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VIDHVATH IAS KAS ACADEMY & STUDY CENTRE

DAILY CURRENT AFFAIRS

FOR UPSC CIVIL SERVICE EXAMINATION

DATE: 06/08/2026 (THURSDAY)

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1. Monetary Policy Committee and Repo Rate Decision

Key Highlights & Summary

- **Repo Rate Maintained:** The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) unanimously voted to keep the policy repo rate unchanged at 5.25%.
- **Aligned Interest Rates:** Alongside the repo rate, the standing deposit facility (SDF) rate remains at 5.0%, while the marginal standing facility (MSF) rate and the bank rate are maintained at 5.5%.
- **Policy Stance:** The MPC opted to continue with a neutral stance, reflecting a balanced outlook on growth and inflation dynamics.
- **Macroeconomic Resilience:** RBI Governor Sanjay Malhotra noted that the Indian economy remains resilient against global headwinds, supported by steady domestic demand, robust private consumption, and healthy services exports.
- **Key Downside Risks:** Elevated global energy prices, supply chain uncertainties, and a deficient or uneven south-west monsoon influenced by El Nino conditions continue to pose risks to agricultural outlook and rural demand.

Essential Definitions

- **Repo Rate:** The interest rate at which the central bank lends money to commercial banks against government securities to manage liquidity.
- **Standing Deposit Facility (SDF):** A collateral-free liquidity window introduced by the RBI to absorb excess liquidity from commercial banks at an interest rate lower than the repo rate.
- **Marginal Standing Facility (MSF):** A penal window through which scheduled commercial banks can borrow additional overnight funds from the RBI against approved government securities at a higher rate.
- **Neutral Stance:** A monetary policy posture where the central bank has the flexibility to either hike or cut interest rates depending on evolving macroeconomic data.

Legal and Constitutional Framework

- **Statutory Basis:** The Monetary Policy Committee is a statutory and institutionalized framework constituted under Section 45ZB of the Reserve Bank of India Act, 1934, amended by the Finance Act, 2016.
- **Composition:** The MPC comprises six members: three official members from the RBI (including the Governor as Chairperson) and three external members appointed by the central government.
- **Inflation Targeting:** Under Section 45ZA of the RBI Act, the central government, in consultation with the RBI, determines the inflation target in terms of the Consumer Price Index (CPI) once every five years to ensure price stability while keeping in mind the objective of growth.

Conclusion

The decision to maintain the repo rate at 5.25% alongside a neutral stance reflects a calibrated approach by the RBI to balance domestic growth momentum against volatile external environments and domestic supply-side risks. Ensuring price stability while fostering growth remains central to maintaining macroeconomic resilience.

UPSC Relevance

This topic is highly relevant for the UPSC Civil Services Examination under General Studies Paper 3 (Indian Economy and issues relating to planning, mobilization of resources, growth, development, and employment). Aspirants must understand central banking functions, monetary policy tools, inflation targeting, and institutional mechanisms like the MPC.

2. Supreme Court Judge Strength Enhancement and FCRA Developments

Key Highlights & Summary

- **Strength Increase:** The Rajya Sabha passed the Supreme Court (Number of Judges) Amendment Bill, 2026, raising the sanctioned strength of Supreme Court judges from 34 to 38, including the Chief Justice of India.
- **Legislative Route:** The Bill was passed as a Money Bill, a route previously utilized in 2019 when the bench strength was raised from 31 to 34.
- **Constitutional Controversy:** The use of the Money Bill route for judicial expansion remains legally sensitive, as past dissenting judicial opinions have labeled it a potential circumvention of Rajya Sabha legislative powers.
- **FCRA Bill Outreach:** Simultaneously, the government reached out to the opposition to soften provisions of the Foreign Contribution Regulation (Regulation) Amendment Bill, dropping penalizing retrospective provisions to allay civil society and religious concerns.
- **Parliamentary Deadlock:** Ongoing disruptions over protests related to law enforcement actions highlight intense political friction between the treasury benches and the opposition.

Essential Definitions

- **Money Bill:** A financial bill specified under Article 110 of the Constitution of India that deals exclusively with taxation, borrowing of money, or expenditure from the Consolidated Fund of India, requiring only Lok Sabha assent for introduction.
- **Sanctioned Strength:** The maximum legally permitted number of judges in a court, fixed by Parliament through law.
- **Foreign Contribution Regulation Act (FCRA):** A domestic legislation enacted to regulate the acceptance and utilization of foreign contributions by individuals, associations, and companies to safeguard national security.

Legal and Constitutional Framework

- **Article 124(1):** Stipulates that there shall be a Supreme Court of India consisting of a Chief Justice of India and, until Parliament by law prescribes a larger number, of not more than 33 other judges.
- **Parliamentary Competence:** Under Article 124, Parliament holds absolute legislative competence to increase the number of Supreme Court judges through ordinary legislative enactment.
- **Article 110:** Defines Money Bills and restricts the Rajya Sabha's power, as the upper house can only recommend amendments within 14 days, which the Lok Sabha may accept or reject.

Conclusion

The legislative expansion of the Supreme Court to 38 judges addresses mounting judicial backlogs and docket explosions. However, relying on the Money Bill route raises structural questions concerning bicameral federal balance, while concurrent efforts to soften the FCRA Bill signify necessary legislative accommodation amid broader parliamentary standoffs.

UPSC Relevance

This topic is highly relevant for the UPSC Civil Services Examination under General Studies Paper 2 (Indian Constitution, historical underpinnings, evolution, features, amendments, structure, and functioning of the Judiciary and Parliament). Aspirants must analyze the constitutional validity of Money Bills, separation of powers, and institutional mechanisms managing judicial capacity.

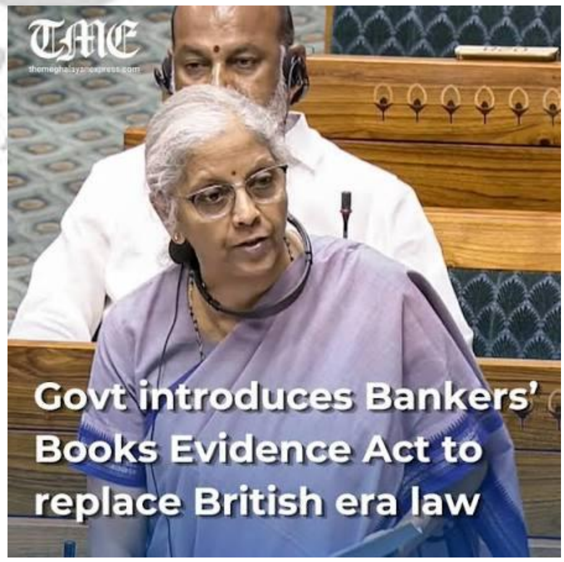
3. Bankers' Books Evidence Bill and Digital Admissibility

Key Highlights & Summary

- **Legislative Passage:** The Lok Sabha passed the Bankers' Books Evidence Bill, 2026, by a voice vote amid opposition din and without formal debate.
- **Repeal of Colonial Law:** The new legislation completely repeals and replaces the 135-year-old colonial-era Bankers' Books Evidence Act, 1891.
- **Modernized Scope:** It broadens the definition of "bankers' books" to encompass physical, electronic, digital, virtual, and cloud-based formats, establishing a technology-neutral framework.
- **Admissibility of Digital Records:** Certified digital or electronic records of bank transactions are recognized as legally enforceable evidence in judicial proceedings without needing original physical registers.
- **Safeguards Against Summons:** The Bill defines "special cause" requirements, limiting instances where courts can compel bank officers to appear or produce records in third-party lawsuits, shielding financial institutions from unnecessary legal burden.

Essential Definitions

- **Bankers' Books:** Includes ledgers, day-books, cash-books, and all other records maintained in any form—including digital, electronic, and cloud-based systems—in the ordinary course of banking business.
- **Voice Vote:** A legislative voting method where the presiding officer determines the result based on the volume and intensity of "Ayes" and "Noes" shouted by members.
- **Special Cause:** A precise statutory threshold required to be established before a court can summon bank officers or records for disputes where the bank is not a direct party.



Legal and Constitutional Framework

- **Article 246:** Empowers Parliament to legislate on matters enumerated in List I (Union List) of the Seventh Schedule, which covers banking, currency, and legal evidence.

- **Bharatiya Sakshya Adhiniyam, 2023:** Works alongside modern evidence laws to govern the admissibility of electronic and digital records in Indian courts, which this Bill complements specifically for banking records.
- **Information Technology Act, 2000:** Previously amended provisions of the 1891 Act to include computer printouts, laying the foundation for comprehensive digital overhaul under the 2026 framework.

Conclusion

The passage of the Bankers' Books Evidence Bill, 2026, marks a crucial shift in modernizing India's commercial jurisprudence. By replacing an antiquated colonial statute with a future-ready framework for cloud and digital data, the legislation streamlines judicial processes while safeguarding banks from procedural burdens.

UPSC Relevance

This topic is vital for the UPSC Civil Services Examination under General Studies Paper 2 (Parliament and State Legislatures—structure, functioning, conduct of business, powers & privileges) and General Studies Paper 3 (Indian Economy and digital infrastructure reforms). Aspirants should track legislative evolution, digital governance challenges, and parliamentary procedures.

4. Ancient DNA Analysis of Varanasi Skeleton

Key Highlights & Summary

- **Historical Excavation Reopened:** A nearly 70-year-old human skeleton, excavated in 1957 from the ancient Rajghat archaeological site in Varanasi, has been unsealed by researchers at Banaras Hindu University (BHU).
- **Advanced Scientific Techniques:** Modern advancements in archaeogenetics now enable experts to extract and analyze ancient DNA (aDNA) and conduct stable isotope analysis from the centuries-old remains.
- **Genetic Lineage Tracing:** Scientists plan to isolate Y-chromosome DNA and mitochondrial DNA to map the individual's paternal and maternal ancestry, shedding light on the population dynamics of the middle Ganga valley approximately 1000 years ago.

- **Dietary and Nutritional Profiling:** Stable isotope analysis will be performed concurrently to reconstruct the dietary habits, food consumption patterns, and lifestyle of ancient inhabitants.
- **Comparative Archaeological Linkages:** Findings from the aDNA mapping will be compared with other major South Asian historical excavations, including the Harappan site of Rakhigarhi, to trace historical migration and genetic continuity.

Essential Definitions

- **Ancient DNA (aDNA):** DNA isolated from ancient biological specimens, which undergoes degradation over time, requiring specialized ultra-clean laboratories and high-throughput sequencing technologies for recovery.

- **Stable Isotope Analysis:** A scientific method measuring the ratio of stable isotopes (such as carbon and nitrogen) in biological tissues to reconstruct past diets, trophic levels, and ecological interactions.
- **Radiocarbon Dating:** A chronological dating method that uses the decay of carbon-14 to determine the age of organic artifacts up to about 50,000 to 60,000 years old.

Legal and Constitutional Framework

- **Ancient Monuments and Archaeological Sites and Remains Act, 1958:** Regulates archaeological excavation, protection, and preservation of ancient and historical monuments and archaeological sites and remains of national importance in India.
- **National Policy on Archaeological Explorations:** Provides ethical and technical guidelines for the handling, preservation, and scientific study of antiquities, skeletal remains, and excavated cultural heritage by academic and research institutions.

Conclusion

The scientific reopening of the Rajghat skeleton using contemporary aDNA and isotopic techniques bridges a critical gap in Indian archaeology. By transforming preserved historical materials into biochemical archives, this initiative enriches our understanding of medieval demographic history, ancestral roots, and ancient socioeconomic life in the middle Ganga basin.

UPSC Relevance

This topic is highly relevant for the UPSC Civil Services Examination under General Studies Paper 1 (Indian Culture—salient aspects of Art Forms, Literature, and Architecture from ancient to modern times, and ancient Indian history). Aspirants must understand the application of scientific tools in archaeology, ancient urban centers, and historical migration patterns.

5. Lalit Kala Akademi Celebrates 72nd Foundation Day

Key Highlights & Summary

- **National Celebration:** Lalit Kala Akademi, India's premier National Academy of Art under the Ministry of Culture, celebrated its 72nd Foundation Day at Rabindra Bhavan, New Delhi.
- **Book Releases:** Two important biographical publications authored by Kanaiyalal Fakirchand Patel, titled Chitrakar Kanu Desai and Kalaguru Ravishankar Raval, were formally released during the main event.
- **Pan-India Outreach:** Regional centers and camp offices across Bhubaneswar, Kolkata, Chennai, Lucknow, Agartala, Ahmedabad, Patna, and Shimla organized workshops, exhibitions, and lectures.
- **Inter-Institutional Collaboration:** The celebration featured live painting demonstrations and classical dance and vocal performances by artists from the National Institute of Kathak Kendra.
- **Legacy of Visual Arts:** Established in 1954, the Akademi continues to promote visual arts through national exhibitions, scholarships, artists' camps, and specialized research programs.

Essential Definitions

- **Lalit Kala Akademi:** An autonomous apex cultural institution established by the Government of India in 1954 to foster and coordinate activities in the sphere of visual and plastic arts.

- **Serigraphy:** A stencil printing process in which ink is forced through a fine screen onto paper or fabric to create a printed design.
- **Visual Arts:** Art forms such as painting, sculpture, photography, printmaking, and crafts that focus primarily on the creation of works primarily visual in nature.

Legal and Constitutional Framework

- **Ministry of Culture Jurisdiction:** Operates under administrative funding and oversight of the Union Ministry of Culture, Government of India, aligning with cultural preservation mandates.
- **Cultural Policy Framework:** Supports national objectives under Directive Principles of State Policy regarding the protection and promotion of monuments and artistic heritage of national importance.

Conclusion

The 72nd Foundation Day celebrations of the Lalit Kala Akademi underscore its vital role in preserving India's rich artistic traditions and nurturing contemporary visual expressions. By decentralizing outreach through regional centers, the institution bridges historical heritage with active public engagement.

UPSC Relevance

This topic is valuable for the UPSC Civil Services Examination under General Studies Paper 1 (Indian Culture and Heritage) and General Studies Paper 2 (Governance and institutional frameworks for art promotion). Aspirants must note key autonomous bodies functioning under the Ministry of Culture.

6. Misleading EdTech Platforms and Fake Universities

Key Highlights & Summary


Ministry of Education

Azadi Ka Amrit Mahotsav

Misleading EdTech platforms and fake Universities

प्रविष्टि तिथि: 05 AUG 2026 6:18PM by PIB Delhi

The University Grants Commission (UGC) noticed that some EdTech companies are giving advertisements in newspaper / social media / television for offering degree and diploma programmes in ODL/Online modes in association with some Universities/Institutions recognized/entitled by the UGC. UGC issued a public notice informing all students/stakeholders that such franchisee arrangements are not permissible and any such programme/degree does not have recognition of UGC. It stated that action will be initiated against defaulting EdTech companies and Higher Educational Institutions (HEIs) under applicable laws/ rules/ regulations. UGC also advised all students/stakeholders through public notice to check the recognition/entitlement status of the programmes on UGC (DEB) website

- **Unauthorised Franchisee Warnings:** The University Grants Commission (UGC) issued strict advisories cautioning students against enrolling in online and open distance learning (ODL) degree or diploma programs advertised by EdTech companies in association with recognized universities through impermissible franchisee arrangements.
- **Proliferation of Fake Institutions:** Following non-satisfactory explanations given to show-cause notices, the UGC updated its official repository, identifying 32 institutions across various states as fake universities operating in contravention of statutory norms.
- **Institutional Safeguards:** The Anti-Mal-Practice Cell (AMPC), established by the UGC in May 1996, continuously monitors and investigates the functioning of unrecognized or fake higher educational institutions.
- **Collaborative State Enforcement:** The regulatory body has actively urged all State Governments and Union Territories to take stringent penal action, including the filing of First Information Reports (FIRs) against unauthorized entities operating within their jurisdictions.

- **Mandatory Public Verification:** Stakeholders and students are officially advised to independently verify the recognition status and entitlement of educational programs via the dedicated UGC and Distance Education Bureau (DEB) web portals before admission.

Essential Definitions

- **Franchisee Arrangement:** The prohibited practice where a recognized Higher Educational Institution (HEI) subcontracts or allows a third-party EdTech platform to conduct courses, manage admissions, or award degrees on its behalf.
- **Fake University:** An institution established or functioning without the explicit sanction of an Act of Parliament or State Legislature, or lacking deemed-to-be-university status under the UGC Act, making its awarded degrees legally invalid.
- **Open and Distance Learning (ODL):** A mode of imparting education through flexible learning delivery mechanisms, bypassing traditional classroom attendance requirements, strictly regulated by specific commission guidelines.

Legal and Constitutional Framework

- **University Grants Commission Act, 1956:** Section 22 empowers only universities established by central or state statutes or institutions deemed to be universities to confer or grant degrees, penalizing unauthorized institutions.
- **Entry 66 of List I (Union List):** Empowers Parliament to legislate on the coordination and determination of standards in institutions for higher education or research, serving as the constitutional anchor for UGC regulations.

Conclusion

The crackdown on misleading EdTech partnerships and blacklisted institutions is critical to safeguarding the integrity of India's higher education architecture. Preventing commercial exploitation through strict regulatory oversight ensures academic standards and protects unsuspecting students from fraudulent credentials.

UPSC Relevance

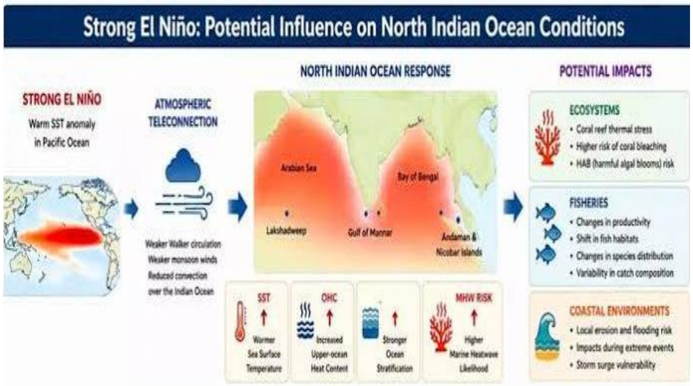
This topic is highly relevant for the UPSC Civil Services Examination under General Studies Paper 2 (Issues Relating to Development and Management of Social Sector/Services relating to Education) and General Studies Paper 3 (Regulatory Framework and Governance of Digital Platforms). Aspirants should understand the intersection of education policy, digital accountability, and institutional autonomy.

7. El Nino Persistence and Monsoon Impact

Key Highlights & Summary

- **Prolonged El Nino Forecast:** The Indian National Centre for Ocean Information Services (INCOIS) predicts that El Nino conditions, which developed in May 2026, will likely persist through February 2027 with a 70% to 90% probability.
- **AI-Powered Prediction:** The assessment relies on an indigenous Artificial Intelligence and Machine Learning (AI/ML) based El Nino Southern Oscillation (ENSO) model integrated with the Global Ocean Data Assimilation System.

- **Multifactorial Monsoon Drivers:** The Minister clarified that El Nino is not the sole determinant of Indian rainfall; its final impact depends heavily on concurrent climate drivers like the Indian Ocean Dipole (IOD) and Madden-Julian Oscillation (MJO).



- **Marine Ecosystem Risks:** Persistent warming linked to El Nino could trigger marine heatwaves across the Arabian Sea and Bay of Bengal, altering ocean mixing, nutrient availability, and fisheries distribution.
- **Technological Preparedness:** The government has fortified ocean state forecasting, early warning networks, and allocated ₹145.06 crore under the Deep Ocean Mission for marine resource exploration and coastal safety.

Essential Definitions

- **El Nino:** A climate pattern characterized by the warming of surface ocean waters in the central and eastern tropical Pacific, which often suppresses the Indian Summer Monsoon.
- **Indian Ocean Dipole (IOD):** The difference in sea surface temperatures between the western and eastern tropical Indian Ocean, critically affecting regional monsoon rainfall.
- **Madden-Julian Oscillation (MJO):** A large-scale atmospheric disturbance originating in the tropics that travels eastward, modulating short-term rainfall activity.

Legal and Constitutional Framework

- **Ministry of Earth Sciences Mandate:** Operates under national disaster management and scientific research policies to oversee oceanographic data collection, climate forecasting, and protection of marine resources within India's Exclusive Economic Zone (EEZ).
- **National Disaster Management Act, 2005:** Provides the statutory basis for formulating multi-hazard early warning systems and coordinated state-level responses to hydro-meteorological calamities.

Conclusion

The projected persistence of El Nino through early 2027 emphasizes the necessity of advanced, AI-driven climate forecasting models. While multi-system drivers complicate seasonal outlooks, robust technological upgrades and proactive coastal surveillance ensure strengthened national resilience against climate anomalies.

UPSC Relevance

Crucial for UPSC Civil Services Examination under General Studies Paper 1 (Climatology and Geographical Phenomena) and General Studies Paper 3 (Disaster Management, Science and Technology in-house developments). Aspirants must evaluate the interplay between global climate oscillations, technological forecasting tools, and disaster preparedness frameworks.

8. Digital India Initiatives and Cybersecurity Framework

Key Highlights & Summary

- **Exponential Infrastructure Growth:** Launched in July 2015, the Digital India programme has expanded phone connections to 133+ crores and internet subscribers to 109.27 crore, backed by 2.21 lakh service-ready Gram Panchayats under BharatNet.
- **Digital Public Infrastructure (DPI) Scale:** Core pillars including Aadhaar (1.44+ billion issued), Direct Benefit Transfers (over Rs.52 lakh crore disbursed across 318 schemes), and UPI (handling 85% of India's digital payments) have established a robust citizen service delivery mechanism.
- **Digital Skilling & Entrepreneurship:** Initiatives such as PMGDISHA (6.39+ crore trained), FutureSkills Prime, and software technology parks in Tier 2 and Tier 3 cities foster localized tech innovation and employment.
- **Comprehensive Cybersecurity Architecture:** Institutional safeguards like CERT-In, NCIIPC under Section 70A of the IT Act, NCCC, and the Indian Cybercrime Coordination Centre (I4C) actively coordinate and mitigate digital threats.
- **Data Protection & AI Mission:** The Digital Personal Data Protection Act, 2023 along with its 2025 Rules, combined with the Rs.10,371.92 crore IndiaAI Mission, establishes rigorous sovereign data governance and indigenous AI capabilities.

Essential Definitions

- **Digital Public Infrastructure (DPI):** Secure, interoperable digital systems—such as identity, payments, and data exchange platforms—built on open standards to deliver public and private services.
- **Botnet Cleaning and Malware Analysis Centre (Cyber Swachhta Kendra):** A citizen-centric facility operated by CERT-In to detect malicious programs, botnets, and provide free removal tools.
- **Data Principal:** Under the Digital Personal Data Protection Act, the individual to whom the personal data relates.

Legal and Constitutional Framework

- **Information Technology Act, 2000:** Statutory legislation providing legal recognition for electronic transactions, defining cyber offenses, and establishing key operational agencies like CERT-In (Section 70B) and NCIIPC (Section 70A).
- **Digital Personal Data Protection Act, 2023:** Comprehensive legislation regulating digital personal data processing, balancing individual privacy rights with lawful data usage requirements.
- **Entry 31 of List I (Union List):** Empowers Parliament to legislate on posts and telegraphs, telephones, wireless, broadcasting, and other like forms of communication, serving as the constitutional backing for digital infrastructure.

Conclusion

The convergence of expanding digital connectivity, robust DPI, advanced cybersecurity mechanisms, and forward-looking frameworks like the DPDP Act and IndiaAI Mission positions India as a global leader in inclusive digital transformation. Ensuring a safe, trusted, and accountable cyberspace remains pivotal for sustainable socio-economic development.

UPSC Relevance

This topic is highly critical for the UPSC Civil Services Examination under General Studies Paper 2 (Governance, E-governance applications, models, successes, limitations, and potential) and General Studies Paper 3 (IT and Computers, Cybersecurity, Science and Technology-indigenous technologies, and economic growth). Aspirants must evaluate the security, developmental, and regulatory dimensions of India's digital ecosystem.

9. FCRA Amendment Bill and Civil Society Governance

Key Highlights & Summary

- **Legislative Reintroduction:** The Foreign Contribution (Regulation) Amendment Bill, re-introduced in the Lok Sabha, seeks to overhaul compliance norms governing non-governmental organizations and philanthropic inflows.
- **Centralized Bureaucratic Power:** The proposed amendments empower the designated authority to provisionally attach, seize, and manage assets of entities whose FCRA licenses are suspended or canceled.
- **Deemed Cessation Clauses:** Failure to timely submit renewal applications automatically terminates registration, freezing utilization rights over tied assets and infrastructure reserves.
- **Government Outreach:** Amidst escalating parliamentary opposition and civil society protests, the government indicated willingness to soften provisions by dropping penalizing retrospective elements.
- **Constitutional and Institutional Concerns:** Critics argue that punitive asset-vesting rules and administrative discretion disproportionately threaten healthcare, educational, and charitable trusts operating across India.

Essential Definitions

- **Foreign Contribution:** As defined under the parent Act, any donation, delivery, or transfer made by any foreign source of any article, currency, or security to Indian entities.
- **Asset Vesting:** The statutory mechanism allowing state authorities to take over, manage, or liquidate physical properties and funds of entities facing regulatory cancellation.
- **Retrospective Provision:** A legal rule that applies laws or penalties backward to actions committed before the legislation was enacted.

Legal and Constitutional Framework

- **Foreign Contribution (Regulation) Act, 2010:** The principal legislation regulating the acceptance and utilization of foreign contributions by individuals, associations, and companies to safeguard national security.
- **Article 19(1)(c):** Guarantees citizens the fundamental right to form associations or unions, which intersects with regulatory oversight on civil society funding.

- **Article 26 and Article 300A:** Freedom to manage religious affairs and constitutional protection against deprivation of property, frequently invoked in legal challenges against administrative asset seizure.

Conclusion

The proposed FCRA amendments strike a delicate balance between ensuring rigorous national security oversight and preserving the operational autonomy of legitimate civil society institutions. While regulatory transparency is vital, avoiding overreach is essential to safeguard social infrastructure funded partly by philanthropy.

UPSC Relevance

Relevant for UPSC Civil Services Examination under General Studies Paper 2 (Governance, Role of NGOs, Self-Help Groups, various agencies and institutions) and General Studies Paper 3 (Internal Security Challenges and Legal Frameworks). Aspirants must critically evaluate the friction between state regulation and civil society operations.

10. Fiscal Federalism and the Recommendations of the 16th Finance Commission

Key Highlights & Summary

- **Vertical Devolution Maintained:** The 16th Finance Commission (FC-16), chaired by Arvind Panagariya, retained the States' share in the divisible pool of central taxes at 41%, despite demands from several states to raise it to 50%.
- **Overhaul of Grants-in-Aid:** FC-16 recommends a sharp reduction in grants-in-aid to 9.47 lakh crore compared to 10.1 lakh crore under FC-15, completely eliminating Revenue Deficit Grants (RDGs) to penalize perceived fiscal imprudence.
- **Shift to Tied Incentivization:** The commission emphasizes conditional, performance-based tied grants for local governments, linking fund releases strictly to audit compliance, water, and sanitation metrics.
- **Widening Inter-State Disparities:** Reductions in grants combined with a lower weight assigned to income distance (42.5%) and a new 10% weight for GDP contribution place disproportionate fiscal pressure on structurally disadvantaged and northeastern states.

- **Cesses and Surcharges Dilemma:** While the commission advocates fiscal discipline for states through RDG removal, it refrains from recommending a binding rollback of non-shareable union cesses and surcharges.

Essential Definitions

- **Fiscal Federalism:** The financial relations and division of revenue-raising and expenditure-responsible powers between different levels of government in a federal system.
- **Divisible Pool:** The total tax collections of the central government minus cess, surcharges, and cost of collection, which is shared between the Centre and the States based on Finance Commission recommendations.

- **Revenue Deficit Grants (RDGs):** Non-plan grants provided to states under Article 275 to cover revenue account deficits after tax devolution to ensure equitable basic public service delivery.

Legal and Constitutional Framework

- **Article 280:** Mandates the constitution of a Finance Commission every five years by the President of India to recommend the distribution of tax proceeds between the Union and the States.
- **Article 275:** Empowers Parliament to provide grants-in-aid out of the Consolidated Fund of India to states that are in need of assistance, particularly for promoting the welfare of scheduled tribes or raising administration levels.
- **Seventh Schedule:** Delineates legislative powers between the Union List (List I), State List (List II), and Concurrent List (List III), forming the basis of fiscal resource allocation.

Conclusion

The recommendations of the 16th Finance Commission mark a decisive shift from need-based equalization to market-like compliance and performance incentives. While promoting fiscal discipline is crucial, dismantling revenue deficit grants without adequate compensatory mechanisms risks exacerbating horizontal disparities and straining India's cooperative federal balance.

UPSC Relevance

This topic is highly essential for the UPSC Civil Services Examination under General Studies Paper 2 (Indian Constitution—historical underpinnings, evolution, features, structure, and functioning of federalism, devolution of powers up to local levels and challenges therein) and General Studies Paper 3 (Indian Economy and issues relating to resource mobilization and fiscal policy). Aspirants must critically analyze the tension between economic efficiency and horizontal equity in fiscal federalism.