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Editorial of the Day – 03.03.2026

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1. The waning sheen- On prices, GST rationalisation (TH)

General Studies Paper- GS III (Economic Development)

Topic- Indian Economy and issues relating to planning, mobilization of resources, growth, development.

Sub-Topic- Government Budgeting; Indirect Taxes (GST); External Sector (Imports & Exchange Rate).

1. Introduction

India's GST collections in February 2026 reached a robust ₹1.83 lakh crore, marking an 8.1% year-on-year growth. While the headline numbers suggest economic buoyancy following the 2025 rate rationalization, a deeper dive reveals a significant structural shift- a growing reliance on Import Integrated GST (IGST). This growth is increasingly "mechanically inflated" by global commodity prices and currency depreciation, raising concerns about the long-term sustainability of domestic consumption-led revenue.

2. The February Surge- Key Drivers

Revenue Milestones

Collection Figure- ~₹1.83 lakh crore (up from ₹1.69 lakh crore last year).

Growth Rate- 8.1% YoY.

Catalyst- The transition to a two-tier rate structure (5% and 18%) in September 2025 boosted sales in automobiles, appliances, mobile phones, and tourism-related services by lowering taxes on consumer non-durables.

3. The "Import IGST" Phenomenon

The most critical takeaway from the recent data is the surging share of taxes collected at the border.

Surge in IGST- Import IGST grew by over 17% YoY, reaching ₹47,800 crore.

Revenue Share- It now constitutes 27% of total GST revenue (up from 24% in the previous year).

Five-Year Horizon- Collections have jumped nearly 41% compared to February 2022 levels.

Dependence Risk- Rising IGST indicates that the government's fiscal health is becoming increasingly tethered to the import bill rather than domestic value addition.

4. Macroeconomic "Inflators" of GST

Two external factors are artificially boosting the "assessable value" on which GST is levied-

A. Rupee Depreciation

1. The Rupee depreciated by 4% to 6.2% during the FY26 period.
2. Since most imports (oil, chips) are dollar-denominated, a weaker rupee increases the landing cost in rupees.

The Result- Higher rupee value of imports $\rightarrow$ Higher IGST collection, even if the volume of imports remains stagnant.

B. Global Commodity Prices & Supply Shifts

Import Concentration- Crude oil, semiconductors, copper, and aluminium account for 35% of merchandise imports.

Energy Shift- The move from discounted Russian oil back to U.S. and West Asian sources has increased the base price.

Strategic Reliance- With 90% of semiconductors being imported, any global price hike in tech components directly inflates India's tax kitty.

5. Domestic Disparities- The "Waning Sheen"

While the national average growth is 8%, the state-wise data reveals a lack of "broad-based" domestic demand-

Underperforming States- * Tamil Nadu- –6% growth (Negative)

1. West Bengal- 1% growth
2. Maharashtra- 6% (Below national average)

Inference- The "buoyancy" is localized to ports and specific sectors, suggesting that rural and regional domestic demand might be struggling to keep pace with the import-driven tax surge.

6. Key Implications & Concerns

Transmission to Prices- Higher import IGST acts as a "tax on inputs." As semiconductors and metals become costlier, manufacturers in the auto and appliance sectors may pass these costs to consumers, potentially neutralizing the benefits of the 2025 rate cuts.

Fiscal Vulnerability- A sudden drop in global oil prices or a strengthening rupee could lead to a revenue shortfall for the government.

External Sector Risk- Heavy reliance on import-linked taxes makes India's fiscal position vulnerable to geopolitical tensions and global supply chain disruptions.

7. Conclusion

The "Waning Sheen" of GST collections refers to the shift from quality growth (driven by domestic production) to quantity growth (driven by costlier imports). While the ₹1.83 lakh crore figure provides fiscal breathing room, it underscores an urgent need to strengthen the "Make in India" initiative, particularly in semiconductors and electronics, to ensure that future tax buoyancy is driven by domestic value creation rather than global inflation and currency risks.

Source- https-//www.thehindu.com/opinion/editorial/the-waning-sheen-on-prices-gst-rationalisation/article70696287.ece

"While India's GST collections in early 2026 show headline-level resilience, the rising share of Import IGST signals an increasing dependence on external factors. Analyze the structural vulnerabilities arising from this trend and evaluate its impact on the 'Make in India' initiative." (250 Words, 15 Marks)

1. Introduction

In February 2026, India's Gross GST collections reached ₹1.83 lakh crore, growing at 8.1% year-on-year. However, a significant portion of this growth is attributed to a 17.2% surge in Import IGST, which now accounts for 27% of total GST revenue. While the figures suggest fiscal strength, they highlight a growing "mechanical inflation" of revenue driven by a weakening rupee and high global commodity prices.

2. Structural Vulnerabilities- Analysis of the "Import Surge"

The buoyancy in tax collections is currently decoupled from broad-based domestic demand due to several factors-

Currency Depreciation- With the Rupee depreciating by 4–6.2% in FY26, the landing cost of dollar-denominated imports (crude oil, tech) has increased. This inflates the "assessable value" for GST without necessarily reflecting a rise in import volume.

Global Commodity Volatility- India remains heavily dependent on imports for crude oil (over 25% of total imports) and semiconductors (90% requirement). Any spike in global prices for these essentials automatically boosts tax collections, creating a "fiscal illusion" of domestic health.

Inter-State Disparity- The uneven growth (e.g., Tamil Nadu showing –6% growth) suggests that states with less "import-heavy" entry points are not seeing the same revenue buoyancy as port-centric states, pointing to a lack of uniform domestic consumption.

3. Impact on 'Make in India' and Domestic Industry

Input Cost Inflation- Since imports like copper, aluminum, and semiconductors are key inputs, a high Import IGST translates to higher production costs. This may offset the benefits of the 2025 rate rationalization (5% and 18% slabs), leading to "imported inflation."

Inverted Duty Risk- If GST on raw materials (imported) remains high due to price hikes while finished products see rate cuts, domestic manufacturers face compressed margins, discouraging local value addition.

Crowding Out Demand- Higher prices for automobiles and electronics (due to costlier components) could dampen the very domestic consumption that the 'Make in India' initiative aims to satisfy.

4. Way Forward (Elucidate)

To ensure revenue sustainability, India must transition from "Import-Led" tax growth to "Demand-Led" tax growth by-

Strengthening Domestic Value Chains- Accelerating the India Semiconductor Mission to reduce the 90% import reliance.

Enhancing Tax Elasticity- Focus on widening the domestic tax base rather than relying on the "valuation gains" from a falling rupee.

Monetary Stability- Coordination between the RBI and Finance Ministry to manage exchange rate volatility, preventing artificial inflation of the import bill.

5. Conclusion

The current growth in GST is a "double-edged sword." While it provides immediate fiscal space, it underscores India's sensitivity to global shocks. Achieving the goal of a $5 trillion economy requires a shift toward a resilient domestic manufacturing base that generates tax revenue through value creation rather than through the higher costs of foreign dependence.

Source- https://www.thehindu.com/opinion/editorial/the-waning-sheen-on-prices-gst-rationalisation/article70696287.ece

2. Navigating volatile Af-Pak belt requires Delhi to be nimble (IE)

General Studies Paper- GS II (International Relations)

Topic- India and its Neighbourhood- Relations.

Sub-Topic- Regional security, trans-border terrorism, and diplomatic recalibration in South and Central Asia.

1. Introduction

The Af-Pak belt, traditionally a zone of managed instability, has shifted into an active combat zone. In February 2026, following a surge in attacks by the Tehreek-e-Taliban Pakistan (TTP), Pakistan launched "Operation Ghazab Lil Haq" (Righteous Fury), conducting airstrikes deep into Afghan territory, including Kabul and Kandahar. This "Open War" represents a historic divorce between the Pakistani military and their former proteges, the Afghan Taliban.

2. Historical & Territorial Context

The Durand Line Dispute

Colonial Legacy- Demarcated in 1893 by Sir Mortimer Durand, the 2,640-km line divides the Pashtun heartland between Afghanistan and Pakistan.

Non-Recognition- No Afghan government, including the current Taliban regime, has ever formally recognized this line as an international border.

Fencing Friction- Pakistan's post-2017 effort to fence the border has physically split communities, leading to frequent "tearing down" of fences by Taliban fighters.

The Failure of "Strategic Depth"

Traditional Doctrine- Pakistan historically sought a "friendly" (compliant) regime in Kabul to avoid a two-front war (India on the East, hostile Afghanistan on the West).

The Boomerang Effect- Since the Taliban's 2021 takeover, Kabul has asserted a fierce nationalist identity, refusing to act as a Pakistani proxy and providing sanctuary to the TTP.

3. Key Drivers of the 2026 Conflict

The TTP Factor (Tehreek-e-Taliban Pakistan)

Safe Havens- Islamabad alleges the TTP operates freely from Afghan soil. In 2025, over 2,400 Pakistani security personnel were killed in TTP-led attacks, the highest in a decade.

Ideological Kinship- The Afghan Taliban views the TTP as "ideological brothers" and refuses to hand them over to Pakistan.

Escalation Timeline (Feb-Mar 2026)

Feb 6- A major TTP suicide bombing at a Shia Mosque in Islamabad kills 32.

Feb 22- Pakistan launches intelligence-based airstrikes in Nangarhar and Paktika provinces.

Feb 27- Pakistan formally declares "Open War" after Taliban forces captured 19 Pakistani border posts in retaliation.

4. Regional and Global Dimensions

China's CPEC Anxiety- The instability threatens the China-Pakistan Economic Corridor. Beijing, once a mediator, is increasingly wary as TTP and Baloch insurgents target Chinese interests at both ends of the corridor.

US Position- While the US has expressed support for Pakistan's right to defend itself, the cooling of India-US ties under the 2026 Trump administration has seen Washington pivot back toward a closer military embrace of Pakistan.

ISKP Threat- The Islamic State – Khorasan Province (ISKP) remains a common enemy for both the Taliban and Pakistan, yet serves as a further destabilizing third-party actor.

5. India's Strategic Recalibration

India has moved from "strategic wait-and-watch" to a Pragmatic Re-engagement model.

2026-27 Budget Boost- India increased development assistance to Afghanistan to ₹150 crore (a 27% rise), signalling a commitment to the Afghan people despite the regime's nature.

Diplomatic Upgrading- In early 2026, India upgraded its "technical mission" to a full Embassy in Kabul and accepted a Taliban-appointed Charge d'Affaires in New Delhi.

Connectivity via Chabahar- By using Iran's Chabahar Port, India has successfully bypassed Pakistan to deliver humanitarian aid (wheat, medicine), maintaining soft power without formal recognition.

The "India Factor" in Pak Narrative- Pakistan frequently accuses Kabul of becoming an "Indian proxy," a claim used by Islamabad to justify its internal security failures.

6. Strategic Options for India

Strategy	Objective
1. Nimble Diplomacy	Engage the Taliban on security (ensuring soil isn't used against India) while pushing for an inclusive government.
2. Humanitarian Soft Power	Maintain the flow of aid to build "civilizational goodwill" with the Afghan public.
3. Intelligence Vigilance	Monitor any spillover of TTP or ISKP fighters toward the Line of Control (LoC) in Kashmir.
4. Multilateral Coordination	Work with Russia, Iran, and Central Asian republics to prevent a total regional collapse.

7. Conclusion

The Af-Pak belt is no longer just a "buffer zone" but a primary theater of conflict. For India, the unraveling of the Pakistan-Taliban relationship removes the threat of a unified "Islamic front" but introduces the risk of a chaotic, failed neighbor on its western flank. India's path forward must be defined by Strategic Patience—continuing to invest in the Afghan people while maintaining a robust security posture against the fallout of a full-scale war across the Durand Line.

Source- https-//indianexpress.com/article/opinion/columns/navigating-volatile-af-pak-belt-delhi-nimble-10561779/

"The failure of Pakistan's 'Strategic Depth' doctrine and the subsequent eruption of 'open war' with the Taliban regime have significant implications for regional security. Analyze the key drivers of this conflict and critically examine India's strategic options in navigating this volatile landscape." (250 Words, 15 Marks)

1. Introduction

In February 2026, Pakistan declared a state of "open war" against Afghanistan following a series of retaliatory airstrikes on Kabul and Kandahar. This escalation from years of proxy warfare to conventional military confrontation signals the complete breakdown of the decades-long relationship between Islamabad and the Taliban, primarily over the Tehreek-e-Taliban Pakistan (TTP) and the disputed Durand Line.

2. Key Drivers of the Conflict (Analysis)

The TTP Menace- Pakistan alleges that the Afghan Taliban provides sanctuary to TTP militants, who have intensified attacks inside Pakistan (surging by 34% in 2025). The Afghan Taliban, viewing the TTP as ideological allies, refuses to extradite them.

The Durand Line Dispute- The Taliban has never recognized the 1893 colonial boundary. Frequent attempts by Pakistan to fence the border have led to violent skirmishes and a rejection of Pakistan's sovereignty over the Pashtun heartland.

Nationalist Assertion- Far from being a Pakistani proxy, the Taliban regime is asserting an independent, nationalist Afghan identity, seeking to emerge from Islamabad's shadow.

Failed "Strategic Depth"- Pakistan's historical aim to have a compliant government in Kabul to avoid a two-front war has backfired, as the Taliban now poses a greater conventional and asymmetric threat than previous democratic regimes.

3. India's Strategic Options (Critical Examination)

India's policy must transition from "strategic wait-and-watch" to a proactive, multi-layered engagement-

Pragmatic Realism with the Taliban- While not formally recognizing the regime, India should maintain its "Technical Mission" in Kabul to safeguard its $3 billion investment and prevent the use of Afghan soil by anti-India groups like LeT or JeM.

Strengthening "People-to-People" Ties- Continued humanitarian assistance (wheat, medicines, and the 2026-27 budget increase for Afghan development) preserves India's Civilizational Soft Power, ensuring long-term goodwill regardless of the regime in power.

Chabahar as a Strategic Alternative- India must double down on the Chabahar Port (Iran) to bypass the unstable Af-Pak land routes, ensuring a reliable gateway to Central Asia.

Counter-Terror Preparedness- India must remain vigilant against a "spillover effect." Instability in Pakistan could lead to desperate attempts by its military to divert attention toward the Line of Control (LoC) in Kashmir.

4. Conclusion

The "open war" in the Af-Pak belt exposes the inherent contradictions in Pakistan's use of non-state actors for state policy. For India, the unraveling of the Islamabad-Kabul axis offers a strategic opening to decouple the two neighbors. However, a "failed state" scenario in either country would be a regional disaster. India's path forward should be guided by Strategic Patience, prioritizing border security while maintaining a humanitarian footprint to ensure it remains a relevant stakeholder in Afghanistan's future.

Source- https-//indianexpress.com/article/opinion/columns/navigating-volatile-af-pak-belt-delhi-nimble-10561779/

3. Easing key bottlenecks in cities (FE)

General Studies Paper- Paper II – Governance, Constitution and Polity

Topic- Urban governance and decentralization.

Sub-Topic- Issues relating to development and management of urban infrastructure

Introduction

Delegating financial and planning power to locally elected socials can improve urban governance. India is experiencing rapid urbanisation as cities expand due to economic growth and migration. However, urban governance systems have not kept pace with this growth, resulting in problems such as congestion, poor infrastructure, waste management issues, and inadequate public services. Strengthening the institutional and financial capacity of urban local bodies is essential to address these challenges.

1. Rapid Urbanisation and Emerging Urban Challenges

1. India's urban population is expanding rapidly due to migration, economic opportunities, and demographic transition.
2. Rapid urban growth has created severe infrastructure and governance challenges in cities.
3. Problems such as traffic congestion, pollution, waste management issues, housing shortages, and inadequate public services are increasingly visible.
4. Urban expansion often occurs without adequate planning or institutional capacity, reducing the quality of urban life.

2. Governance Bottlenecks in Urban Administration

1. Urban governance in India is characterised by fragmented authority and overlapping institutions.
2. Multiple agencies—such as municipal corporations, development authorities, state departments, and parastatal bodies—share responsibilities.
3. This fragmentation leads to coordination failures, slow decision-making, and inefficient service delivery.
4. Local governments often lack the administrative autonomy required for effective urban management.

3. Weak Implementation of the 74th Constitutional Amendment

1. The 74th Constitutional Amendment Act (1992) aimed to strengthen Urban Local Bodies (ULBs) by decentralising powers and finances.
2. It recommended devolution of functions, finances, and functionaries to municipalities.
3. However, in practice many states have not fully transferred key urban functions such as urban planning, water supply, and transport to ULBs.
4. As a result, municipalities remain administratively dependent on state governments.

4. Municipal Finance Constraints

1. Indian cities have limited fiscal autonomy and weak revenue generation capacity.
2. Municipal own-source revenues typically account for only 20–40% of total municipal expenditure.
3. Property tax, one of the main municipal revenue sources, remains under-assessed and poorly collected.
4. Dependence on state transfers and grants reduces financial independence and planning capacity.

5. Institutional Issues in Urban Governance

1. In many cities, elected mayors have limited executive authority, while administrative power rests with state-appointed municipal commissioners.
2. This creates accountability gaps between elected representatives and administrative officials.
3. Lack of clear leadership weakens policy implementation and long-term planning.

6. Measures for Strengthening Urban Governance

Greater Fiscal Devolution

1. Enhance municipal revenues through property tax reforms, user charges, and innovative financing mechanisms.

Empowering Local Governments

1. Transfer planning, financial, and administrative powers to elected municipal authorities.

Institutional Integration

1. Reduce fragmentation by establishing single urban governance authorities or improved coordination mechanisms.

Technology and Data-Based Governance

1. Adoption of digital governance systems, GIS-based planning, and smart city management tools.

7. Way Forward

1. Urban governance reforms should prioritise effective decentralisation, stronger municipal finances, and institutional accountability.
2. Empowered and financially capable local governments are essential for sustainable urban development and improved quality of life in cities.

Conclusion

Improving urban governance requires greater decentralisation of powers, stronger municipal finances, and better coordination among urban institutions. Empowering local governments with adequate authority and resources will help cities manage rapid urbanisation and ensure sustainable and efficient urban development.

Practise Question

Q. Urban governance in India continues to face institutional and financial bottlenecks despite constitutional provisions for decentralisation. Examine the challenges faced by Urban Local Bodies and suggest reforms for strengthening urban governance. (250 words)

Model Answer

Introduction

Urban Local Bodies (ULBs) play a crucial role in managing urban infrastructure, service delivery, and local development. The 74th Constitutional Amendment Act (1992) aimed to strengthen urban governance through decentralisation. However, Indian cities continue to face governance and financial bottlenecks that limit the effectiveness of ULBs.

Challenges in Urban Governance

1. Limited Devolution of Powers

Many states have not fully transferred the 18 functions listed in the Twelfth Schedule to municipalities.

2. Fragmented Institutional Structure

Urban services are managed by multiple agencies, leading to coordination failures and overlapping responsibilities.

3. Weak Municipal Finance

Municipal own-source revenues remain low, with high dependence on state and central transfers.

4. Lack of Executive Authority for Elected Representatives

Municipal commissioners often hold executive powers, while elected mayors have limited administrative control.

5. Rapid Urbanisation

Increasing population pressure intensifies housing shortages, congestion, waste management problems, and infrastructure deficits.

Measures for Strengthening Urban Governance

Fiscal Empowerment

Improve property tax administration, user charges, and municipal bond financing.

Administrative Decentralisation

Transfer planning and service delivery responsibilities to ULBs.

Institutional Coordination

Establish mechanisms for better integration of urban development agencies.

Technological Reforms

Use digital governance platforms and data-driven planning tools.

Conclusion

Effective urban governance requires strong local institutions, adequate financial autonomy, and accountable leadership. Strengthening Urban Local Bodies through genuine decentralisation and fiscal reforms is essential for achieving sustainable and inclusive urban development in India.

4. The new grammar of fiscal federalism (TP)

General Studies Paper- General Studies Paper III – Indian Economy

Topic- Indian Economy and issues relating to planning, mobilization of resources, growth and development.

Sub-Topic- Fiscal federalism and intergovernmental fiscal relations.

Fiscal federalism in India defines how financial powers and resources are distributed between the Union and State governments. The Finance Commission plays a crucial role in recommending the sharing of taxes and grants to maintain balance in the federal system. Recent recommendations indicate a gradual shift towards linking fiscal transfers with performance, fiscal discipline, and governance capacity, thereby reshaping the framework of fiscal federalism.

1. Changing Approach to Fiscal Federalism

1. Earlier Finance Commissions primarily focused on equity and redistribution to reduce fiscal disparities among states.
2. Recent approaches attempt to balance equity with efficiency, recognising that economic growth and fiscal responsibility are also important.
3. This indicates a transition from purely redistributive transfers to incentive-based fiscal federalism.

2. Redistribution versus Growth Incentives

1. Traditional fiscal transfers emphasised income distance and population criteria to support poorer states.
2. New criteria increasingly incorporate economic contribution and governance performance.

3. Recognising states' role in generating national income promotes growth-oriented federal cooperation.

3. Demographic Changes and Political Economy

1. Demographic indicators such as population changes and ageing patterns influence fiscal transfer formulas.
2. States with lower population growth fear losing fiscal advantages, creating political tensions in intergovernmental relations.
3. Balancing demographic realities with equity remains a sensitive federal issue.

4. Fiscal Discipline and Public Finance Reform

1. Fiscal federalism increasingly emphasises responsible fiscal management by both the Union and States.
2. Fiscal consolidation targets and deficit management are encouraged to ensure long-term macroeconomic stability.
3. Linking transfers to fiscal discipline strengthens financial accountability and transparency.

5. Strengthening Local Governance

1. Greater emphasis is placed on fiscal decentralisation to local governments, particularly urban and rural bodies.
2. This supports improvements in public services such as sanitation, water supply, and local infrastructure.
3. Strengthening local finances enhances grassroots governance and development outcomes.

6. Implications for Cooperative Federalism

1. The evolving framework promotes cooperative and competitive federalism, where states are encouraged to improve governance and economic performance.
2. However, balancing incentives with equitable redistribution remains essential to prevent widening regional disparities.

Conclusion

India's fiscal federalism is gradually evolving from a purely redistributive system toward a performance-oriented framework that rewards growth, fiscal discipline, and governance capacity. Ensuring a balanced approach that supports both economically stronger and weaker states will be crucial for maintaining cooperative federalism and sustainable economic development.

Source-
https-//dailypioneer.com/news/the-new-grammar-of-fiscal-federalism

UPSC Mains Practice Question

Q. Fiscal federalism in India is gradually shifting from a purely redistributive approach to a framework that also rewards fiscal discipline, governance capacity, and economic performance. Examine the changing approach of Finance Commissions in shaping India's fiscal federalism. (250 words)

Model Answer

Introduction

Fiscal federalism in India governs the distribution of financial resources between the Union and the States. The Finance Commission, constituted under Article 280 of the Constitution, plays a central role in recommending tax devolution and grants. In recent years, Finance Commissions have increasingly emphasised fiscal discipline, governance efficiency, and growth incentives, reflecting an evolving framework of fiscal federalism.

Changing Approach in Fiscal Federalism

1. Shift from Pure Redistribution

1. Earlier Finance Commissions focused mainly on equity-based redistribution to support fiscally weaker states.
2. Criteria such as income distance and population were given significant weight.

2. Balancing Equity with Efficiency

1. Recent commissions have attempted to balance horizontal equity with incentives for economic performance.
2. Inclusion of indicators such as tax effort, fiscal discipline, and economic contribution encourages states to improve governance.

3. Recognition of Demographic Changes

1. Population criteria have been updated to reflect demographic changes, which has generated debate between states with varying population growth patterns.

4. Strengthening Fiscal Responsibility

1. Finance Commissions emphasise fiscal consolidation and prudent debt management for both the Union and the States.
2. Linking transfers with fiscal discipline promotes financial accountability and macroeconomic stability.

5. Greater Focus on Local Governments

1. Increased allocations for rural and urban local bodies aim to strengthen grassroots governance and improve delivery of public services.

Conclusion

The evolving framework of fiscal federalism seeks to combine equity, efficiency, and accountability in intergovernmental fiscal transfers. By rewarding fiscal discipline and governance capacity while ensuring support for weaker states, Finance Commissions play a vital role in strengthening cooperative and competitive federalism in India.

Source- https-//dailypioneer.com/news/the-new-grammar-of-fiscal-federalism