Regulators have warned of speculative bubbles appearing in sections of the market as retail investors seek listing gains in SME IPOs. These warnings should be taken seriously, as IPO issues approach the tail of a market boom.

A section of the market is voicing concern that India's primary and secondary markets are decoupling. Correctives being considered are greater institutional participation in IPOs for more grounded pricing and restraint by companies over valuation so that there is more left on the table for investors. These measures, however, have a muted impact on SME IPOs. Small companies have less of a capitalisation headroom as they scale up. Institutional interest tends to gravitate towards larger companies in stable businesses. It, thus, falls on the regulator to enhance vigil over the SME IPO segment to curb excess speculation.



SMEs offer a higher risk-reward trade-off than the broader market. This is amplified by retail interest in IPOs for this section of companies. Majority of retail investors sell their shares within a week of listing. This behaviour feeds the ambitions of issuers, especially those chaining hyper growth in their business. Companies that are late to list during an IPO boom are prone to seek fancier valuations. This affects the IPO pipeline if enough companies destroy investor wealth. In the SME segment, every second company that conducted an IPO is trading at a loss to its listing price. The record must improve before investor fatigue sets in.

23 Dec 2025

THE ECONOMIC TIMES

Meri FDI Hai Japani

Arijit Barman

As deals and diplomacy get intertwined in today's Trumpian universe, last week's developments shine a light on how strategic foreign investments will perhaps flow into India in 2026.

After a year-long negotiation over revised bids, Masdar pulled the plug on a billion-dollar deal to take ReNew Power private from Nasdaq, tripping up the stock 28% in a single day. It coincided with Narendra Modi's 3-nation trip to the region. Things turned when over the next few days, two of the three Japanese megabanks dominated headlines with Mizuho scooping homegrown investment bank Avendus and then MUFG writing a \$4.5 bn cheque to buy into India's 2nd largest shadow lender Shriram Finance — the largest FDI in the sector to date.

Just as Gulf's monarchies and their petrodollars get pulled towards Trump's grandiose plans to MAGA, corporations from Japan are getting pulled towards India. In the last 1 month, close to \$7 bn of investments were announced, across steel to financial services — more than cumulative FDI equity inflows over last 4 yrs. The double-digit figure by year end will also be the highest in the last 25 yrs.

Correspondingly, equity investments held in India by Japanese investors have nearly doubled in last 2 yrs to \$28 bn, both in value terms as well as incremental capital flows via the FPI route — a function of valuations and renewed interest of fund managers, data from Ambit shows. Even more remarkable in the backdrop of a falling yen.

Tokyo has been our steadfast ally even before Shinzo Abe had cemented the civilisational links with increased trade, tech and traditions proximity. Indian infra, including the bullet train project, has been bankrolled by multilateral agencies like Jica. Now, geopolitics is driving their private sector.

Just like Suzuki in the 1980s that opened the floodgates for other automobile, trading and manufacturing groups, we will now see keener interests from financial services, pharma, consumer internet, retail and brands to recreate the famous 'flying geese model', and flock towards underinvested markets like ours.

The best evidence of these fast-emerging investment corridors is the data collated by Crisil Coalition Greenwich. Ruchirangad Agarwal, the head of their corporate banking practice for Asia and West Asia told ET, the expenditure on banking services by Japanese corporations has increased almost 1.5× in Asia excluding Japan compared to 1.1× within their country, underpinning their expansionist strategy across Asean and India, and a strong desire to be on the China + 1 table.

But, interestingly, in a clear break from the past, when more than 50% used Japanese banks as their lead banking partner even outside their country, less than a third are reliant on them now for their cross-border requirements. Strategic acquisitions and investments, therefore, aid in consolidating their footprints in new jurisdictions.

MUFG owns banks in Thailand and Indonesia, or had investments in Philippines and Vietnam. India was the missing piece. After months of looking, SMBC found an answer in Yes Bank.

Meanwhile, in West Asia, Modi's charm offensive with the UAE, Saudi Arabia and Qatar paid rich dividends with their sovereign wealth funds (SWFs) doubling down on the India story across sectors and services. ADIA even backed NIIF, our quasi-SWF. But Trump's relentless bromance with Arab rulers is making them tilt towards him. As he did in 2017, POTUS decided to make Saudi Arabia his first pit stop of his state visit to West Asia during his 2nd presidency.

For him, it's also as much about further entrenching the business interests — multibillion Trump-branded properties, real estate developments, hotels and golf resorts, media and cryptoverse — as it is about a spur for American industry, touting trillions of dollars in promised West Asia investments in the US. UAE SWF-backed Emirates Aluminium is setting up a \$6 bn smelter in Oklahoma.

For the first time, West Asian powers are also able to buy influence in Washington using money power. They have also become the answer to a list of intractable dilemmas ranging from conflicts across the region to handling early negotiations with Russia over Ukraine. Smelling an opportunity, cash-rich kingdoms are fawning over Trump with gifts and promises to cut trillion-dollar deals in defence, energy, infra, chips and AI.

In October, MGX — a JV between UAE's national security adviser Sheikh Tahnoon bin Zayed Al Nahyan and Mubadala — partnered Nvidia, Microsoft, BlackRock and Elon Musk's xAI to purchase Aligned Data Centers for \$40 bn, the largest global data centre deal to date.

It's wrong to assume Arab money will dry up for India, but it will get far more selective for banks like Emirates NBD or investment vehicles of Shiekh Tahnoon — Alpha Wave and IHC — and SWFs like ADIA, a lion's share of whose deals is in India. We may well be among the largest buyers of West Asian crude or a large aviation market for their national carriers, but Aramco's \$15 bn investment in greenfield oil refineries or buying into Reliance Industries is unlikely to happen in a hurry. The spectre of tariffs and turmoil is reshaping commerce.

For the Japanese, India is the prize they have been circling around for decades. Now is their moment to grab it. Many of their marquee names may have bled in the past, but they are willing to move ahead. We can ill-afford any slip ups.

Catch 'em if you can

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23 Dec 2025

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The Times They Are A-Changin': Iconic American Singer-Songwriter Finally Bags Lit Nobel

"But as far as songwriting, any idiot could do it... Everybody writes a song just like everybody's got that one great novel in them."

"From Orpheus to Faiz, song & poetry have been closely linked. Dylan is the brilliant inheritor of the bardic tradition. Great choice"

"Want to thank him for influencing three generations with his songs, transporting people from their crazy lives to an alternate world."

COAL PLAY

Global coal demand is expected to effectively plateau over the coming years, showing a very gradual decline through to 2030, according to IEA. By that year, consumption is forecast to ease by 3% compared with 2025, taking it below its 2023 level. The most substantial growth in coal consumption between now and 2030 is expected to take place in India, where demand is forecast to rise by 3% per year on average, leading to a cumulative increase of over 200 million tonnes...

Total coal consumption (million tonnes)

	2025e	2030f	CAGR, 2025-30
Asia Pacific*	7,264	7,325	0.2
China	4,953	4,772	-0.7
India	**1,297**	**1,522**	**3.3**
Japan	159	109	-7.3
ASEAN	516	644	4.5
North America*	440	322	-6.1
United States	410	304	-5.8
C & S America*	46	41	-2.3
Europe*	483	288	-9.8
European Union	306	153	-12.9
Eurasia*	408	391	-0.8
Africa*	195	202	0.7
West Asia*	10	10	0.0
WORLD	**8,845**	**8,579**	**-0.6**

e: Estimate; f: Forecast *IEA world regions

Source: IEA

SANJEEV RAJ JAIN

24 Dec 2025

Bringing the Casino Home, It's Got Handy

Smartphone's democratised investing

NSE, India's first electronic exchange, began trading in 1994 to the accompaniment of this newspaper announcing in its headline that the country's 'biggest casino is born'. Over the course of a generation, Indians have demonstrated a remarkable resilience to this genre of 'gambling'. The number of demat accounts was minuscule till 5 yrs ago, and MFs had a job on their hands, selling their wares beyond cities. The picture changed dramatically as the smartphone reached every hand and democratised investing. Demat accounts are witnessing explosive growth and MFs are routinely counteracting global capital's egress from Indian equities. The concern over 'gambling' has also resurfaced, fed by retail interest in esoteric trading like derivatives. Regulators have had to step in to tame speculation in options trading where India had reached a staggering three-fourths of the global volume.

Would this have been possible if smartphones hadn't become ubiquitous? Probably not. But it's not the only reason for the rise in speculation. The past 5 yrs have been a rollercoaster ride for financial markets. Interest rates collapsed during the pandemic, the economic recovery was led by profits instead of wages, and bank credit started chasing households instead of companies. These are all contributing factors alongside the gamification of trading that shoulders an inordinate amount of the 'blame'. The argument that technology has rendered gatekeeping redundant misses the point that it is still being done for investors, and there's little to be gained by imposing restrictions on communications devices. Regulators have gone into new territory where content around investing needs to be curated.

Democracy is a messy business. But outcomes are typically superior to other forms of decision-making. Tech reinforces our attitudes towards preservation of capital, and a generation ushering in India's cult of equity will acquire its own discipline around investing. For that, it needs all the tools technology enables to make informed choices about wealth.

24 Dec 2025

New Zeal and Gain in Trade Pact

Apropos the news report, 'NZ Commits $20 b, Allows Zero Duty on Indian Goods' (Dec 23), the conclusion of the FTA with New Zealand marks an important economic and strategic step in India's expanding global trade engagement. For India, tariff-free access to New Zealand's market will boost labour-intensive sectors such as textiles, leather, marine products, engineering goods and automobiles, improving their global competitiveness and integration into value chains. Equally significant is New Zealand's commitment to facilitate $20 bn in investments over the next 15 yrs, which can support manufacturing, technology and agri-value chains. If implemented effectively, this FTA can generate jobs, enhance exports and reinforce India's role as a trusted economic partner in a shifting global order.

Sanjay Chopra
Mohali

India not only needs to craft a power storage policy, but also has to make its scale of RE durable

READY, STEADY TO GO

Storage Policy Haazir Ho!

T K Arun

CURSOR

India continues to add renewable power generation capacity without any coherent strategy for its full utilisation, often ordering RE generation to back down to maintain grid stability. A vital deficit is a policy for storing renewable power, which is intermittent and missing from action for much of the day, forcing reliance on thermal power as India's mainstay.

Adani Group is building one of the world's largest solar and wind power installations in Khavda, Gujarat. In the absence of viable storage options, it's opting to store power that's not drawn away by the main grid in large batteries.

Battery storage is less than desirable from two perspectives. It enlarges the project's carbon footprint. Minerals that go into batteries must be mined, transported, refined and processed. It also creates strategic dependence on China, the global force in batteries.

GoI promised a storage policy for renewable power in 2024. We are ringing in a sombre new 2026. No official storage policy in sight as yet. Can't blame Adani for creating his own storage policy. His panels and turbines are churning out power faster than the grid can take it away.

Pumped storage is an efficient option. You use solar power generated to pump water up an elevation into a reservoir, and run it down, when the solar panels have stopped producing power, at a steep gradient to create the pressure to turn a turbine. The fluid — water, wind, gas or steam — hits the blades of the turbine at force, the turbine shaft rotates along with the blades, a magnet attached to the shaft rotates inside a coil of copper wire, and electricity is produced by electromagnetic induction.

Pumped storage has the downside of creating environmental disruption where fresh reservoirs and tunnels are built. But its full possibility should be explored and utilised, minimising and compensating for the environmental and social disruption. But there are other options, too.

Using power generated to split water into hydrogen and oxygen is one. The hydrogen can be burnt in place of gas in a gas turbine, with some modification, to produce power. High-efficiency microturbines are now available to make the stored hydrogen produce small quantities of power over an extended period, and create a steady feed for the grid.

However, the most exciting possibility is to use renewable power generated to gasify coal underground. You bore wells from the surface into coal, introduce a heating element to start burning coal in its natural low-oxygen environment, pump steam and oxygen down, and a mixture of carbon monoxide, hydrogen and natural gas — syngas — comes out from another well. If it shows reluctance to come out, it may need to be vacuum-pumped to the surface.

Syngas can be burnt directly to produce power, or it can be scrubbed and processed to take out hydrogen or natural gas. Technologies are emerging to pyrolyse natural gas to break it down into hydrogen and pure carbon, both of which are valuable products. Hydrogen or natural gas can be piped to distant locations, and burnt in a turbine to produce power.

The big attraction of using solar or wind power to gasify coal is that it would make use of India's most abundant fuel, coal, to generate electricity in a relatively clean fashion that lends itself to inexpensive carbon capture, while also serving to make use of RE at the cheapest cost possible.

RE is not as cheap as headlines shouting 'Cost of Solar Falls Below ₹3 a Unit' would lead us to suggest. Since renewable power is intermittent, stable thermal power is kept available, to kick in as soon as the former stops generation. The price of thermal power has two parts — cost of making the plant available, ready to run, and the fuel cost.

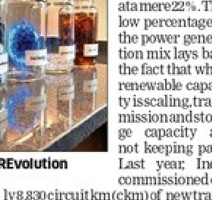
When some part of thermal capacity is backed down, to let the grid absorb power from renewable sources, the generation company has to be paid availability charge: only cost of fuel is avoided. So, the cost of renewable power is its own generation cost plus availability cost of baseload power.

That's not all. There is a cost to keeping frequency of the grid stable when renewable power is fed into it. This calls for battery storage to be tapped instantaneously, grid-forming inverters, static synchronous compensators and other fancy power electronics, supplemented with fancy forecasting of wind speeds and sunlight availability, and advances in power markets that allow trading just an hour ahead of sale/purchase. When the share of EVs rises, it would be possible to use vehicle batteries as grid stabilisers, absorbing and releasing power as signalled by electronic triggers.

RE is not as cheap as headlines shouting 'Cost of Solar Falls Below ₹3 a Unit' would lead us to suggest. Since renewable power is intermittent, stable thermal power is kept available, to kick in as soon as the former stops generation

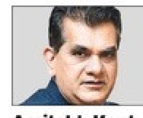
Gas is a form of thermal power that can be switched on and off at short notice. Ideally, India should be using a base layer of coal-burning thermal plants, while gasified coal should become a mainstay of thermal generation. Renewable power can be used to produce gas from coal, or to green hydrogen. If underground coal gasification is stepped up, we can get detoxed from the cocktail of 250 MMT of coal plus 26 MMT of LNG import that India has got hooked to.

If GoI won't come out with a power storage policy, let the public take a stab at it. Treat this as a problem statement. Let experts weigh in with more informed views.



Now, cook up a REvolution

Renewable Made Reliable



Amitabh Kant

India's RE expansion has been rapid, placing it among global leaders in clean capacity. But as renewable capacity accelerates, a deeper systemic challenge is coming into view: converting this capacity into reliable, round-the-clock power. This matters not only for climate goals but also for energy security, as India's fossil fuel import bill continues to hover close to \$200 bn annually, and value of coal imports has risen by 124% over the past decade.

Addressing this challenge requires not only replacing fossil fuels with renewables but also building a resilient and flexible grid to support a high-renewables system.

India is currently ranked 4th in total renewable installed capacity. It's blessed with some of the best solar conditions in the world, along with strong wind corridors in many states. It also hosts a rapidly evolving market that has delivered some of the world's lowest clean power tariffs. This year, the country met its nationally determined contribution (NDC) target of reaching 50% electricity capacity from non-fossil sources well ahead of schedule, and has crossed 256 GW of installed capacity.

Yet, this progress masks a critical gap. India's overall share of low-carbon electricity generation stands at a mere 22%. This low percentage in the power generation mix lays bare the fact that while renewable capacity is scaling, transmission and storage capacity are not keeping pace. Last year, India commissioned only 8,830 circuit km (ckm) of new transmission lines. When weighed against the targeted 15,253 ckm, it represents a staggering 42% deficit.

These unfinished transmission lines have also left over 50 GW of awarded renewable projects worth billions stranded. The problem is particularly acute in solar-rich states like Gujarat and Rajasthan, where many solar plants have missed their commissioning deadlines. These infra gaps create barriers such as congestion and curtailment. In fact, curtailment has been considerably high with Rajasthan, for instance, curtailing 3-4 GW of solar capacity since March 2025, leading to losses of up to ₹250 cr.

Given these challenges, what India now desperately needs is a robust, resilient, reliable and dispatchable clean energy infrastructure to support its energy transition. Firming up renewable power and grid flexibility must become national priority. This means India moving beyond transmission expansion alone, and addressing broader strategic choices that will determine whether its power system remains reliable as clean capacity scales.

▶ **Nuclear** For stabilising the grid, nuclear power is indispensable and must form a core pillar of India's baseload strategy. Despite accounting for just 1.3% of installed capacity, nuclear plants delivered around 3% of total electricity generation in 2024 due to high-capacity factors. Unlike variable solar and wind, nuclear power provides steady, round-the-clock low-carbon electricity that reduces dependence on fossil-based balancing.

Passage of SHANTI (Sustainable Harnessing and Advancement of Nuclear Energy for Transforming India) Bill in Parliament this month marks a pivotal shift of opening the civil nuclear sector to private participation, recognising that public capital alone can't deliver India's long-term nuclear ambitions. Private sector involvement can accelerate project execution and reduce costs through standardisation and scale. Small modular reactors (SMR) are particularly relevant for India, offering flexible deployment, faster construction, improved safety and the ability to reduce grid congestion.

▶ **Storage** Battery energy storage systems (BESS) must be scaled as a core grid asset, whose primary role is 'intermittency manager' to optimise renewable integration and enhance system flexibility. In a high-renewables grid, batteries can act as fast-response buffers, absorbing excess solar generation during midday, discharging during evening peak demand, and providing frequency regulation and ramping support within seconds.

Without sufficient storage, RE is curtailed or backed by fossil-based peaking power, undermining both economic and decarbonisation objectives. India has made early progress, with about 12.8 GWh of BESS capacity auctioned across central and state tenders over the past 3 yrs. But only a small share is currently operational, with most projects still under construction.

Focus must now shift from tendering capacity to rapidly deploying batteries as system-level assets, integrated into dispatch planning and ancillary services markets. Properly deployed, BESS can defer costly grid upgrades, reduce peak power prices, smooth net load variability, and lower the overall cost of integrating large volumes of solar and wind.

▶ **AI** If India is to manage the scale and complexity of a high-renewables power system, AI must be embedded into grid operations. AI-driven forecasting models can significantly improve accuracy of solar and wind generation estimates, reducing reserve requirements and lowering system costs. AI can also enable real-time congestion management, optimise battery dispatch, and support predictive maintenance of transmission and distribution assets, reducing outages and losses.

To successfully generate reliable grid data, India needs to accelerate rollout of smart meters where deployment, so far, has been extremely slow. Harnessing this data through AI will be critical to modernising grid operations and ensuring that India's clean energy transition remains both secure and cost-effective.

Upgrading the grid, scaling storage, strengthening firm low-carbon generation and modernising operations through AI are core system requirements. If pursued together and with urgency, these measures can turn India's renewable scale into a durable advantage, anchoring energy security, economic growth and climate leadership in the decades ahead.

The writer is former CEO, NITI Aayog

24 Dec 2025

Hills Alive With Cautious Optimism

Vibha Dhawan

Aravalli range is among the world's oldest and most ecologically significant mountain systems. Dating back to Proterozoic era, around 2.5 bn yrs ago, it has shaped the ecological, hydrological and climatic history of the Indian subcontinent. Stretching roughly 692 km from Palanpur in Gujarat through Rajasthan and Haryana to Delhi, it acts as a barrier against desertification and plays a vital role in groundwater recharge.

Supreme Court's Nov 20 order has sparked public concern, with fears that Aravalli has been left vulnerable — concerns rooted in the region's long history of unregulated mining, land-use change and environmental degradation. Closer reading of the judgment, however, along with subsequent technical and policy clarifications, presents a more nuanced picture.

Under the framework laid down by the court:

- Any landform with a relative relief of 100 m or more is protected, along with its supporting slopes, to prevent exploitation of ecologically critical foothills.
- A cluster-based definition further groups hills located within 500 m of one another, safeguarding intervening valleys, wildlife corridors and hydrological linkages, and preserving the integrity of the ridge system rather than fragmented hillocks.
- Areas with a relief of less than 100 m remain open to development, but not as unregulated spaces. The court has clarified that such areas are not automatically available for unrestricted use, and that all development remains subject to regulatory scrutiny, environmental safeguards and cumulative impact assessments.
- Para 44 recognises the need for a well-designed Aravalli Management Plan for Sustainable Mining (MPSM). This is required to identify areas where mining may be permitted only under exceptional and scientifically justified circumstances, underscoring the court's intent to balance ecological protection with tightly regulated economic activity, and to prevent indiscriminate mining.
- By directing that Aravalli boundaries be mapped on official Survey of India toposheets, the court addresses long-standing administrative ambiguities that have often been exploited to enable illegal mining.
- Equally significant is regulatory discipline embedded in the order. The environment ministry has been directed to prepare MPSM through Indian Council of Forestry Research and Education (ICFRE) for the entire range. Treating the range as a single ecological entity strengthens landscape-level integrity, rather than fragmenting governance along administrative boundaries.
- Para 50(iv) further clarifies that land within the Aravalli landscape cannot be altered without statutory approvals under MPSM. Until the plan is finalised, no new mining leases can be granted. Once in place, all activities — mining or otherwise — will face far stricter scrutiny. This limits discretionary land-use changes and reinforces that ecological sensitivity, not administrative convenience, must guide decisions.
- The court has also directed that the Saranda and Chaibasa model from Jharkhand be used as a reference. In Saranda, ICFRE employed satellite imagery and geospatial mapping to identify 'inviolate' zones. It gives ICFRE flexibility to identify prohibited areas based on ecological sensitivity, conservation priority and restoration needs, recognising the historical and ecological significance of the ridge.

This approach mandates cumulative impact assessment and ecological carrying capacity analysis at a regional scale, possibly for the first time in the mining sector. Given the discretion entrusted to ICFRE, claims that 90% of the Aravalli hills will be opened for mining appear unsupported by scientific evidence.

How green is our Aravalli?

A similar MPSM approach can help delineate geo-referenced ecological zones, clearly separating areas requiring absolute protection from those where limited, tightly regulated activity may be considered. Such spatial clarity is essential to safeguard biodiversity, aquifer systems and landscape connectivity from piecemeal decision-making.

Teri's work on the Aravalli landscape shows:

- Restoration and rehabilitation must be integral to mining governance, not deferred to the post-closure stage.
- Scientific interventions — improving soil health, enhancing water-holding capacity and ensuring vegetation survival in semi-arid conditions — must be embedded from the outset.
- Having long protected these landscapes, local communities should be recognised through sustainable livelihood opportunities, roles in ecological restoration and transparent benefit-sharing mechanisms. Well-regulated approaches, including tools such as carbon financing, can align conservation outcomes with local economic resilience.

Taken together, the court's order offers grounds for cautious optimism. By mandating an MPSM, endorsing sustainable practices and insisting on ecological integrity across the full expanse of the Aravallis, it creates an opportunity to reset governance of this fragile landscape.

With guidelines now in place, the task ahead lies in transparent implementation, institutional coordination and sustained scientific oversight. If pursued in this spirit, the Aravallis can be protected not merely as an ancient geological formation but as a living system that supports livelihoods, climate resilience and future generations.

The writer is director general, The Energy and Resources Institute (TERI)

25 Dec 2025

Social Security, Reimagined

D K Singh

The recently released labour codes have revived a familiar debate. Some hail them as revolutionary; others see them as consolidatory. But almost all converge on one concern: Code on Social Security (CSS) could raise labour costs and reduce take-home pay. This concern is overstated and, largely, misplaced. CSS should be judged not by isolated provisions but by its capacity to correct failures in India's social security system.

CSS aligns India's framework with the UN's SDGs, which recognise social security as a fundamental right safeguarding dignity against life's risks. Crucially, the code's language of rights and affordability imposes a positive obligation on the state to design schemes that deliver benefits. Together, these provisions lay the foundation for transforming PF from a narrow savings device into a contribution-funded social insurance system.

The code also abolishes schedule-based applicability of EPF Act, under which coverage depended on whether an establishment's activity appeared in prescribed lists. Entire sectors — railways, financial institutions, insurance companies and state establishments — were excluded or mired in litigation under this regime.

Under CSS, any establishment employing 20 or more persons may be covered irrespective of activity, subject only to limited exclusions. Importantly, exclusions now operate at the employee, not establishment, level. While employees covered under state social security schemes may be excluded, contract and other workers engaged by state departments become entitled.

Chapter 3 mandates schemes with universal membership of employees, alongside schemes for the self-employed. Section 2(26) ensures that no wage ceiling can apply for enrolment, while Section 2(89) empowers GoI to prescribe a wage ceiling for contributions.

This separation of membership from contribution is decisive. All employees in covered establishments may be deemed members. But employer and employee contributions apply only up to the notified ceiling. Coverage is, thus, universal, while financial exposure remains capped and predictable.

▶ **Power to declare any class as employees** This has the potential to resolve decades of litigation involving trainees, apprentices, contract labour classifications, delivery workers and platform-based roles. A single notification can settle classification disputes. The provision is also future-ready, enabling the state to respond to emerging and non-standard employment forms.

Turn, turn, turn

▶ **Contractual to real** Under EPF Act, liability was tied to basic wage as contractually defined, incentivising artificial salary splitting. Supreme Court in 'APFC v. G4S Security Services' (2023) reaffirmed the narrow contractual definition under the old law. The labour codes break from this past. Wages now encompass all remuneration payable. PF wages can no longer be engineered below statutory minimum wages (excluding HRA). Statutory wage norms now override contractual drafting, ending decades of suppressed retirement benefits.

▶ **50% rule** To prevent misuse of exclusions, the code introduces a uniform safeguard where excluded components exceed 50% of total remuneration, the excess is added back to wages. This closes the most exploited loophole under the EPF regime without disturbing genuine variable pay or performance-linked incentives.

▶ **Low-wage earner support** The code also allows differential contribution rates based on paying capacity, and enables state support for low-wage workers through enhanced interest rates or state-funded contributions. This redistributive architecture aligns directly with the objective of dignified and adequate social protection.

▶ **Gig worker schemes** Special schemes for gig, platform, unorganised and construction workers are intended as supplements, not substitutes. Where an employer-employee relationship exists — or can be deemed to exist — PF-based social insurance remains the normative baseline. Special schemes serve as bridges into, and overlays upon, that baseline.

▶ **PF liability** Allowances have long formed part of basic wages for PF purposes, a position settled by the court in 'Bridge & Roof Co.' (1963), and reaffirmed in 'Vivekananda Vidya Mandir' (2019). Against this settled law, the 50% rule does not necessarily raise employer liability. In fact, where courts earlier permitted inclusion of up to 100% of allowances, the statutory exclusion of 50% may even reduce exposure.

▶ **Wage ceilings** Concerns about sudden liability escalation are further mitigated by wage ceilings under Section 2(89) and Schedule 5. These provisions allow GoI to cap contributory wages and, under the proviso to Section 16(1)(a), even prescribe nil or reduced employee contribution rates for specific classes. This flexibility allows protection of take-home pay for low-wage workers while retaining employer contributions.

▶ **Compliance rationalisation** The code reduces labour costs by lowering compliance friction. Multiple statutes with divergent definitions, registrations, returns and inspections are replaced by a single, integrated framework. Digitised registrations, online filings and risk-based inspections cut transaction costs, inspector discretion and informal compliance expenses. For smaller and growing firms, lower compliance costs reduce incentives to remain informal, broadening the contribution base over time.

The code replaces EPF Act's employer-centric logic with a worker-centric framework. While retaining familiar institutional forms, it sheds PF's colonial legacy as a mere savings instrument and repositions it as a tool of social justice.

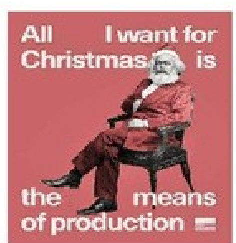
The writer is former additional central provident fund commissioner, EPFO, GoI

Santa Economy Gets Less Ho Ho Ho

US slows as Asia spreads festive cheer

Festival sales are projected to cross $1 tn in the US this year, but growth is slowing, which makes Christmas a little less merry for Asian exporters. Americans are still buying expensive gifts in the shadow of a possible trade war with China, but they have started to pull back on holidays and dining out. Consumer sentiment remains strong, but is turning cautious in the EU and Britain as well. Inflation expectations are high as uncertainty over US tariffs drags on. Christmas sales are being driven by promotions across the board, and brands are absorbing higher input costs to remain competitive.

This season could be an inflection point for retailers because the well-heeled are keeping the Yuletide spirit alive for them. Impulse shopping is down at bargain supermarket chains. Online marketplaces are offering deals on essentials. There is also a rise in deferred payment purchases. The main body of consumers is pulling back and has to be lured with heavy discounts. The Santa effect is in play as shoppers spend in bursts to stretch their budgets. But it may not work for too long as consumer anxiety overtakes producers' ability to mark down prices. The trigger would be signs of fragility in the US job market.



Parts of the world like Asia, where Christmas sales don't matter as much, are reporting stable consumer sentiment as inflation eases. Some of the global uncertainty is rubbing off on them, but they remain cautiously optimistic. The Santa effect is being cast wider as retailers target younger demographics and rising purchasing power. Asian consumers prioritise value over exuberance, and this makes for an interesting marketplace for brands. Lifestyle choices are undergoing rapid changes in China and India, markets that require customised marketing. Festival shopping patterns differ in these countries, and one-size-fits-all strategies may not capitalise on domestic consumer confidence. These markets are spreading the Christmas cheer over many more months for global brands.

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US Plus One for Indian Students

Other talent-hungry countries tweaking rules

This is the year the H-1B visa door began to make ominous creaking noises for Indian students and tech workers. Entry-level jobs are being filtered out, snapping a key lifeline for Indian students, the largest overseas cohort studying at US universities. The American dream was becoming elusive even before Trump stepped in with visa restrictions. Slowdown in tech hiring is expected to become more acute as AI adoption accelerates. Fresh Indian graduates are looking beyond the US as tighter visas and weaker tech hiring undermine job security, career growth and long-term residency prospects. Fortunately, the job market for expat workers is booming in several advanced economies where the native workforce has slipped, or is close to slipping, into a minority. These countries are adjusting their immigration policies and stand to benefit from US restrictions.

The US, however, remains the top draw for tech talent from across the world. H-1B is the key portal through which the US admits the expertise it requires. Exceptional talent from India will still find its way to the US, but the country will have to ramp up skills below the threshold it is now setting for immigrants. Job uncertainty for Indian students studying in the US will make this harder to achieve. A sizeable share of US college seats depends on overseas students to fill them. If Indian students begin to seek out other countries for higher education, the US may confront excess capacity in higher education. And Trump is not going to be around after 2028 to push his hardline stance on immigration.

The US has given the world one of the most effective templates for immigration. Other countries are likely to apply it even as the Trump regime seeks workable alternatives. A failed experiment could be expensive. For it to work, Trump will have to deliver on his other campaign promise of creating more skilled jobs through protection — and then fix the US school system to send more Americans to college. But that, as 'America First' tells us vociferously, shouldn't be our problem.

Two Policies Can Catalyse

Anil Padmanabhan

Two recent policy rollouts — Viksit Bharat-Guarantee for Rozgar and Ajeevika Mission (Gramin) Bill 2025, and National Strategy for Financial Inclusion (NSFI) 2025-30 — suggest that India is undertaking a long-overdue ideological reset. This marks a fundamental break from the past. These policy changes are being aligned to New India's ambition to evolve into a developed country over the next 22 yrs. Which means growing its per-capita income nearly 6× to $18,000.

❶ **Job guarantee** VBGRAMG has updated the 2005 Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS). But this is more than just a change in name of one of the longest-running social welfare schemes, which has an annual budget averaging around ₹1 lakh cr. As 'ajeevika' suggests, creating livelihoods is now front and centre of the plan.

MGNREGS was conceived against the backdrop of widespread poverty, worsened by prolonged periods of rural distress. The idea then was to provide a social safety net to secure subsistence in troubled times. With the change, the current government is signalling that the priority of social welfare spending is to create an ecosystem that fosters livelihoods. Much like improving ease of doing business to create a conducive environment for entrepreneurs and business growth.

Yes, 125 days of rural employment will be guaranteed. But this will be utilised to create conditions that support sustainable livelihoods like building infra to promote dairy farming in villages. To achieve this, the scheme has identified 4 priority verticals:

① Water security through works such as canals, check dams and pond rejuvenation.

② Core rural infra, including rural roads, gram panchayat bhawans, anganwadi centres and solid waste management assets.

③ Livelihood-related infra such as rural haats, foodgrain storage facilities and dairy infrastructure.

④ Special public works to mitigate the impact of extreme weather events.

❷ **Financial inclusion** As it happens, RBI recently announced a recalibration of its approach to financial inclusion with NSFI 2025-30, signalling a fundamental pivot — from financial inclusion to financial well being.

This is a tacit recognition that while India succeeded in banking nearly 500 mn over the last decade, the truth is that more than a third of these accounts remain unused. This undermines the idea of financial inclusion. Access to formal credit is critical to stimulating job creation, cushioning economic shocks and increasing investment in human capital, like education loans. In its absence, individuals are forced to turn to usurious informal sources of finance.

Reset, now play

RBI's strategy complements what VBGRAMG seeks to achieve: creating and expanding livelihood opportunities. Access to formal finance, especially in rural India, can act as a force multiplier for grassroots-led development.

This new ideological approach to development has been made possible by India's significant socioeconomic transformation over the past two decades. The most obvious metric is the sharp reduction in abject poverty. According to UNDP, it fell from 55.1% in 2005-06 — when MGNREGS was launched — to 16.4% in 2019-21. World Bank estimates that extreme poverty declined further thereafter, to around 5.3%.

This was achieved through a multidimensional approach aimed at near-universal access to basic necessities such as education, electricity, banking, cooking gas, housing and, more recently, drinking water. In turn, this success has given GoI and RBI the room to attempt a radical ideological manoeuvre. The focus is no longer solely on poverty eradication. It's now about growing livelihoods — teaching people 'how to fish' and making them stakeholders in the economy.

Another pending legislation, Jan Vishwas Siddhant, aims to take this makeover to the next level by addressing unfinished business from 1991, when licence raj was dismantled. Under this, all licences outside the four areas of national security, public safety, human health and environment will be converted to perpetual self-registration, shrinking red tape dramatically.

Taken together, these policy moves point to a fundamental ideological reset — one in which GoI is gradually redefining its role as catalyst, rather than provider. Several state governments are taking cues from New Delhi, suggesting this shift may be on the verge of achieving critical mass.

The writer is an independent journalist

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'The Times They Are A-Changin': Iconic American Singer-Songwriter Finally Bags Lit Nobel

"But as far as songwriting, any idiot could do it... Everybody writes a song just like everybody's got that one great novel in them."

"From Orpheus to Faiz, song & poetry have been closely linked. Dylan is the brilliant inheritor of the bardic tradition. Great choice"

"Want to thank him for influencing three generations with his songs, transporting people from their crazy lives to an alternate world."

SWEDISH ACADEMY PRAISES DYLAN'S POETRY FOR THE EAR

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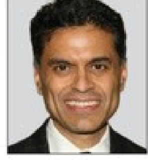
Let Him Be

Why India should relax about Trump tariffs and speak the language of strategy without embarrassment

Play the Confidence Game



Hemant Taneja & Fareed Zakaria

Santa and Banta, ring in the new

Many Indians are understandably anxious about Trump tariffs, and the president's warming toward Pakistan. But India should relax. Time and circumstances are on its side.

For about a quarter-century, the US has been executing a strategic realignment toward India. It's anchored in deep causes: China's rise, India's scale, and a shared interest in keeping Asia open rather than coerced. However loud the day's headlines, the basic geometry has not changed.

The US needs a partner of continental size in Asia that's not China. India needs an external balancer and a technology ecosystem that can accelerate its rise without constraining its sovereignty. Both countries are democracies, which produces deep and genuine bonds. When the US began this journey under the Clinton administration, those shared values were at the centre of US policy rather than any fear of China, which was then still a developing country.

Once a country demonstrates it can build the world's most demanding consumer product at scale, it becomes easier for firms to imagine India as a credible alternative base

Trump's Pakistan outreach is real. It's the kind of symbolism that triggers historical muscle memory: Washington turning, once again, to Islamabad when it wanted leverage or quick tactical gains. But a transactional flirtation is not a strategic marriage. The modern US-India relationship built on thick, institutional pillars — defence ties, intelligence cooperation, tech initiatives, and a widening alignment in the Indo-Pacific. Pakistan will always hover at the margins of US strategy. But India now sits closer to the centre.

Trade is where the mood turns sour. But the US and India have always had trade tensions. India remains more protectionist than many of its admirers abroad like to admit. The US remains impatient with barriers in a country that also demands deeper access to US markets and visas. Add Trump's tariff-centric world view — tariffs not as a bargaining chip but as a philosophy — and you get a negotiation style that's bruising by design.

Trump's insistence that he brokered a ceasefire with Pakistan turns what could have been technical bargaining into a contest of narratives and pride. But diplomats on both sides should have been able to finesse this issue by finding a formula that thanked the US for its efforts without suggesting that India was pressured into a ceasefire. That is what diplomacy is all about.

Where do we go from here? Tariffs won't have a crippling impact on the whole relationship. In raw economic terms, trade for both countries is meaningful, but not existential. For the US, commerce with India is growing, yet remains a modest slice of a vast global portfolio. India remains the US' 10th-largest trading partner of goods. For India, the US market is important as its No. 1 trade destination. But exports are not the engine of national growth.

When Washington and European capitals talk about 'derisking' from China, they are searching for capacity. India is one of the very few places with the population, internal market and industrial base to build that capacity quickly. Consider the iPhone. It's not merely a consumer device, but a miniature global supply chain, test of precision manufacturing, logistics and quality control. Not long ago, India was absent from that world. And, yet, in just a few years, India has proved the sceptics wrong. Today, the US sources 44% of its smartphones from India vs only 25% from China.

Once a country demonstrates it can build the world's most demanding consumer product at scale, it becomes easier for other firms — electronics, appliances, components — to imagine India as a credible alternative base. A supply chain, after all, is a confidence game: companies place their bets where they believe the ecosystem will be, not where it was.

Yes, tariffs can be painful. They can bruise sectors, chill sentiment and derail particular investment decisions. But they do not erase fundamentals of an economy of India's size, dynamism and ambition. So, what should India do about Trump?

▶ **Take the long view** Fundamentals of US-India strategic alignment remain stronger than the irritants of any given season.

▶ **Negotiate hard on trade** But don't negotiate scared. Trump's style is to escalate, and then declare victory when the other side offers him something he can sell. The right response is not panic but preparation — clear red lines, creative concessions where they serve India's interest, and a willingness to absorb short-term noise for long-term gain.

▶ **Lowering tariffs is good for India** iPhone could be made here only because GoI waived tariffs on a myriad of intermediate products needed for its assembly. The best policy is not a special waiver to Apple but a general reduction of tariffs that could ignite a manufacturing wave in India.

▶ **Reforms** Infrastructure, contract enforcement, predictable taxation, labour-market flexibility — these aren't glamorous reforms, but reforms that turn geopolitical interest into factories that run on time. Investors can forgive almost anything except uncertainty and delay. If India wants to capitalise on this moment, it must keep shaving friction out of the system — move goods faster, resolve disputes faster, train workers better, and make it easier to build at scale.

▶ **Understand the man** The Trump regime can be aggressive and transactional. But it can also be startlingly quick to embrace yesterday's adversary once it can claim credit and move on. That's not cynicism. It's a description of how this White House often operates.

If a trade deal is reached, Modi could offer Trump a moment of grandeur in New Delhi, amid full pomp of the Indian state – framed as a triumph for both countries

So, yes, India should speak the language of strategy — China, supply chains, tech, Indo-Pacific. But it should also, without embarrassment, stage diplomacy in the language Trump instinctively understands: status and spectacle.

If a trade deal is reached, Modi could offer Trump a moment of grandeur in New Delhi — at Rashtrapati Bhavan, amid full pomp of the Indian state — framed as a triumph for both countries. In an age when optics shape outcomes, that is not frivolous. It's leverage.

Taneja is CEO, General Catalyst, and Zakaria is a CNN anchor

27 Dec 2025

New Markets Code, Old Risks Remain

O N Ravi

Securities Markets Code 2025, introduced in Lok Sabha on December 18, marks one of the most far-reaching overhauls of India's capital market regulatory architecture in decades. It consolidates three laws — Securities Contracts (Regulation) Act 1956, Securities and Exchange Board of India Act 1992, and Depositories Act 1996 — into a single framework. Unlike most Bills, the code addresses obstacles to market development. GoI and regulators deserve a thumbs up.

The code identifies and segregates regulation of operators in the capital market and in the over-the-counter (OTC) market. This is a significant move, as their market dynamics and risk management parameters are not the same. As a result, regulatory jurisdictions of Sebi and RBI over the capital market and OTC market, respectively, are also delineated.

In the process of harmonising different functions of financial markets, the code has encountered a few slippages. These creases can be ironed out after due consultations with stakeholders. However, the focus here is limited to analysis of provisions relating to insolvency of a trading or clearing member, as also of clearing corporations or stock exchanges.

A key rule in the code ensures settlements by clearing corporations are final. Simply put, in the event of an insolvency of a member of a stock exchange or clearing corporation, its liquidator or resolution professional cannot access its settlement and other dues, collaterals and margins owed to the clearing corporation or stock exchange. This is called Settlement Finality Rule. This protection is important in netted settlement systems, where a crisscross of buy and sell transactions are netted and the final obligation for each member is arrived at, and the settlement is required to be completed at the end of the day for each counterparty.

Some glitches still need fixing

Worldwide, this rule is embedded as part of financial laws to safeguard financial markets from being derailed by vagaries of claims that arise from an insolvency event. The absence of such a provision has the potential to induce systemic risks if the netted settlement obligations are allowed to be reopened by the liquidator or authorities after an insolvency event.

Though there is a provision to that effect in the securities contract regulations, a substantive provision in Clause 68, chapter IX, of the code now operates as a declaratory law overriding the general insolvency law. However, a careful reading of a subsequent provision in the same chapter appears to dilute the effect of this overriding provision by establishing the precedence of clearing corporations over third-party rights and attachment rights through the expression 'Subject to the provisions of the Insolvency and Bankruptcy Code 2016'. This could create avoidable vagueness and confusion and, hence, requires clarity.

Chapter IX has also crafted a provision for the insolvency of a stock exchange/clearing corporation. The insolvency of financial market infrastructures (FMIs) like stock exchanges and clearing corporations is required to be dealt with differently, as continuity of critical financial operations undertaken by them needs to be maintained for the smooth functioning of the economy even if they are resolved.

Unlike general corporate bodies, liquidation and resolution of financial market infrastructures require a different approach due to:

- Failure of a financial market infrastructure can induce a financial crisis and a resultant contagion effect on other parts of markets.
- Unlike general insolvency regime, speedier measures are required for failure of FMIs, as continuity of critical financial services cannot be delayed because it could adversely affect the entire market.
- Resolution of FMIs should also focus on financial stability and broader public interest, in addition to the interests of their stakeholders.
- Finally, as operations of FMIs are complex and technical, creating interdependencies with various limbs of financial markets, they can be handled only by the respective financial market regulators under whose supervision they operate, or by a resolution corporation. All these issues were effectively addressed in the Financial Resolution and Deposit Insurance (FRDI) Bill 2017, redrafted in 2018, which was subsequently withdrawn.

Hence, the need of the hour is to revive the FRDI Bill or its new avatar, addressing the concerns of stakeholders. That alone can provide a robust solution for resolution of FMIs and other financial entities.

The writer is a Mumbai-based corporate lawyer

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Objective is not tariff reduction per se, but integration into value chains serving developed markets

2020, We Smelt the Coffee

Aditya Sinha

In the 1960s, several European countries dismantled internal railway tariffs while retaining complex national routing rules. Freight moved more cheaply on paper. Yet, delivery times worsened and costs rose in practice. Cargo was rerouted not along most efficient paths, but along those favoured by the new tariff map. The reform failed not because prices were lowered, but because the *structure* of incentives redirected flows in inefficient ways.

Jacob Viner has written about such distortions in his analyses of customs unions. Trade agreements, he argued, should not be judged by tariff cuts alone. Their welfare effects depend on whether they generate trade creation (shifting production and sourcing toward more efficient suppliers) or trade diversion (merely redirecting trade through preferential partners regardless of efficiency).

India has brought a paradigm shift in its regional trade agreement (RTA) strategy 2020 onwards. It has become more cautious and strategic about which agreements to sign, with whom, and on what terms.

Until 2020, India's RTA strategy was overwhelmingly oriented towards the developing world. The pattern that emerged: preferential or FTAs with South and Southeast Asia, parts of Latin America, and Africa. Many of these agreements (e.g., Apta, Sapta, Safta) were notified under WTO's 1979 Enabling Clause for developing countries. Unlike Article 24 of General Agreement on Tariffs and Trade (Gatt), the 'enabling clause' dispenses with requirement of 'substantially all trade' coverage. The same flexibility exists under Article 5 of General Agreement on Trade in Services (Gats) for developing countries.

This legal latitude allowed India to sign agreements with significant negative lists, shallow services commitments, weak disciplines on non-tariff measures (NTMs), and limited coverage of investment, government procurement or trade facilitation. Such agreements were WTO-compliant. But WTO compliance is not same as economic effectiveness. Whether an RTA leads to trade creation depends on its depth, coverage and enforceability, not merely on its existence.

India's trade deficit with Asean stood at about $5 bn when the goods agreement came into force around FY11. By FY19, it had widened to over $21 bn. Imports from CEPA partners (Asean, Japan and South Korea) rose sharply, while India's exports either stagnated or declined after an initial uptick. Studies showed that India cut tariffs far more deeply than required. While India's WTO obligation required tariff elimination on about 2% of tariff lines, effective liberalisation under these agreements was 74-85%+.

Market access in return was constrained by NTMs. Asean economies imposed high regulatory barriers on precisely those sectors where India had export strength — agriculture and food processing, textiles, chemicals, base metals, machinery, and electrical equipment. Estimates suggested that over 60% of India's exports to Asean were affected by NTMs. In Japan, non-tariff coverage ratios are far higher than those faced by Japanese exports to India. Also, regional cumulation provisions allowed firms in Asean to stitch together supply chains that met rules of origin, while Indian firms struggled to do the same.

Essentially, India's pre-2020 agreements were largely shallow, asymmetrical and poorly aligned with its export structure. This mattered little when global value chains were stable. It mattered a great deal when they were not.

Around 2020, three developments converged:

❶ Multilateralism remained stalled, reinforcing the reality that RTAs are second-best instruments in a world where first-best solutions are unavailable.

Flight paths show the way

❷ India launched Aatmanirbhar Bharat, often caricatured as inward-looking, but better understood as an attempt to rebuild domestic capability and bargaining strength.

❸ Global firms began actively pursuing a China + 1 strategy.

'China + 1' was not a neutral reallocation of capital. Firms compared destinations not only on wages and infrastructure but on *effective* market access. Preferential tariffs, rules of origin, standards alignment and regulatory certainty mattered.

For 'China + 1', firms compared destinations not only on wages and infrastructure, but also on effective market access

An EAC-PM analysis conducted around this time showed that Vietnam enjoyed significantly greater preferential access to developed markets than India. By 2019-20, Vietnam had FTAs with Japan, South Korea, Australia, New Zealand, Chile, and Eurasian Economic Union; was part of CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership); and had concluded an FTA with the EU. India, by contrast, had limited access to advanced economies.

This asymmetry meant that even where India and Vietnam competed in similar product categories, Vietnam entered developed markets at lower tariffs and with more predictable regulatory treatment. In such circumstances, improving domestic ease of doing business was necessary, but insufficient.

The response after 2020 was, therefore, a strategic correction, rather than a reversal. India began prioritising RTAs with developed economies where preferential access would materially affect export outcomes. Agreements with Mauritius (2021), and Australia and the UAE (2022), marked the first phase. These were followed by Efta (2024), and Britain, Oman and New Zealand (2025). Parallel negotiations are underway with the EU, the US, Canada, Israel, GCC, Qatar and Mexico.

What distinguishes this phase are both speed and intent. There is an emphasis on substantial coverage, services, investment, mobility, standards cooperation and enforceable trade facilitation. The objective is not tariff reduction per se but integration into value chains serving developed markets. Also, India has clearly established some red lines in all its new FTAs, like dairy.

As JFK once remarked, nations should not negotiate out of fear, but neither should they fear to negotiate. India's post-2020 trade strategy reflects precisely this balance.

The writer is a public policy professional

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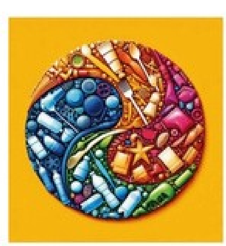
Riding the New, Newer, Newest Economy Wave

Circular economy must be market-driven

Technology is shortening product obsolescence cycles and, obviously, the approaching newness of the new-year upgrade of your personal gadget will add to that rhythm. At the same time, as obsolescence accelerates and waste piles up in dump yards, economies must shift from linear models to circular ones. This requires incorporating renewable materials, maintenance and recovery by design into products. Manufacturing companies are transitioning into the circular economy at varying speeds, and many countries have rewards and penalties for elements of production processes, involving resource use, product refresh rates and waste management. These operate outside the scope of competitive intensity that leads to shortened obsolescence cycles. A sustainable solution, however, cannot bypass market economics. This takes economic modelling into the realm of ownership and widens the definition of product use to sharing.



For economic and material efficiency, circular options must compete with traditional ones. Recycled inputs need to be cheaper than virgin resources, reusable products priced below single-use goods, and recovery cheaper than recycling. Such efficiency gains can shift consumer behaviour towards leasing and sharing, helping break the link between growth and resource exploitation. Material efficiency follows a hierarchy — smarter design first, longer lifespans next, and recycling last — countering an over-reliance on recycling that can be as energy-hungry as primary production.

Business models are key to the switch, shifting their focus from selling products to selling a combination of product and service. The product side of the mix can be lengthened while the service component ensures business continuity. Product-service as a concept needs to deliver superior customer value to either standalone component for businesses to make the transition. While doing so, businesses must calibrate resource use, avoid shifting the burden onto lifecycle stages, and reduce rebound effects such as increased consumption due to improvement in product accessibility. Business is the enabler for resource decoupling, but needs a supportive economic environment to make it happen.

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The Times They Are A-Changin': Iconic American Singer-Songwriter Finally Bags Lit Nobel

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SWEDISH ACADEMY PRAISES DYLAN'S POETRY FOR THE EAR

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Let Him Be

WOOD MATTERS

Globally, wood fuel* removals accounted for half of all roundwood produced in 2024, according to FAO. Roundwood (all wood obtained from forests and from trees outside the forest) is classified as either industrial roundwood or wood fuel. India is the world's largest wood fuel-producing country while US is top producer of industrial roundwood...

Percentage of Industrial Roundwood and Wood Fuel in Total Roundwood Removals (2024)

	Wood fuel	Industrial roundwood
INDIA	86%	14%
CHINA	43%	57%
Africa	90%	10%
Asia-Pacific	56%	44%
Europe	23%	77%
Latin America & the Caribbean	47%	53%
Northern America	13%	87%
World	50%	50%

Top 10: Wood fuel &...

	million m^3
India	**297**
China, mainland	146
Brazil	132
Ethiopia	120
DR Congo	92
Nigeria	68
US	64
Ghana	55
Uganda	46
Myanmar	38

Industrial roundwood production

	million m^3
US	319
Brazil	200
Russia	193
China, mainland	191
Canada	115
Indonesia	92
Sweden	65
Finland	55
India	**50**
Germany	47

*Used for cooking, heating or power, & includes roundwood used to make charcoal & pellets

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All That Glitters... is Silver

Dhiraj Nayyar & Gouranga Sen

And, so, the gold medal in 2025 goes to silver — for being the commodity that delivered the most outstanding returns. Silver has emerged from gold's shadow by appreciating around 135% this year, double the return on gold, which had 67% appreciation, and nearly four times that of the metal of the future — copper, which delivered 36% return.

The price trend of precious metals is linked to the state of uncertainty in the world. The return of Donald Trump to the US presidency and his aggressive tariff policies upended four decades of relative stability in the global trading system. Entire supply chains were disrupted. The role of the US (and the US dollar) as the underwriter of the global economy also came into question. In such a scenario, precious metals become a haven for investors. Indeed, uncertainty can explain much of gold's appreciation, but it doesn't fully explain silver's rise.

Unlike gold, silver has a large and growing industrial demand. In fact, almost 60% of global silver demand comes from industry — up from 46% in 2022. This is primarily driven by the energy transition sectors like photovoltaic cells and EVs, but also by emerging applications in data centres and AI. These are sunrise sectors.

On the supply side, there is a structural deficit. The World Silver Survey 2025 says that global demand outpaced supply for the 5th consecutive year, with a cumulative shortage of around 800 mn ounces by end-2025. In nature, silver occurs concurrently with other minerals like copper, lead-zinc or gold. It is then separated and extracted. For most of these minerals (and, therefore, silver), production hasn't kept pace with demand, and new projects are too few. Recycling has also failed to bridge the gap and has remained virtually constant over the last five years.

Another fascinating aspect of silver's rise is the gradual re-monetisation of silver. Historically, silver played an important role in the global financial system. Gold assumed that importance during the 19th and 20th c., and silver was gradually demonetised. But that may be changing. In October 2024, Russia's central bank announced its plan to accumulate silver as part of its strategic reserves. Recently, RBI has issued guidelines under which, from April 1, 2026, commercial banks and NBFCs will be allowed to offer loans against silver ornaments and coins to broaden access to formal credit.

India's demand for silver has grown this year. Between April and October 2025, imports rose by 67% to 4,605 tonnes — vis-à-vis an 8% decline in gold imports. The difference is partly explained by gold's high price in absolute terms, but also by India's growing appetite for silver jewellery and its emerging strength in the manufacturing of solar capacity, EVs and electronics sector. In 2024, India's silver demand in the electrical and electronics sector grew by 5%, next only to China's 8%.

Some analysts believe that it will be the outstanding metal performer in 2026 as well. There are reasons to support this view.

▶ **US interest rates** One of the key factors behind the late-2025 jump in precious metal prices is falling interest rates in the US. The last US Fed meeting in December indicated that its focus tilted towards improving employment rather than inflation management. With US unemployment rising to 4.6% in November — the highest level since 2021 — the Fed may cut rates more aggressively. The selection of the next Fed chairman and the degree of autonomy allowed under the current administration will also be crucial for the movement of interest rates, the US dollar and silver prices.

▶ **China restrictions** The country is the second-largest miner of silver and the second-biggest exporter by value. But China has imposed export restrictions on silver, as exporters need to obtain licences from January 1, 2026 — in line with its restrictions on critical mineral exports (the US classified silver as a critical mineral this year). This is likely to add pressure to an already under-supplied market.

▶ **Low inventories** All of this, combined with low silver inventories globally, rising demand from silver-intensive industrial applications, and renewed and new geopolitical tension (Venezuela is at a boil, Taiwan simmering), means that silver's golden run may continue into the new year.

Shine stealer

Nayyar is chief economist, and Sen is head, economic and policy analysis, Vedanta

29 Dec 2025

O Mere Sona, Meri Tamanna

Modern economies need flexible currencies

Traditional safe asset, gold, has regained much favour during the year amid mounting political and trade risks, falling interest rates, and sustained demand as a reserve asset by central banks. The dollar, weakened by a wider US fiscal deficit and concerns over an assault on the Fed's independence, is adding to gold's allure by making it less expensive overseas. The rally in bullion prices — silver has surged impressively — is squeezing household purchases in traditional markets like China and India, as buying interest emerges elsewhere due to the softening dollar. Buying on dips by the Chinese and Indian central banks is acting as a counterweight to slackening demand by households.

The de-dollarisation drive is feeding the gold rally in the absence of a viable contender for a reserve currency. Emerging economies, which need an alternative to the dollar as trade among members begins to rival trade with mature economies, are unlikely to be able to provide one without some form of monetary integration. On its part, the US will not allow a viable threat to the dollar, and it will prevail. Gold steps into this standoff as a strategic reserve. This role becomes amplified with the persistence of geopolitical tensions. The US is now, ironically, resurrecting the world's confidence in gold after the final burial of the gold standard in 1971.

The global economy has gone through convulsions since it went off gold, yet the standard is unlikely to return. Inflation has been tamed in advanced economies, and monetary policy has reached a happy consensus. Governments have become extravagant and will find it tough to change their spending habits. Managed exchange rates have served the cause of globalisation. Trade and investment flows are now of an order that need to be sustained by floating currencies. The economic system since the gold standard is much more flexible and relatively painless to set right after shocks. Gold's comeback as an asset will necessarily have to be limited.

Jeff Bezos' idea of 'other people' becoming rich is more revealing of the rich than of being wealthy

'Let Them Make Wealth'

Dipankar Gupta

Last December, Jeff Bezos had said in a much-publicised interview that he feels a 'glow inside' for the wealth he has made for 'other people'. Who are these 'other people'? They are not your everyday next-door neighbour, but a person whose primary talent is to take risks and invest heavily in stocks, say, of Amazon or Nvidia. They did this at the right time and price, and were lucky enough to strike gold.

THIS IS NOT A RICH LIST

For some perspective, recall Milton Friedman. Years ago, he took off his gloves and snap-stung economic thought without dodging and ducking. With heels firmly planted, he said that an entrepreneur's business is business. That translates into keeping stockholders happy, and not meandering into sundry philanthropy. He was clear about who his 'other people' were. And he hit you on the chin with it.

Bezos softens that blow. He said much the same as what Friedman had, but with a feather touch. The Amazon founder disarmingly told his interpolator on camera that he had no need for more wealth as he has far too many billions to keep track of. He gets his high now by making his shareholders happy. It is *these* well-defined 'other people' who currently occupy his mind.

Bezos' interview created a bit of a stir, including some sand in your eye. His votaries have interpreted his remark to mean that the stock market rewards *everybody*, and you would be a fool not to get in there through the front door, as it is always open. The rich deserve to get richer. And if the poor are poor, well, it's their fault. Nobody in their senses should argue against money. It's way better than politics.

Bezos' votaries want us to take away our blinkers and read the billboards. Capitalism has made us more prosperous, yes, some more than others. But by absolute standards, we are all better off. This is why it's wrong to stick needles on income inequality and make it look like a monster. Tweedy left-wing policy to tax the rich is a disincentive from investing in stocks and an invitation to stay poor.

Yet, so many are inactive in the stock market. Take the US, the heart of free enterprise. There, only 21% of households actively participate in buying and selling shares, and most of them have incomes over $1 lakh annually. But as 50% of US households earn as much, many more should have been 'active' in the stock market. It is then not the poor alone who are risk-shy and stay away from walking into Wall Street.

50% of US households earn over $1 lakh annually. Yet, only 21% actively participate in the stock market. So, it's not the poor alone who are risk-shy and stay away from walking into Wall St

In the wealthy EU too, a much lower percentage of households, about 11-13%, are active in the share market. A more granular look tells us that North Europeans are greater risk-takers than their southern counterparts. Yet, like in the US, it's the well-off Europeans who are stock market-active — this despite the fact that social service networks in the EU are way better than in the US.

Rich Japan is closer to Europe, not the US, as only 15-20% of households there are active in the stock market. In poor India, predictably, the number drops sharply as only 3-6% fall in this category. It would be disingenuous to include in this lot those who invest indirectly in shares through retirement plans, whether individual or employer sponsored. In such engagements, there is little to no investor agency.

Have your cake and eat theirs too

As Brookings Institution points out, neither is there any agency among the 47% who formally pay no income-tax in the US. Yet, from their earnings, money is continuously deducted to fund social security and Medicare. They, too, like those invested in pension funds, give up their ability to sniff up the best buy for themselves, depending, instead, on laws of the land to stand by them. This is a stark demonstration of tax for welfare.

One must remember that risks work in the share market because some must lose so that others might win. That, by definition, is what risk is about

'Left wing' over taxation can remove inequality, but makes every vehicle, a Lamborghini included, move at the pace of the slowest one. 'Right wing' no taxation policy would dry up funds for 'invisibles', like services, and 'indivisibles', like infrastructure, both critical for realising dividends. Without hatcheries, Gen Z golden geese would die out. Sensible taxation looks for the Aristotelian 'middle'.

One must be reminded that risks work in the share market because some must lose so that others might win. That, by definition, is what risk is about. Bezos' 'other people' are winners who have fallen on the right side of risk and come out on top. Many, mostly the poor, don't take chances. For, out of their scarce resources, they must pay mortgages and rents. One wrong move and their lives are gone.

Chunks of the middle class, too, would rather mow their lawn in the day and sleep well at night. They fear falling on the wrong side of risk and then sleeping like a baby, crying all night. When seen in the round, Bezos' 'other people' must moon over money and be ready to lance the loser in the stock market. They are a rare species of victors who have won, and won in love and war.

The writer is former professor, Centre for the Study of Social Systems, Jawaharlal Nehru University

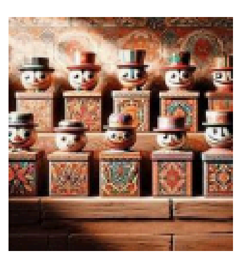
30 Dec 2025

It'll Be a Pop-Out Year For Emerging Pack

Post-shock EMs have held up splendidly

Emerging markets like India are bulking up against their mature counterparts, and continue to offer outsized returns on investment. EMs provide opportunities to active investors that are not available in well-capitalised markets, which adds to their appeal aside from faster growth. Some of the capital locked up in AI stocks in the US is expected to flow to EMs next year, adding to their momentum. Weakness of the dollar is contributing and the longer it stays under pressure over geopolitical uncertainty, EMs should benefit from inflows. The EM pack have made smart choices, while US policies seem wobbly, and investors have been diversifying to stable demand overseas. Fundamentals are improving and sovereign ratings are reflecting the change for EMs. There's little to justify being underweight on EMs.

Risk to EMs is posed by sliding US economic performance, which would pull capital back. But this is not as big a risk, with EMs less economically sensitive to the US. Investors are anticipating more interest rate cuts by the Fed next year, keeping it behind the curve on central bank action by EMs that have completed their rate-reduction cycles. Expectations of further easing by the Fed are propping up risky EM assets. Valuations are not stretched at these levels and can climb on diversification demand. Resilience demonstrated in the face of US tariffs could be tested by geopolitical uncertainty. Yet, the EM pack has acquired immunity after a series of shocks to the global economy in the recent past.



The idea of EMs as risky bets was laid to rest in 2025, and next year should reinforce the belief. The more they are subjected to the risk of trade fragmentation, their domestic demand will be put to the test. It has held up splendidly so far. There is little to suggest macroeconomic policies will permit significant deterioration. It has taken emerging markets years of fiscal and monetary adjustment to reach its current state of stability. That was the biggest draw for investors this year. And it will remain so next year, too.

30 Dec 2025

Chat Room

Storehouse, Not Currency

Apropos the Edit, 'O Mere Sona, Meri Tamanna' (Dec 29), the renewed global rush for gold reflects unease, not wisdom. Gold has value as a reserve and a hedge, but treating it as a currency substitute risks false comfort. Modern economies run on flexible exchange rates, credible institutions and disciplined fiscal policy. Instead of hoarding bullion, emerging economies should deepen trade settlement mechanisms, strengthen financial regulation and curb reckless public spending. Central banks buying gold may steady nerves for now, but long-term stability will come from trust in policy, not metal locked away in vaults.

A Myilsami
Coimbatore

The sudden ascendancy in the value of gold and silver is due to less dependability on the dollar for international trade, caused by the undependable Trumpism. Investment in gold in the current scenario is not advisable. Matters immanent today might be different in the imminent future. India should take a cautious path avoiding complete dependence on the dollar in foreign trade by persuading other countries in trade with India through the vostro account scheme. Be cautious: the brightness of gold today should not bring darkness tomorrow.

K Rajendran
Chennai

30 Dec 2025

Probate: Uncheck. Will: Uncheck?

Parliament has passed Bills removing the necessity for probates in Mumbai, Chennai and Kolkata. What next? Does a will stand by itself? But wills can be challenged. How can a judge know who should be the legal heir better than the owner? It is necessary to make the inheritance process smooth and effortless. There is no need for a will. The owner should name his legal heir for each asset including immoveable property to banks, MFs, housing society, etc. The PAN/ Aadhaar of the legal heir should be submitted to the institution. The institution should then give an acknowledgment of having documented this in their records. The owner should give this acknowledgement to the legal heir. When the owner of the asset dies, the legal heir should produce the acknowledgement to the institution and the asset will be transferred without question.

T R Ramaswami
Mumbai

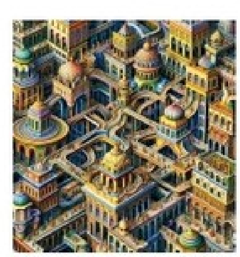
31 Dec 2025

Caveat Commuter, Make Moving Easier

Decongestion and smart planning can de-stress

A spectre is haunting urban India — the spectre of 'commutism'. Time to travel between a place of residence and of work is climbing. We are talking about some of the fastest-growing cities in the world. The issue is compounded by the density of cities and state of urban infrastructure. Limited choices and over-utilised transit systems add to congestion. The burden of commuting is compensated either as higher wages, or in improved housing. Yet, the commuter is worse off. At the top of the ladder — reaching work in your own car — can add up to the second-biggest chunk of household expense behind housing. At the bottom, services available on overcrowded public transport networks can lead to high levels of stress and, consequently, diminished productivity. The notion of the '30-min city' stays tantalisingly out of reach.

Taller cities are better at handling population density. They also cost less to build as they use land efficiently. These require less energy to run and benefit from concentrated infra. Vertical is the way to go to avoid urban sprawl and environmental degradation. Buildings can be constructed to be net carbon negative, which works in conjunction with lower vehicular emissions in tall cities. But vertical cities trade efficiency and cost against comfort and habitability.

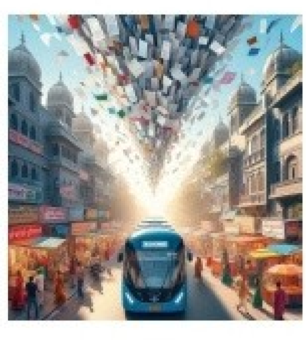


Another approach is by increasing consumer choice. This involves combining working and living activities in smaller urban pockets, while expanding mass transport options. Individuals should have a choice in deciding whether they want to live a cycle ride away from their office, or a long train ride into the country. Urban planning tends to prioritise one over the other, not both equally, leading to congestion. Indian cities will keep growing upward and outward. This should not happen asynchronously. Getting a handle on the commute problem is key to ensuring productivity growth during the rapid urbanisation the economy is undergoing. Our cities must have a clear vision of the shape they'll grow into over the next quarter century, starting tomorrow.

31 Dec 2025

Hyperdocumentation Vs Common Sense

The main aim of public policy is to make life easier for citizens. In India, its purpose often seems quite different: to test patience, stamina and common sense. Or perhaps it functions as bureaucratic pilates — keeping the vast government machinery limber through constant paperwork. Consider this. From early 2026, Delhi government will replace pink paper tickets for free women's bus travel with a 'Pink Saheli' smart card. The stated goal is greater transparency and efficiency in a scheme that benefits nearly 2 cr commuters every month. Girls and women above 12 who are Delhi residents must apply for the card using their Aadhaar at designated counters, and then tap the card on e-machines to travel free.



Such costly plans are Kafkaesque. Why turn something as basic as boarding a bus into a procedural hurdle? How exactly does a smart card improve matters when simply getting on board by dint of showing one's Aadhaar — and being a woman — would have done the job? It's not as if women from Gurgaon or Noida will invade Delhi buses. And even if a few do 'slip in', what would have been the crisis? The larger public goal is to get more women outdoors, workforce included. Cheap, frictionless mobility helps. Forms, counters and proof-of-residence checks don't.

This obsession with documentation is no longer confined to big-ticket schemes like endless OTPs, repeated bank KYC, to SIR. Hyper-documentation is the new neurosis of digital India. Every odd citizen seems 'one document short', and every system assumes bad faith by default. With the new year, one hopes for a modest resolution: fewer counters, less suspicion, a little more trust. Benefiting from a scheme need not feel like an endurance sport. Sometimes, common sense is the most efficient tech.

31 Dec 2025

SWAMISPEAK Even if a sharp US slowdown is likely, India should fare well in 2026

Trumpism Won't Triumph

Swaminathan S Anklesaria Aiyar

Trump has triumphed over critics, including me, in 2025. His state of the union message in January foretold a sharp rise in tariffs, and dismantling of the global rules-based economic system as well as the US' role as global policeman that had driven the fastest economic growth in post-WW2 history. Then came his 'Liberation Day' in April, when he threatened tariffs that went up to 150% for China, and up to 30% on major partners, inviting retaliation and plunging the world into a deep recession. Markets crashed in India, and everywhere else.

In fact, India and the US have grown at high rates that seemed fantasies 12 months ago. The US has just recorded 4.3% growth in the last quarter, and India has registered 8.2%.

How so? US tariffs have turned out to be far lower than threatened. The world used to take pronouncements of US presidents very seriously. But Trump soon proved that he was more a real estate salesman than statesman, starting with ridiculously high rates and bargaining down to modest ones. TACO — Trump Always Chickens Out — became Trumpian policy. China's hold on rare earths turned out to be so powerful that Trump could not get tough with it.

Initially, experts feared that Trump tariffs would rise to an effective 26% of imports. In practice, they have turned out to be closer to 10%. Moreover, China, India and other countries have managed to evade high tariffs by routing them through third countries.

Ready to get junked?

Many US importers stocked up on imports in anticipation of high tariffs, and so held high inventories that enabled them to keep import prices lower than expected for several months. Of the new tariffs, some were absorbed by exporters, some by US importers, and only one-third was passed on to consumers. This kept US inflation in check — the November figure was 2.7%, down from 3% in October. Fast growth and low inflation encouraged the US Fed to cut interest rates, fuelling stock markets further. So, Trump's first year has ended in triumphal victory.

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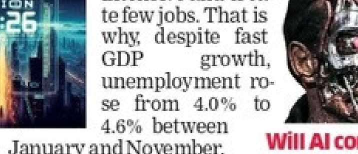
What will happen in 2026? Let me stick my neck out and forecast a sharp setback for Trumpism. Fast growth in 2025 was fuelled mainly by an AI boom. The biggest US companies are investing trillions in data centres to manage an enormous expansion in AI development. Data centres are very capital-intensive and create few jobs. That is why, despite fast GDP growth, unemployment rose from 4.0% to 4.6% between January and November.



Will AI continue to spur the US economy in 2026? Maybe. But a slowdown is far likelier. If AI suddenly ceases to look as promising as investors currently think, we could see a collapse in this sector. Even if this does not happen in 2026, it will surely happen during Trump's term, muddying his legacy.

Will AI continue to spur the US economy in 2026? Maybe. But a slowdown is far likelier. Even if a sectoral collapse doesn't happen in 2026, it surely will during Trump's term

Rising prices led to Joe Biden's downfall in 2024. Trump may be about to feel the same whiplash. Stockpiled imports will no longer tame prices in 2026. Experts predict the proportion of tariffs passed on to consumers will double to two-thirds. The Fed may have to halt interest rate cuts to curb inflation.

The economic scene was good for Trump in 2025. But the political scene darkened. Last November, his party lost gubernatorial elections in Virginia and New Jersey, the mayoral election in New York City ('Mamdani!'), and state elections in Georgia and Mississippi.

Higher inflation and slower growth in 2026 could plunge Trump into a disastrous defeat in the Congressional elections in the coming November, giving majorities in both houses to Democrats. That could convert Trump from an all-powerful conqueror to a lame duck.

What about India? It performed brilliantly in the first two quarters of this fiscal year, averaging 8% growth. Inflation is 0.7% and CAD is likely to be a comfortable 1.4% of GDP. India's services exports continue to boom in tandem with the global AI boom. Google, Amazon and Microsoft have announced plans to invest a total of $67.5 bn in new GCCs. Much of this will be invested in new data centres.

Will India fare well in 2026 even if the US slows sharply? The chances look good. India has proved it has a resilient economy with a large domestic market and competitive services exports that can overcome unfavourable global conditions. It is the only country, apart from China, that can provide millions of STEM graduates needed by MNCs to harness AI. Few other developing countries can boast of booming stock markets even when foreign investors withdraw.

India remains significantly linked to the global economy. If world GDP sinks in 2026, India too will suffer. But its solid macroeconomic position and its rising supply of quality STEM graduates are formidable advantages.

Others do not share my forecast. One former CEA whom I respect predicts that India's economic growth will crash to 4.5% in 2026-27. Clearly, the jury is still out. But I am an optimist.

31 Dec 2025

Close Digital Gap, Level AI Field

Sumit Jain & Siddharth Mishra

The corporate affairs ministry has called for proposals for a market study on digital competition, focusing on criteria for 'Systematically Significant Digital Enterprises', impact on MSMEs and effective regulation. The move follows earlier plans to impose ex ante rules on big tech via the Digital Competition Bill 2024.

Advent of digital markets has led to a new wave of growth. For instance, the worldwide market for AI has expanded from $93 bn to $186 bn in 2020-24. The Indian market has grown from $3.2 bn to $6 bn in the last 4 yrs, with its full potential yet to be realised.

GoI has adopted a light-touch approach to AI regulation. It has categorically ruled out any AI-specific law and focused on promoting investment in digital markets. The key reason behind such an approach is that the existing legal framework addresses the theory of harm, and any further regulation may be considered too rigid for the development of the tech. The only AI-specific law introduced to date is the draft amendment to the IT Act, where GoI has proposed to regulate synthetically generated content.

In September, CCI published 'Market Study on Artificial Intelligence and Competition', highlighting varying positions on the tech's efficiency. One extreme view in it holds that AI tech is revolutionary, fundamentally altering economic activity to enhance productivity and efficiency, while another argued that the growth is concentrated with a few companies—as in, the core objective of competition law and policy should be enforced to democratise the market.

CCI's market study serves the policy objective. It includes a guidance note through which major competition concerns, such as exclusive contracts, algorithmic collusion and price discrimination, ought to be

You gotta level with it

addressed. The commission has taken a soft-law approach, where findings are not binding on companies, but carry persuasive value. This approach is rooted in practice, as CCI has limited enforcement resources, which means it must prioritise certain cases over others where the anti-competitive nature is starker.

The study comes at a strategic halfway point. This is important, as most Big Tech is foreign. While the theoretical foundation holds that the law is nationality- and ownership-agnostic with respect to the company under inquiry, the US has openly backed its players abroad. This challenges the established tenets underlying the call for revision of digital competition policy.

The competition legal framework is both a policy and strategic document. CCI's study serves domestic policy by combining theory and practice to lay down enforcement priorities for the regulator. It furthers advocacy, preparing the groundwork to open formal non-compliance proceedings in case of violation, and rewards a culture of self-compliance by tech companies. The next step for GoI is to align regulatory policy with strategic requirements.

Some key areas of consideration include robust application of the law domestically and investment in digital infrastructure. India may want to proceed with the enactment of a digital competition law, taking a milder approach, such as those in Britain and Japan, to avoid geopolitical backlash.

Indian digital firms may further be allowed to collaborate with like-minded firms internationally and access overseas markets. This is not only likely to serve the national imperative but also help close the gap with international standards.

The writers are directors, Centre for Competition Law and Economics

31 Dec 2025

Not Just Work, But Kind of Work

Farzana Afridi & Janani Rangan

Economic growth has not reduced the precarious nature of employment in India. Yet, policy discussions tend to focus on job creation and less on job quality. Can the new codification of labour laws address the twin issue of quantity and quality of jobs?

Between 2012 and 2023, employment growth in the manufacturing sector averaged at 2%, and at 3% for the services sector. Meanwhile, agriculture's share in total employment fell from 48% to 44% over this decade, putting immense pressure on the non-farm sectors to absorb surplus labour.

Paradoxically, the non-farm sector became, and continues to be, less reliant on labour — the labour intensity of non-farm production has declined while its contribution to the economy has risen. This divergence raises questions not just about the inclusiveness of India's growth story but also its potential to absorb labour.

In contrast to the trend in the non-farm sector, within the formal manufacturing sector, the contribution of labour to output has increased, primarily due to the increase in the number of contract workers in the last two decades — blurring the boundaries between formal and informal employment. Between 2000 and 2016, contract jobs grew at more than double the rate of regular jobs. While these contract workers are technically a part of the formal economy, they lack social security and long-term benefits.

Firms have favoured this arrangement for its flexibility in hiring and its ability to circumvent stringent dismissal norms. The 2018 India Wage Report found that over 71% of wage workers in formal enterprises lacked written contracts or social security coverage. Annual Survey of Industries (ASI) data shows that more than half of workers in formal manufacturing are informally employed. As a result, the shift to a structure where formality exists 'on paper' but informality prevails 'in substance' has deepened precarity in employment.

On the one hand, the new labour codes attempt to address the concern of insecure employment conditions through ensuring minimum wages, mandating formal appointment letters and basic social security. It has also brought in reforms for fixed-term employment, such as removing minimum years of service requirements for gratuity.

The Occupational Safety, Health and Working Conditions Code 2020 sets clear standards for a safe working environment, such as capping work hours to 8 hrs a day and mandating overtime pay at twice the normal rate. These reforms will potentially reduce the precarity of work.

On the other hand, labour laws have been simplified to streamline compliance and improve ease of doing business to expand job opportunities through higher private investments and easier firing practices. The industrial relations code allows firms with up to 300 workers to go ahead with layoffs, retrenchment and closure without government permission. These measures aim to reduce the regulatory burden on firms and increase incentives to hire labour.

Will these reforms raise the quantity and quality of work at the same time? The policy challenge is to encourage a transition from short-term, insecure contracts to stable, productive employment without increasing compliance cost for firms due to excessive regulatory rigidity.

At the same time, reversing the trend of rising capital intensity of production technology requires improving the quality of labour to further reduce the cost of hiring labour relative to mechanisation. Without a skilled labour force, with high productivity, the industry may continue to replace relatively more costly labour with machinery in the production process, reducing potential employment gains from these labour reforms.

Using simulation exercises, NCAER's paper released this month, 'India's Employment Prospects: Pathways to Jobs', suggests that strong inter-sectoral linkages of labour-intensive manufacturing and services sectors can have a multiplicative effect on employment creation in the aggregate economy by 2030. Also, increasing the share of skilled workforce through investment in formal skilling could lead to more than 13% increase in employment in the labour-intensive sectors by 2030.

Thus, a multipronged policy overhaul is essential to unlock the potential of both job growth and quality of work. While the new labour codes can stimulate increase in private investments in labour-intensive sectors, without reforms in the country's skilling ecosystem to increase labour productivity, growth in jobs may be stymied and remain precarious.

Comprehensive labour reforms that simultaneously aim at improving the quantity and the quality of its workforce are required to move the country up the value chain. The new labour codes should be the first step in an agile and dynamic policy framework that focuses on creating a future-ready workforce.

Up, skilling

Afridi is professor of economics, Indian Statistical Institute, Delhi, and Rangan is assistant professor, School of Management, Mahindra University

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