



DAILY NEWS PAPER ANALYSIS

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**CIVILS WITH AKASH
SECTOR 25 CHANDIGARH**

GDP growth estimated at 7.7% in 2025-26: govt.

Provisional estimates are slightly higher than the 7.6% growth projected in February; growth in Q4 stands at 7.8%; PM Modi says the figures show the success of reforms and the hard work of Indians

T.G.A. Sharad Raghavan
NEW DELHI

The growth in India's gross domestic product (GDP) has been estimated at 7.7% in 2025-26, according to data released by the government on Friday, compared with 7.1% in the previous financial year of 2024-25. GDP growth in the fourth quarter of 2025-26 stood at 7.8%.

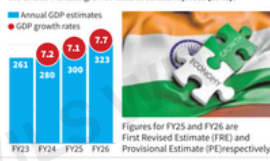
According to the data released by the Ministry of Statistics and Programme Implementation, the provisional estimates of GDP growth in 2025-26 are slightly higher than the 7.6% growth estimated in February 2026.

The data comes at a time when Reserve Bank of India (RBI) Governor Sanjay Malhotra, while announcing the Monetary Policy Committee's decisions, said that GDP growth for 2026-27 was expected to slow to 6.6%.

'Fair estimates' In the press conference on the GDP data, Chief Economic Advisor V. Anantha Nageswaran said that the RBI's assessment on growth and inflation "seems fair estimates" and that he didn't see the need to second-guess them. "GDP growth rate of

Stronger estimate

India's GDP is estimated to grow by 7.7% in 2025-26, slightly faster than the 7.6% estimated in February 2026. In the chart below, the bars show annual GDP estimates (in ₹ lakh crore) and the circles indicate growth rates at constant prices (in %).



7.7% in FY 2025-26 and 7.8% in Q4 of FY 2025-26 reflect the inherent strength of our economy, the success of reforms and the hard work of 140 crore Indians," Prime Minister Narendra Modi said on X following the data release.

"We shall leave no stone unturned to further 'Ease of Living,' 'Ease of Doing Business' and increase opportunities for our youth."

Finance Minister Nirmala Sitharaman, on X, emphasised that manufacturing, trade, repair, hotels, transport, communication & services related to broadcasting, storage and financial, real estate and professional services sectors hit double-digit growth at both constant and current prices in 2025-26.

Growth in 2026-27 is expected to slow due to the pressure on demand and the price levels exerted by the crisis in West Asia, economists say

Earlier this year, the government also updated the base year of the GDP data to 2022-23 and improved its methodology.

The data shows that the manufacturing sector is estimated to have grown at 10.7% in 2025-26 as compared to 9.5% in the first revised estimates for 2024-25. However, in Q4 of 2025-26, the sector grew at 7.3%, as opposed to 11.8% in the same quarter of the previous year.

The "trade, repair, hotels, transport, communication & services related to broadcasting and storage" sector similarly saw its growth estimate quicken to 11% in 2025-26 from 6.6% in 2024-25. In Q4, the sector accelerated to 12.4% from 6.2% in Q4 of 2024-25. The agriculture sector, however, is expected to see growth slowing to 3% in 2025-26 from 4.2% in the previous year, with growth in Q4 slowing to 3.6% from 3.8% in the fourth quarter of 2024-25.

Notably, the data also shows that the growth of private final consumption expenditure (PFCE) is estimated to have quickened to 7.7% in 2025-26 from 5.8% in the previous year.

Asset creation and investment, in the form of gross fixed capital formation (GFCF), is also estimated to have grown 8.2% in 2025-26 from 6.4% in 2024-25.

Looking ahead, economists across the board, however, have warned that growth in 2026-27 could slow due to the pressure on demand and price levels being exerted by the crisis in West Asia, as well as the possibility of a lower-than-normal monsoon.

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- Agriculture Growth Declined to 3% from 4.2% in the previous year.
- Highlights continued vulnerability of the farm sector.
- Risks to future growth:
 - West Asia conflict and rising crude oil prices.
 - Inflationary pressures.
 - Possibility of below-normal monsoon.
 - Global economic slowdown.

Important Exam Facts

- GDP (Gross Domestic Product): Total value of final goods and services produced within a country's geographical boundaries during a year.
- National Statistical Office (NSO) under MoSPI compiles GDP estimates.
- PFCE measures household consumption expenditure.
- GFCF measures investment in fixed assets such as machinery, infrastructure and buildings.
- Real GDP is calculated at constant prices and removes inflation effects.
- Base Year Revision helps capture structural changes in the economy and improves statistical accuracy.

Value Addition for Mains

Significance of Higher GDP Growth

- Strengthens India's position as one of the fastest-growing major economies.
- Supports employment generation through manufacturing and services.
- Enhances tax revenues and fiscal capacity.
- Encourages domestic and foreign investment.
- Improves investor confidence and economic stability.

Challenges

- Growth remains uneven across sectors.
- Agricultural slowdown can affect rural demand.
- External shocks may impact exports and investment.
- Rising crude oil prices can worsen inflation and current account deficit.
- Climate-related risks threaten agricultural productivity.

Way Forward

- Strengthen agricultural resilience through climate-smart farming.
- Sustain public capital expenditure on infrastructure.
- Promote labour-intensive manufacturing under Make in India.
- Enhance private investment through policy certainty.
- Improve logistics and ease of doing business.
- Diversify export markets and strengthen supply chains.
- Maintain macroeconomic stability through prudent fiscal and monetary policies.

KEY HIGHLIGHTS:

Context

- According to the Provisional Estimates (PE) released by the Ministry of Statistics and Programme Implementation (MoSPI), India's GDP grew by 7.7% in FY 2025-26, compared to 7.1% in FY 2024-25.
- GDP growth in Q4 (January-March 2026) stood at 7.8%.
- The estimate is higher than the earlier projection of 7.6%.
- RBI has projected GDP growth at 6.6% for FY 2026-27, indicating possible moderation in economic activity.
- The GDP series has been revised with 2022-23 as the new base year.

Key Points

Growth Drivers

- Manufacturing Sector Growth:
 - 10.7% (FY 2025-26)
 - Important indicator of industrial expansion and employment generation.
- Trade, Hotels, Transport, Communication & Storage
 - Growth: 11%
 - Reflects recovery in services and domestic economic activity.
- Private Final Consumption Expenditure (PFCE)
 - Growth: 7.7% (up from 5.8%)
 - Indicates strengthening domestic demand.
- Gross Fixed Capital Formation (GFCF)
 - Growth: 8.2% (up from 6.4%)
 - Signifies increased investment and asset creation.

Areas of Concern

India needs innovative strategies to eliminate TB

More than a century after the first tuberculosis vaccine was introduced, the world is struggling to control one of its oldest diseases. Tuberculosis (TB) continues to kill more people annually than any other infectious disease, surpassing even the COVID-19 pandemic at its peak. Yet, there is still no effective vaccine for adolescents and adults. Once exposed to *Mycobacterium tuberculosis*, individuals may get infected and remain asymptomatic for years. Others develop subclinical disease, showing minimal or no symptoms while harbouring infection. A subset progresses to active TB, which may manifest as pulmonary TB (PTB) – the infectious form that drives transmission – or as extrapulmonary TB (EPTB), which affects organs beyond the lungs and is harder to diagnose, more debilitating, and sometimes fatal.

No one-size-fits-all vaccine
With such diversity in disease pathways, expecting a single “one-shot” vaccine to prevent all forms of TB may be unrealistic. This expectation has shaped global disappointment in TB vaccine development especially since most previous trials have focused primarily on preventing pulmonary TB.

Meanwhile, the burden remains immense. In many low- and middle-income countries, TB incidence ranges between 200 and 300 per 100,000 population. Reducing this to 10-20 per 100,000 – the threshold for elimination – will require sustained effort and enormous public health investment. For India, which carries one of the world's highest TB burdens, the challenge is systemic.

India's goal of eliminating TB is ambitious and necessary. But achieving it will require a holistic approach towards all forms of disease and all age groups moving beyond the search for a perfect solution and embracing a pragmatic, pragmatic approach. As tools are discovered and tested, decisions will need to be made on their deployment.

The first layer is better detection. Advances in diagnostics, including tools for identifying subclinical TB, can help identify individuals at risk earlier. The second is preventive therapy, ensuring that those with latent infection receive treatment before progressing to active disease. The third – arguably the most complex – is vaccination. However, access to diagnosed preventive therapy remains uneven, making vaccination an especially critical pillar.

Recent findings from the ICMR published PreVenTB trial conducted by the Indian Council of Medical Research (ICMR) provide such an opportunity. Conducted across 18 sites in India and involving more than 12,700 household contacts of TB patients, the trial evaluated VPM1002 developed by SIIPI, and Immuvac developed by Cadila, in a real-world, high-risk population aged six years and above, including



Balram Bhargava

Former Director General, Indian Council of Medical Research (ICMR)



Soumya Swaminathan

Former Chief Scientist of the World Health Organization (WHO)

Individuals with comorbidities and varying infection status closely reflecting real life conditions.

The trial reported efficacy of VPM1002 and Immuvac as 50.4% efficacy of VPM1002 against extrapulmonary TB (statistically significant); 64.6% efficacy of VPM1002 in children aged 6-14 years against all TB (PTB and EPTB); More than 60% efficacy of Immuvac against EPTB in children aged 6-10 years; more than 80% efficacy against progression to disease among those developing latent infection during follow up and overall 21.4% efficacy of VPM1002 against all TB (Reference: Subho Sarkar, Consultant Intervention Pulmonologist from LinkedIn). These are not trivial findings.

Extrapulmonary TB is the hidden burden of the epidemic, harder to diagnose, frequently missed, and associated with significant morbidity and mortality. A reduction of over 50% in such cases represents a meaningful clinical and public health impact, including reduced health care costs and patient suffering.

The data also highlights a strong signal in school-age children and adolescents, where efficacy exceeded 60% which is an add-on benefit of vaccination in this age group. This is particularly relevant because India currently has no structured TB vaccination strategy beyond infancy. If confirmed, this could open the door to a booster dose TB prevention strategy.

Need for nutritional support
Another important piece of evidence generated from study is the role of nutrition. Reduced efficacy was observed in individuals with low body mass index (BMI), underscoring the need for nutritional support for vaccines to work optimally in undernourished in context of broader health determinants.

From a programmatic standpoint, VPM1002 offers additional advantages. It is a single-dose vaccine based on a modified BCG platform, making it operationally simpler than multi-dose, advanced vaccines in development. In a country of India's scale, logistical simplicity is a decisive advantage. The vaccine can be manufactured at large scale and cost effectively.

TB is largely a disease of low and middle income countries (LMIC) and their governments must act proactively. Waiting for expensive solutions developed elsewhere is neither practical nor sustainable. LMICs cannot afford to wait for a silver bullet, because there is no one-stop solution for TB, especially when there are results from a Phase III trial conducted in an Indian population across all age groups (six years and above) and against all forms of TB, including PTB and EPTB. It is to be noted that no other TB vaccine trial till date has studied efficacy against EPTB and none of the currently ongoing trials worldwide has included EPTB as the efficacy end-point.

India has navigated similar public health

decisions before. TrueNat was the first 'make in India' molecular test approved and adopted by the National TB Elimination Programme before its World Health Organization pre-qualification study.

During the COVID-19 pandemic, Bharat Biotech's Covaxin was initially approved in “clinical trial mode” to enable early access while additional data continued to accumulate. That decision was driven not by perfection, but by urgency and it helped accelerate protection at a critical time.

India has also demonstrated this approach with indigenous rotavirus vaccines, which were introduced despite modest efficacy and wide confidence intervals. Since then, they have helped reduce severe disease and child mortality and have been incorporated into the national immunisation programme (Bhandari et al., The Lancet, 2016).

A smarter TB strategy
TB is, in many ways, a slow-moving pandemic. Yet, it has not always been met with the same urgency in policy action. The policy question, therefore, is how innovations, including moderately effective vaccines such as VPM1002 and Immuvac, can be intelligently integrated into the TB elimination programme. Targeted use among household contacts, deployment in school-age children, and alignment with nutrition and preventive therapy programmes could together lead to a more effective TB control framework. A combination of vaccines effective across different indications and age groups may be needed to have an impact.

India's TB challenge is unlikely to be solved by a single breakthrough. It will require a combination of early detection, preventive treatment, targeted vaccination against both pulmonary and extrapulmonary TB, case-based clinical management, nutritional supplementation, and sustained public health investment.

Waiting for a perfect vaccine may delay progress indefinitely, especially when no trial other than the PreVenTB trial has evaluated vaccine efficacy against both pulmonary and extrapulmonary TB in individuals aged six years and above. In contrast, deploying tools that reduce severe disease, particularly EPTB, can deliver immediate and tangible benefits.

The PreVenTB trial is comprehensive, well-designed and well-conducted, offering a meaningful signal – perhaps a light at the end of the tunnel in TB vaccine development. Given the urgency of the challenge and the limited time to act, we must focus on solutions that are available today and supported by robust evidence of efficacy against both PTB and EPTB in individuals aged six years and above under real-world conditions, rather than wait indefinitely in the hope that better options may emerge in the future – an outcome that is far from certain.

• 64.6% efficacy against all forms of TB in children (6–14 years).

• 21.4% efficacy against overall TB disease.

Immuvac

• >60% efficacy against EPTB in children (6–10 years).

• >60% efficacy against progression from latent infection to active disease.

Significance

• First major evidence for vaccine protection against Extrapulmonary TB.

• Supports targeted vaccination of:

- Household contacts.
- School-age children.
- High-risk populations.

Operational Advantage of VPM1002

- Single-dose vaccine.
- Based on modified BCG platform.
- Easier large-scale deployment.
- Cost-effective for public health programmes.

KEY HIGHLIGHTS:

Context

- The PreVenTB Phase III Trial conducted by the Indian Council of Medical Research (ICMR) evaluated two indigenous TB vaccine candidates—VPM1002 and Immuvac.
- The trial involved over 12,700 household contacts of TB patients across 18 sites in India.
- Unlike most previous TB vaccine trials, it assessed efficacy against both Pulmonary Tuberculosis (PTB) and Extrapulmonary Tuberculosis (EPTB).
- The findings are important for India's target of eliminating TB by 2025 under the National TB Elimination Programme (NTEP).

Key Points

Tuberculosis (TB)

- Caused by *Mycobacterium tuberculosis*.
- Airborne infectious disease.
- India accounts for the highest TB burden globally.
- WHO declared TB a global public health emergency in 1993.

Types of TB

- Latent TB Infection (LTBI): Infected but asymptomatic.
- Pulmonary TB (PTB): Affects lungs; major source of transmission.
- Extrapulmonary TB (EPTB): Affects lymph nodes, bones, brain, kidneys, etc.; difficult to diagnose.

PreVenTB Trial Findings

VPM1002

- 50.4% efficacy against EPTB.

Static Linkages

BCG Vaccine

- Developed from *Mycobacterium bovis*.
- Included under the Universal Immunization Programme (UIP).
- Provides protection mainly against severe childhood TB.
- Limited efficacy against adult pulmonary TB.

National TB Elimination Programme (NTEP)

Objectives

- Early diagnosis.
- Universal drug susceptibility testing.
- Free treatment.
- Nutritional support.
- TB elimination by 2025.

Nikshay Poshan Yojana

- Direct Benefit Transfer for nutritional support of TB patients.

WHO End TB Strategy

Targets by 2035

- 95% reduction in TB deaths.
- 90% reduction in TB incidence.
- Zero catastrophic expenditure due to TB.

Critical Analysis

Opportunities

- Provides indigenous evidence for TB vaccine deployment.
- Addresses neglected burden of EPTB.
- Can reduce disease burden among vulnerable populations.
- Supports India's TB elimination target.
- Complements existing interventions under NTEP.

Challenges

- Moderate efficacy against overall TB.
- Long-term protection data still needed.
- Reduced efficacy among undernourished individuals.
- Regulatory approval and large-scale financing challenges.
- Vaccine alone cannot achieve TB elimination.

Way Forward

- Adopt a multi-layered TB control strategy:
 - Early diagnosis.
 - Active case finding.
 - Preventive therapy.
 - Targeted vaccination.
 - Nutritional support.
- Prioritize vaccination of:
 - Household contacts.
 - Children and adolescents.
 - High-risk groups.
- Strengthen:
 - Nikshay Poshan Yojana.
 - Molecular diagnostics (TrueNat, CBNAAT).
 - Surveillance and follow-up systems.
- Promote indigenous vaccine innovation through public-private partnerships.

Rubio fails to win India back for Washington

For nearly a year, strategic experts in India and the United States have warned that worsening bilateral ties could damage a partnership that former U.S. President Joe Biden called the most consequential of the 21st century. They argue that India remains central to America's Indo-Pacific strategy and indispensable to its competition with China in geopolitics, technology, and securing critical supply chains.



Mustafar Khan
Professor of International Relations at the University of Delaware, a Senior Non-Resident Fellow at the Middle East Policy Council and also host of a YouTube channel on global affairs called Khanversations

Warnings from think tanks, sense of betrayal. Think tanks have also been sounding the alarm. A March 2025 report by the Center for a New American Security, titled *Repairing the Breach: Getting U.S.-India Ties Back on Track*, said bilateral ties had "stumbled badly" in the second half of 2025. It cited U.S. President Donald Trump's claims about the May 2025 India-Pakistan ceasefire and his 50% tariffs on Indian exports as the key causes of the breach in trust, and recommended urgent steps to rebuild trust and deepen cooperation.

Similarly, the Hudson Institute's "New India Conference" underscored India's importance to U.S. interests and the Indo-Pacific balance of power. By featuring RSS General Secretary Dattatreya Hosabale, it also signalled a willingness to engage Hindu nationalist groups despite concerns over their treatment of religious minorities.

This anxiety is not confined to Washington's think tanks, but also in India too. During a visit to India in January 2025, discussions at academic and policy institutions, as well as engagements with experts, diplomats and Indian foreign policy scholars, pointed to a common concern: New Delhi had lost trust in Washington. The damage was seen as not merely diplomatic or transactional, but also strategic. Many Indian experts believed that even if both sides recognised the importance of the relationship, it would take a long time to repair the trust deficit.

Three indicators came to define the deterioration in relations. The first was the growing U.S.-Pakistan strategic partnership in the

post-Operation Sindoor period. As India sought to isolate Pakistan internationally, Mr. Trump's repeated praise for Pakistani leaders and the country's role in mediating with Iran was widely seen in India as a betrayal.

The second indicator was trade. The 50% tariffs levied on India – among the highest imposed on any country – came as a shock to New Delhi. The 25% tariff penalty on India, imposed specifically for buying Russian oil, further reinforced the perception that India was being singled out and punished for no apparent reason. The third indicator was the neglect of the Quad (Australia, India, Japan and the U.S.). The absence of head-of-state summits, combined with the lack of visible enthusiasm around the Quad meetings, suggested that one of the central pillars of America's Indo-Pacific strategy had been downgraded. The Quad, and therefore India, were clearly less important to Mr. Trump's plans which now appear to be more focused on carving a more productive partnership with China.

The Rubio visit and after

U.S. Secretary of State Marco Rubio's visit to India (May 23-26, 2025) gave him a clear opportunity to address all three parameters. Unfortunately, there was hardly any progress on the pending trade deal. On top of that, Mr. Rubio essentially gaslit India by asserting in a tweet that India had committed to buying \$500 billion worth of American products over the next five years – a claim that Indian officials had disputed. The Quad Foreign Ministers' summit produced no major breakthrough and no clear announcement about when the heads of state would meet. Finally, when given an opportunity by the Indian press to criticise Pakistan for cross-border terrorism, Mr. Rubio instead chose to praise Pakistan's role in the Iran crisis.

He failed to take positions that would have reassured India that he had come to repair the relationship. Instead, the message he sent was that "America First" would be the only criterion determining U.S. choices, not any desire to repair

the U.S.-India strategic partnership.

The symbolism after Mr. Rubio's return to Washington only reinforced this conclusion. Just hours later, he participated in a public Cabinet meeting. When Mr. Trump asked him about Iran, Mr. Rubio spoke about Iran, Ebola, Cuba, Venezuela, and even his stopover in Armenia, which he described as highly successful. But he did not mention India, his meeting with Prime Minister Narendra Modi, or the Quad meeting.

Mr. Trump did not ask about India either. This amnesia is astonishing – coming just hours after a visit to one of America's most important strategic partners. Nor did Mr. Trump use his social media platforms to highlight the Quad or stress the importance of repairing U.S.-India relations. It is precisely such indicators that make policymakers in New Delhi nervous. They signal that India's strategic significance has diminished in Washington's eyes.

A partnership that still matters

There remain many strategic reasons for the U.S. and India to work together: keeping the Indo-Pacific open, sustaining a partnership between major democracies in an era of rising authoritarianism, and collaborating on technological innovation, artificial intelligence, semiconductors, defence, and energy security. These shared interests have not disappeared and may well bring the two countries back toward closer cooperation. But for now, India and the U.S. are not as closely aligned as they were a year and a half ago.

If Mr. Rubio's goal was to repair the perceived damage done to India-U.S. relations since Mr. Trump's election in 2024, he clearly failed. But if his mission was to reinforce that American foreign policy will be driven by whatever Mr. Trump defines as "America First" on any given day, then perhaps he succeeded – making clear that American national interests are now shaped less by careful strategic thinking and more by the unpredictable thought process of President Trump.

- Support for a rules-based Indo-Pacific order.
- Cooperation in critical technologies and clean energy.

Static Linkages

- Strategic Autonomy remains a core principle of India's foreign policy.
- India follows a policy of Multi-Alignment in the contemporary international order.
- Balance of Power is a key concept in international relations to prevent dominance by any single power.
- The Indo-Pacific has emerged as the centre of global economic and strategic competition.
- Sea Lanes of Communication (SLOCs) are crucial for global trade and energy flows.
- Supply Chain Resilience has become an important geopolitical objective after the COVID-19 pandemic and global conflicts.
- Strategic partnerships differ from military alliances as they do not involve collective defence obligations.

Critical Analysis

Opportunities

- Strengthening Indo-Pacific cooperation.
- Deepening technology partnerships.
- Expansion of defence industrial cooperation.
- Diversification of global supply chains away from excessive dependence on single countries.
- Collaboration in AI, semiconductors, space and clean energy.

Challenges

- Trade protectionism and tariff disputes.
- Differences over Russia-related policies.
- Divergent approaches towards Pakistan.
- Uncertainty arising from domestic political changes in major powers.
- Balancing strategic autonomy with strategic partnerships.

For India

- Avoid excessive dependence on any one major power.
- Continue issue-based partnerships.
- Strengthen indigenous technological and defence capabilities.
- Maintain strategic autonomy while expanding cooperation.

Way Forward

- Institutionalise high-level strategic dialogues.
- Resolve trade disputes through negotiations.
- Revitalise Quad cooperation.
- Expand cooperation under critical and emerging technologies initiatives.
- Enhance defence manufacturing and co-development.
- Promote trusted and resilient supply chains.
- Strengthen maritime cooperation in the Indo-Pacific.
- Preserve strategic autonomy while deepening strategic partnerships.

KEY HIGHLIGHTS:

Context

- India-U.S. relations have witnessed signs of strain during 2025-26 despite being key strategic partners in the Indo-Pacific.
- Concerns emerged following:
 - U.S. tariffs on Indian exports.
 - U.S. criticism of India's Russian oil imports.
 - Perceived improvement in U.S.-Pakistan engagement.
 - Reduced momentum in Quad-level engagement.
- Strategic experts and think tanks in both countries have highlighted the growing trust deficit and its implications for regional geopolitics.

Key Points

- India-U.S. partnership is based on shared interests in:
 - Indo-Pacific security.
 - Counter-balancing China's influence.
 - Critical and emerging technologies.
 - Semiconductor supply chains.
 - Defence cooperation.
 - Energy security.
- Major concerns in recent bilateral relations:
 - Trade disputes and tariff measures.
 - Divergence on Pakistan-related issues.
 - Differences regarding India's energy imports from Russia.
 - Perception of declining U.S. emphasis on Quad.
- Strategic significance of India for the U.S.:
 - Largest democracy.
 - Key Indo-Pacific partner.
 - Major market and technology hub.
 - Important player in resilient supply chains.
- Strategic significance of the U.S. for India:
 - Defence technology access.
 - Investment and innovation ecosystem.

Incomplete truce

Israel has to pull back troops from Lebanon for peace to take hold

The new ceasefire agreement between Israel and Lebanon could help remove a major obstacle to U.S. President Donald Trump's efforts to secure a preliminary agreement with Iran to end the war. Last week, Iran suspended talks with the U.S. in protest against Israel's escalating war in Lebanon. In April, when Mr. Trump announced an Israel-Lebanon ceasefire, he had said that Israel was "prevented" from attacking the country any longer. But Tel Aviv continued air strikes and expanded ground operations in southern Lebanon. Iran has maintained that in its April 8 ceasefire with the U.S., Washington had promised that the ceasefire would come into force on all fronts, including Lebanon. Now, after Iran paused talks with the U.S., Mr. Trump swung into action. He claimed that he had talked Israeli Prime Minister Benjamin Netanyahu out of his plans to bomb Beirut and had a conversation with Hezbollah's representatives, who agreed "not to shoot". The Israel-Lebanon ceasefire statement followed Mr. Trump's announcement. Mr. Trump's firm diplomatic intervention, which reportedly included an expletive-laden call with Mr. Netanyahu, points to the importance he gives to the diplomatic process. Before the Lebanon crisis flared up, the U.S. and Iran were negotiating a memorandum of understanding to reopen the Strait of Hormuz and remove the U.S. blockade of Iranian ports, which would set the stage for negotiations on Iran's nuclear programme.

While the ceasefire agreement is welcome, it remains fragile and incomplete, leaving the conflict's key problems unaddressed. The actual fighting in Lebanon is between Israel and Hezbollah. The Lebanese government is not a party to the conflict and Hezbollah does not report to the Lebanese army. But Hezbollah was not part of the negotiations. The ceasefire agreement requires Hezbollah to unilaterally cease attacks, but it does not ask Israel to make concessions. Hezbollah says it would stop fighting only if Israel withdraws from southern Lebanon. Israel, which has made its deepest incursions into southern Lebanon since its 2000 withdrawal, is not talking about any withdrawal plan. Israel has also broken all its ceasefire agreements in recent years. Despite a truce deal, it continues to bomb Gaza. Mr. Trump's announcement of a new ceasefire despite an existing one highlights the fragility of the truce. What he is trying to do is to bring in a stop-gap arrangement in Lebanon to push his planned deal with Iran. But for this to work, he should get firm commitments from Israel that it would not break the terms. For a lasting truce in Lebanon, Israel has to end its illegal occupation of the south and pull back its troops.

KEY HIGHLIGHTS:

Context

- A ceasefire agreement has been announced between Israel and Lebanon amid escalating tensions in West Asia.
- The development follows Iran's suspension of talks with the United States over continued Israeli military operations in Lebanon.
- The U.S. has actively mediated to prevent further escalation and revive diplomatic engagement with Iran.
- The ceasefire is being viewed as a temporary arrangement to facilitate broader negotiations concerning regional security and Iran's nuclear programme.
- However, the agreement remains fragile due to the absence of key conflict stakeholders in formal negotiations and unresolved territorial-security issues.

Key Points

About the Conflict

- The conflict is primarily between Israel and Hezbollah, a powerful Shia militant and political organization based in Lebanon.
- Hezbollah receives political and military support from Iran.
- Southern Lebanon has remained a flashpoint since Israel's withdrawal from the region in 2000.

- The current ceasefire seeks to halt hostilities but does not address core political and security disputes.

U.S. Role

- The United States is attempting to:
 - Prevent regional escalation.
 - Revive diplomatic engagement with Iran.
 - Ensure stability of global energy routes.
 - Advance discussions on Iran's nuclear programme.

Iran's Position

- Iran views developments in Lebanon as linked to broader regional security dynamics.
- It seeks assurances that ceasefire commitments apply across multiple conflict theatres in West Asia.

Significance of the Strait of Hormuz

- Connects the Persian Gulf with the Gulf of Oman and Arabian Sea.
- Handles a substantial share of global oil and LNG trade.
- Any instability in the region directly impacts global energy security and crude oil prices.

Why This Issue Matters for India?

- West Asia is a major source of India's crude oil and natural gas imports.
- Nearly 9 million Indians live and work in Gulf countries.
- Escalation may:
 - Increase oil prices.
 - Raise shipping and insurance costs.
 - Affect remittance inflows.
 - Impact India's energy security.

Prelims Facts

Hezbollah

- Founded in 1982 during the Lebanese Civil War.
- Based in Lebanon.
- Political party as well as armed militia.
- Supported by Iran.
- Considered a terrorist organization by several countries, while others recognize its political role in Lebanon.

Lebanon

- Capital: Beirut
- Currency: Lebanese Pound
- Borders: Israel and Syria
- Mediterranean coastline

Mains Enrichment

Impact of West Asian Conflicts on Global Politics

- Threat to energy security.
- Disruption of maritime trade.

- Expansion of proxy conflicts.
- Increased role of external powers such as the U.S., Iran, Russia and China.
- Humanitarian crises and displacement.

Challenges to Lasting Peace

- Presence of non-state armed groups.
- Lack of mutual trust.
- Territorial disputes.
- External intervention by regional and global powers.
- Weak enforcement mechanisms for ceasefire agreements.

Way Forward

- Inclusive dialogue involving all stakeholders.
- Strengthening UN-led diplomatic efforts.
- Respect for sovereignty and territorial integrity.
- Establishment of effective ceasefire monitoring mechanisms.
- Long-term political settlement rather than temporary ceasefire arrangements.
- Regional security architecture based on dialogue and confidence-building measures.

Between government and RBI, getting back the investor

THE MONETARY Policy Committee's second bi-monthly meeting for the year unfolded in line with our expectations, with a unanimous status quo on the policy rates and stance. The tone of the policy document was respectively bullish, amid uncertainty owing to the West Asia conflict, the potential El Niño development and sub-par monsoons.

While the committee pared its real GDP growth projection for FY2027 by 40bps to 6.6 per cent from 6.9 per cent in the previous quarter, the commentary around growth outcomes was fairly benign. This stems from expectations of a continued momentum in the second half of the year, to around the levels projected by the MPC in the fourth quarter.

Simultaneously, the MPC has raised its CPI inflation projection for FY2027 by 50bps to 5.1 per cent from 4.6 per cent earlier, and a sharp 70bps hike in the forecasts for the third and fourth quarters. The core inflation forecast has been raised by a similar 40bps to 4.7 per cent. It has stressed that inflation risks remain tilted to the upside owing to the sub-par monsoon and global supply chain risks.

The committee's CPI inflation projections are largely in line with our estimates. We agree with the upside risks and remain particularly concerned around the generalisation of food and fuel price pressures to the rest of the CPI basket.

Interestingly, unlike the usual trend of balanced risks around its projections in the past, the MPC placed upside risks to inflation and downside risks to growth for the second consecutive policy review, with the outlook being noted by unpredictable nature of the conflict, the sustained global commodity price shock and supply disruptions as well as deficient rainfall in the southwest monsoon season.

Unlike in some market participants had argued for an early rate hike on account of two factors. First, the upward revision in the CPI inflation trajectory has compressed the real policy rate, farming argu-

ments around the need for immediate rate hikes. However, the pairing of growth projections justifies a lower real policy rate, at least in the immediate term, as inflation projections remain below the upper bound of the MPC's target range of 2-6 per cent. In our view, any premature policy tightening would have only exacerbated the weakness in growth outcomes.

Nevertheless, the next move on rates is likely to be a hike, although its timing will depend on how geopolitical and macro developments, including the severity of El Niño, transmit to a generalisation of inflationary pressures. We believe that the October and December 2026 policy meetings will be likely for potential rate hike(s), after there is some clarity on the monsoon impact.

In addition to the compression in the real policy rate, the weakness in the rupee was cited as a reason for bringing forward rate hikes. The surge in energy prices in the aftermath of the West Asia crisis will undoubtedly erode India's current account deficit (CAD) materially. We project it to move from double to around 2 per cent of GDP in FY2027. While this does not seem large, financing deficits of sub-1 per cent of GDP in the past two years posed a challenge, and a drying up of capital flows, which has brought the USD/INR pair under pressure.

As anticipated, the MPC acted within its mandate, and appropriately kept the repo rate unchanged, despite the weakness in the rupee. But, alongside, the RBI governor made several announcements to attract capital flows, in line with our expectations that the RBI and not the MPC would address the issues surrounding the currency.



ADITI NAYAK

The announcements made by the RBI are aimed at incentivising more foreign capital inflows, especially in government securities (G-secs). With the Govt exempting foreign portfolio investors (FPIs) from capital gains tax on investments made in G-secs, the RBI also made a coordinated move, expanding the list of specified securities under the fully accessible route (FAR). It also removed various limits for FPIs under the general route. These moves are likely to boost demand for G-secs, suggesting favourably for bond yields, given the risks from an expected fiscal slippage. Besides, this could potentially facilitate the inclusion of Indian G-secs in the Bloomberg Bond Index, in the next round of the review due later this year.

Further, in order to support equity inflows, the RBI proposed to increase limits for investments by non-resident Indians and Overseas Citizens of India in equity instruments traded on the stock market without SEBI registration, while extending the same facility to persons resident outside India as well. The central bank has also introduced a concessional fees swap facility and a similar facility for bearing full hedging cost to authorised dealer banks for raising \$100 million to five-year foreign currency non-resident bank (FCNR(B)) deposits, along with restoring the time for realisation of export proceeds to nine months.

Subsidised hedging cost of foreign borrowings and deposits will also help in increasing inflows. This will help reverse the exodus of capital and crucially support India's balance of payments position, amid expectations of a doubling in the current account deficit.

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External Sector Challenges

- Higher crude oil prices expected to widen the Current Account Deficit (CAD).
- Increased pressure on:
 - Indian Rupee.
 - Foreign exchange reserves.
 - Balance of Payments (BoP).

RBI's Capital Flow Measures

- Expansion of Fully Accessible Route (FAR) for Government Securities.
- Relaxation of FPI investment norms.
- Measures to boost:
 - FCNR(B) deposits.
 - Foreign exchange inflows.
 - NRI and OCI investments.
- Objective:
 - Stabilize rupee.
 - Improve capital inflows.
 - Support external sector stability.

KEY HIGHLIGHTS:

Context of the News

- The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) kept the repo rate unchanged while maintaining a cautious stance.
- RBI revised:
 - GDP Growth Forecast (FY 2026-27): 6.9% → 6.6%
 - CPI Inflation Forecast (FY 2026-27): 4.6% → 5.1%
- The decision was influenced by:
 - West Asia conflict and rising crude oil prices.
 - El Niño conditions and concerns over deficient monsoon.
 - Global supply chain disruptions.
 - Depreciation pressure on the Indian Rupee.
- RBI simultaneously announced measures to attract foreign capital inflows and strengthen the external sector.

Key Points

Growth Concerns

- GDP growth projections lowered across all quarters of FY 2026-27.
- Risks to growth:
 - High energy prices.
 - Weak rural demand due to poor monsoon.
 - Reduced corporate profitability.
 - Possible moderation in government expenditure.

Inflation Concerns

- CPI inflation projected at 5.1%, remaining within RBI's tolerance band (2%-6%).
- Major inflationary pressures:
 - Food inflation due to deficient monsoon.
 - Fuel inflation from elevated crude oil prices.
 - Imported inflation through global commodity shocks.

Static Linkages

- Inflation Targeting Framework:
 - Introduced through amendment to RBI Act, 1934 (2016).
 - Inflation target: 4% ± 2%.
- Monetary Policy Committee:
 - 6 members.
 - Determines policy repo rate.
 - Mandated to maintain price stability while supporting growth.
- Repo Rate:
 - Rate at which RBI lends to commercial banks.
- Current Account Deficit (CAD):
 - Excess of imports over exports of goods and services.
- Imported Inflation:
 - Inflation caused by increase in prices of imported commodities such as crude oil.
- El Niño:
 - Climatic phenomenon associated with weaker Indian monsoon and lower agricultural output.
- Foreign Portfolio Investment (FPI):
 - Investment in financial assets without management control.
- Government Securities (G-Secs):
 - Debt instruments issued by Government of India.

Critical Analysis

Significance

- Demonstrates RBI's balancing act between:
 - Controlling inflation.
 - Supporting economic growth.

- Avoids premature monetary tightening during growth slowdown.
- Strengthens resilience of India's external sector through capital inflow measures.

Challenges

- Persistent crude oil shocks may worsen inflation and CAD.
- Deficient monsoon can aggravate food inflation and weaken rural demand.
- Dependence on volatile portfolio flows increases external vulnerability.
- Rupee depreciation may further raise imported inflation.

Stakeholder Impact

- Farmers: Vulnerable to monsoon uncertainties.
- Consumers: Face higher food and fuel prices.
- Industry: Benefits from unchanged interest rates.
- Government: Faces pressure on fiscal management and subsidy expenditure.

Way Forward

- Strengthen agricultural resilience through climate-smart farming.
- Diversify energy sources and reduce oil import dependence.
- Enhance food supply-chain efficiency to control inflation.
- Continue fiscal consolidation while protecting productive capital expenditure.
- Promote stable long-term FDI over short-term portfolio flows.
- Strengthen forex reserves and external sector buffers.
- Deepen domestic bond markets to reduce dependence on foreign capital.

Rates on hold, focus on bringing foreign capital

THE JUNE meeting of the RBI's Monetary Policy Committee was held against a challenging economic backdrop. Inflationary pressures have been building up, capital has been flowing out, the rupee is under pressure, and the underlying growth momentum remains unpredictable. The MPC, however, despite suggestions to the contrary, chose to keep interest rates unchanged at 5.25 per cent — rightly so — and also continued with the neutral stance. The continuing uncertainty over the conflict in West Asia and its spillover effects on growth and inflation call for a wait-and-watch approach.

On inflation, there is cause for concern. Headline retail inflation stood at 3.5 per cent in April. However, prices at the pump were raised in May. Price pressures are also being felt across various segments and the second-round effects of higher input costs will soon begin to show. The central bank has already raised its inflation forecast for the year to 5.1 per cent, up from the 4.6 per cent estimated in its April meeting. Food inflation is also a concern with a subnormal monsoon forecast and El Niño. All this implies that inflation is edging upwards at a time when growth appears to be slowing down — the central bank has projected GDP growth at 6.6 per cent for the year, down from its earlier estimate of 6.9 per cent. There are also downside risks to growth.

Alongside the policy, the government and the central bank announced several measures aimed at attracting foreign capital and easing pressure on the currency. The Centre has done away with the capital gains tax on FII investments in government bonds, and the withholding tax on their interest income. Alongside, the RBI has expanded the universe of government securities that fall under the fully accessible route. These moves could affect demand for government securities and there are implications for bond yields. The central bank has also provided a concessional forex swap facility to incentivise external commercial borrowings, and a similar facility for bearing the hedging cost to banks for raising FCNR (B) deposits. All these are steps in the right direction. Considering that foreign investors have taken out \$28.6 billion from equity markets so far this calendar year and net FDI stood at just \$7.65 billion in 2025-26, measures are needed to attract foreign capital.

KEY HIGHLIGHTS:

Context

- The RBI's Monetary Policy Committee (MPC) kept the repo rate unchanged at 5.25% and retained the neutral stance.
- The decision was taken amid rising inflation concerns, uncertainty due to the West Asia conflict, possible El Niño conditions, and pressure on the rupee from capital outflows.
- RBI revised its projections:
 - Inflation: 5.1% (up from 4.6%)
 - GDP Growth: 6.6% (down from 6.9%)

Key Points

- Inflation risks have increased due to:
 - Rising fuel prices.
 - Global geopolitical tensions.
 - Possibility of a sub-normal monsoon and food inflation.
- Growth concerns persist due to slowing global demand and economic uncertainty.
- To attract foreign capital and support the rupee:
 - Tax concessions were provided for foreign investors in government bonds.
 - RBI expanded the Fully Accessible Route (FAR) for government securities.
 - Concessional forex swap facilities were announced for External Commercial Borrowings (ECBs) and FCNR(B) deposits.
- The measures aim to improve capital inflows, strengthen external sector stability, and moderate pressure on the currency.

Static Linkages

- Inflation Targeting Framework under the RBI Act:
 - Target inflation: $4\% \pm 2\%$
- Monetary Policy Committee:
 - Six-member body responsible for setting policy rates.
- Monetary policy instruments:
 - Repo Rate
 - Standing Deposit Facility (SDF)
 - Cash Reserve Ratio (CRR)
 - Open Market Operations (OMO)
- Difference between:
 - FDI and FPI
 - Internal and external sources of capital
- Impact of El Niño on agriculture, food production, and inflation.

Critical Analysis

Positives

- Status quo on rates supports growth amid a slowing economy.
- Neutral stance provides flexibility for future policy action.
- Measures to attract foreign capital can support the rupee and foreign exchange reserves.
- Expansion of FAR may deepen India's government bond market.

Challenges

- Inflation is projected to move closer to the upper tolerance band.
- Rising fuel prices may create second-round inflationary effects.
- Weak monsoon conditions could increase food inflation.
- Continued reliance on foreign portfolio flows exposes the economy to external shocks.
- Lower GDP growth projections indicate moderation in economic momentum.

Way Forward

- Continue a data-driven and flexible monetary policy approach.
- Strengthen food supply chains to contain food inflation.
- Promote climate-resilient agriculture to reduce monsoon dependence.
- Focus on attracting stable long-term FDI rather than volatile portfolio investments.
- Maintain adequate foreign exchange reserves and external sector resilience.
- Improve investment climate through structural and regulatory reforms.

Impunity for exam leaks undermines trust

IN THE past two decades, India's examination ecosystem has been repeatedly hit by paper leaks, cheating rackets and administrative breakdowns. School-leaving examinations, admission tests to engineering and medical institutions, and recruitment exams for teachers, police constables, railway staff and government officials have become embroiled in controversies. Revelations of malpractice often lead to the cancellation or postponement of examinations, adversely affecting candidates' careers. The first step towards restoring the sanctity of admission and recruitment procedures should be to identify the chinks in the system and nab the people who exploit them by running cheating operations. However, an investigation by this newspaper shows that the government and the criminal justice system have been extremely tardy in fixing accountability. The figures reveal a shocking state of laxity: The accused were convicted in only two of 45 paper-leak cases between 2002 and 2025. Of the 1,658 arrested, only 925 — about 55 per cent — were charge-sheeted. Such impunity raises troubling questions about the state's commitment to restoring the integrity of the examinations that shape the future of millions.

For a rapidly growing aspirational class, competitive examinations are a gateway to higher education, employment, social mobility and financial security. As the paper's investigation shows, more than 3.86 crore people had enrolled for the examinations that were cancelled in the past 23 years. Such high-stakes exercises require law-enforcement agencies to be especially vigilant against the paper mafia. However, as early investigations into the failure of this year's NEET examinations indicate, these agencies do not seem to be adequately prepared to mitigate the vulnerabilities created by the outsourcing of logistical functions, the proliferation of private testing agencies and the emergence of sophisticated coaching networks. Investigators have alleged the involvement of individuals connected to translation and paper preparation functions. Pursuing investigations to their logical conclusion could provide clues about the workings of illicit networks, aid in devising a robust deterrence mechanism and help identify systemic weaknesses.

In a young country, competitive tests embody the promise that educational and career advancement are determined by merit rather than by privilege or corruption. Repeated exam fiascos and negligible conviction rates weaken trust in the country's institutions. It's high time the government learned its lessons.

KEY HIGHLIGHTS:

Context

- An investigation into examination paper leak cases revealed that between 2002 and 2025, only 2 out of 45 cases resulted in conviction.
- More than 3.86 crore candidates were affected by cancelled or postponed examinations due to paper leaks and malpractice.
- Recent controversies, including recruitment and entrance examinations, have highlighted weaknesses in India's examination and recruitment system.

Key Points for UPSC

- Low conviction rates weaken deterrence against organized examination fraud.
- Paper leaks undermine the principles of meritocracy, fairness and equal opportunity.
- Delayed investigations and prosecutions reduce public trust in institutions.
- Vulnerabilities exist in:
 - Question paper preparation and translation.
 - Printing and transportation processes.
 - Examination centres.
 - Outsourced testing and logistical services.
- Repeated examination cancellations lead to:
 - Delays in recruitment.
 - Financial and psychological burden on aspirants.
 - Reduced faith in public institutions.

Public Examinations (Prevention of Unfair Means) Act, 2024

- Enacted to curb unfair means in public examinations.
- Covers examinations conducted by agencies such as:
 - UPSC
 - SSC
 - NTA
 - RRBs
 - IBPS
- Provides penalties for paper leaks, impersonation and organized cheating.

Static Linkages

- Article 14 – Equality before law.
- Article 16 – Equality of opportunity in public employment.
- Rule of Law and accountability in governance.
- Merit-based recruitment as a feature of an efficient civil service.
- Recommendations of the Second Administrative Reforms Commission (ARC) regarding ethics and integrity in public administration.
- E-governance and digitalization for reducing corruption and discretion.

Critical Analysis

Significance

- Ensures credibility of public institutions.
- Protects merit-based selection.
- Strengthens trust in recruitment and educational systems.

Challenges

- Weak investigation and prosecution mechanisms.
- Inadequate coordination among agencies.
- Growing sophistication of cheating networks.
- Excessive dependence on outsourced examination processes.
- Lack of accountability of officials involved.

Implications

- Erosion of institutional legitimacy.
- Loss of opportunities for deserving candidates.
- Increased social frustration among youth.
- Adverse impact on governance and public service recruitment.

Way Forward

- Strict implementation of the Public Examinations (Prevention of Unfair Means) Act, 2024.
- Establish specialized units for examination fraud investigations.
- Strengthen cybersecurity and encrypted paper transmission systems.
- Conduct regular audits of testing agencies and examination centres.
- Ensure time-bound investigation and fast-track trials.
- Increase accountability of examination authorities.
- Use AI-based monitoring and data analytics to detect irregularities.
- Promote transparency throughout the examination process.