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# Daily

# **CURRENT AFFAIRS**

 February 3rd, 2026



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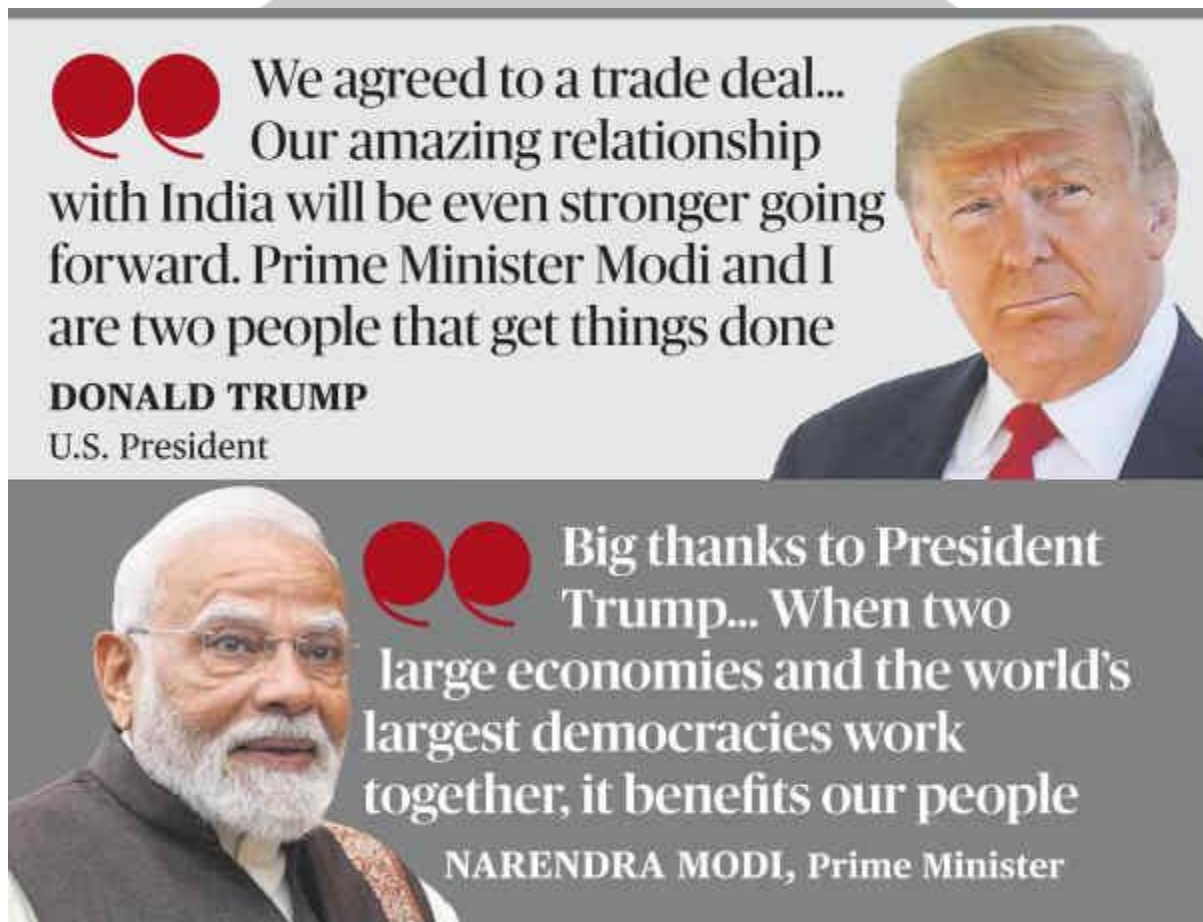
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# 1. U.S. tariff on India cut to 18%, say Modi, Trump

## Why in the News?

- The United States and India announced a major trade agreement on February 2, 2026, following a telephone call between PM Narendra Modi and U.S. President Donald Trump.
- Under this deal, the U.S. reduced reciprocal tariffs on Indian goods to 18%, down from punitive levels of around 50%.
- President Trump also said India would halt purchases of Russian oil, while India committed to lowering tariffs and non-tariff barriers on U.S. imports to zero and expand purchases of U.S. goods toward a target of \$500 billion.



## Background

### Tensions from the 2025 Tariffs

- In August 2025, the Trump administration imposed steep tariffs on Indian exports - including a 25% "reciprocal" tariff and an additional 25% penalty tied to India's continued purchase of Russian oil - pushing total duties on many goods to around 50%.
- These punitive measures strained economic ties, as the U.S. is one of India's largest export markets, and led to calls for retaliation and domestic criticism in both countries.

### Strategic Context

- India and the U.S. have cooperated on trade and strategic issues, but lacked a comprehensive trade deal. The tariff standoff became part of broader diplomatic friction touching on energy policy, supply chains, and geopolitical alignment.

## Features

### Tariff Reduction

- The U.S. will cut tariffs on Indian goods from around 50% (combined reciprocal + penalty) to 18%, significantly improving India's competitive position in the U.S. market.

### Trade Barrier Commitments

- India will move toward reducing its tariffs and non-tariff barriers against U.S. products to zero, opening markets for American exporters.

### Energy and Purchase Targets

- The U.S. claims India has agreed to stop buying Russian oil and substantially increase purchases of U.S. energy and goods (up to ~\$500 billion).

## Challenges

### Clarity and Implementation

- At the time of announcement, official details remain sparse - such as implementation timelines, specific product coverage, and formal ratification processes by regulatory bodies.

### Domestic Criticism

- In India, some political figures see aspects of the terms - especially the Russian oil issue - as a surrender of strategic autonomy. In the U.S., some business groups cautioned that benefits depend on actual implementation and regulatory certainty.

### Global Trade Dynamics

- Competing trade agreements (e.g., India-EU "mother of all deals", India-EFTA, etc.) mean India must balance multiple trade relationships, which complicates alignment of tariff policies and export strategies.

## Way Forward

### Implementation and Monitoring

- Governments in both countries will need to formalise the tariff schedule, publish legal notices, and set clear start dates for tariff changes.

### Sectoral Engagement

- Industry groups - especially textiles, auto parts, pharmaceuticals, and technology sectors - will need to adjust supply chains and investment plans to capitalise on reduced tariffs.

### Broader Trade Integration

- This deal could be a building block for deeper bilateral economic cooperation, potentially widening to include intellectual property, agricultural standards, and investment protections.

## Conclusion

The U.S.–India tariff agreement marks a significant pivot in bilateral economic relations, easing a tariff dispute that had escalated in 2025 and establishing a framework for expanded trade

cooperation. While the 18% tariff on Indian exports to the U.S. is substantially lower than previous punitive levels, the impact will depend on official implementation, clear timelines, and sectoral responses.

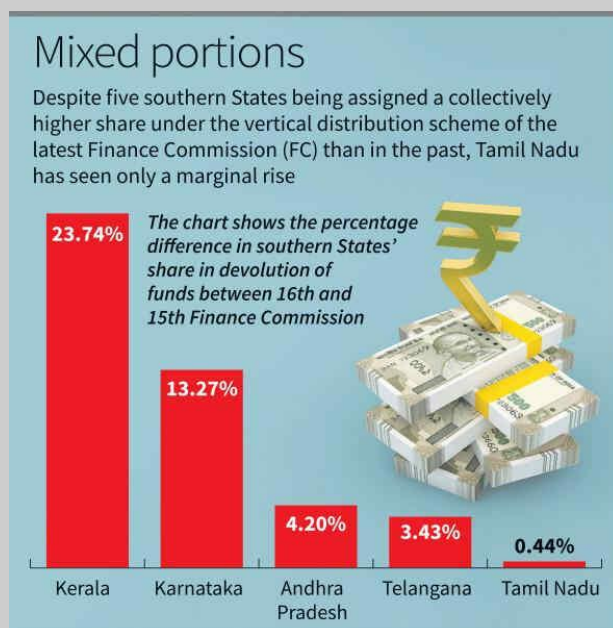
## 2. Rise in southern States' share of funds gives no relief to T.N.

### Why in the News?

The recommendations of the Sixteenth Finance Commission of India have triggered debate in southern India, particularly in Tamil Nadu, after the State's share in tax devolution rose only marginally - from 4.079% (15th FC) to 4.097% (16th FC).

Despite an overall increase in the southern States' collective share, experts argue that Tamil Nadu has received "virtually nothing extra," raising fresh concerns about fiscal fairness, population-based criteria, and the Union-State financial relationship.

This comes amid a long-running political and economic debate over whether high-performing States are being penalised under India's fiscal federal structure.



### Background

#### Role of the Finance Commission

The Finance Commission of India is a constitutional body under Article 280 that **recommends:**

- Distribution of tax revenue between the Centre and States (vertical devolution)
- Distribution among States (horizontal devolution)
- Grants-in-aid
- Disaster management funding

#### Every Commission revises formula weights to balance:

- Equity (help poorer States)

- Efficiency (reward fiscal performance)
- Demographic change
- Development needs

## Long-standing North–South Fiscal Debate

Southern States such as Tamil Nadu, Kerala, Karnataka, Andhra Pradesh, and Telangana have historically:

- Achieved lower population growth
- Improved tax compliance
- Built stronger welfare delivery systems
- Contributed disproportionately to the national GDP

However, formulae that heavily weight population tend to benefit more populous northern States like Uttar Pradesh and Bihar. Southern States argue this penalises demographic success and fiscal discipline.

## Features

### Marginal rise for Tamil Nadu

- Tamil Nadu share: 4.079% → 4.097%
- Increase rate: only 0.44%
- Kerala and Karnataka saw double-digit increases
- Telangana and Andhra Pradesh saw moderate increases

Experts describe Tamil Nadu's gain as statistically insignificant.

### Change in criteria weights

#### Important shifts include:

- Population weight increased (15% → 17.5%)
- Tax effort criterion removed
- Weights reduced for:
  - Area
  - Demographic performance
  - Per-capita GSDP

A new criterion: Contribution to GDP

Experts say without the GDP criterion, Tamil Nadu's share may have fallen.

### Vertical redistribution effect

- The South's higher share appears to come from a reduction in allocation to some northern States, whose combined share dropped from 51.2% to 49.93%.

### Revenue deficit grants discontinued.

- Tamil Nadu, Kerala, and Andhra Pradesh supported the continuation of revenue deficit grants.

The Commission recommended ending them, affecting fiscally stressed States.

## Subsidy analysis

### The Commission highlighted:

- Tamil Nadu had the highest absolute subsidy level (₹78,453 crore)
- Southern States lead in digital targeting of subsidies
- IT-based beneficiary deduplication saved public funds

This recognises administrative efficiency but raises sustainability concerns.

## Challenges

## Perception of fiscal injustice

- Southern States feel:
- Population-heavy criteria punish demographic success
- Efficient tax collection is not adequately rewarded
- High contributors receive limited compensation

This risks deepening Centre–State political tensions.

## Sustainability of subsidy models

- Large subsidy commitments:
- Strain State finances
- Limit capital investment
- Increase debt burdens

Yet cutting subsidies carries political costs.

## Disaster funding gaps

- Current disaster response funds cover:
- Relief
- Temporary restoration

They do not adequately support long-term resilience infrastructure. Climate change is increasing disaster frequency in southern coastal States.

## Weak incentives for fiscal reform

- Removing the “tax effort” criterion reduces motivation for States to improve revenue mobilisation.

## Inter-State friction

- Redistribution formulas can:
- Fuel regional resentment
- Create a narrative of “productive States vs dependent States”
- Undermine cooperative federalism

## Way Forward

### Rebalance formula toward performance

- Future Commissions should:
- Restore tax effort criteria
- Reward fiscal discipline
- Include governance and service delivery metrics

Equity should not come at the cost of efficiency.

### Population adjustment reform

#### Use:

- Demographic performance indicators
- Aging population metrics
- Human capital investment

This prevents penalising States that succeeded in population control.

### Incentivise growth contribution

- Introduce stronger weightage for:

- GDP contribution
- Export performance
- Industrial output
- Tax buoyancy

This aligns fiscal rewards with economic productivity.

### Create resilience and project preparation funds.

- Adopt Tamil Nadu's model of:
- Dedicated project preparation funds
- Climate adaptation financing
- Infrastructure resilience grants

## Conclusion

The 16th Finance Commission's recommendations have revived the fundamental tension in India's fiscal federalism: how to balance equity with efficiency. Tamil Nadu's marginal gain highlights the limits of a redistribution model that leans heavily on population and equalisation. A sustainable federal framework must reward economic contribution, fiscal discipline, and governance innovation - not treat all States as identical units. India's diversity demands a formula that encourages States to perform better, not one that dampens incentives.

## 3. Activists slam allocation for rural jobs schemes

### Why in the News?

Activists and civil society groups have criticised the Union Budget's allocations for rural employment, arguing that the funding is insufficient and opaque as the government transitions from the **Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGS)** to the proposed **Viksit Bharat-Guarantee for Rozgar and Ajeevika Mission (Gramin) (VB-G RAM G)**.

### The Budget allocates:

- ₹95,692 crore for VB-G RAM G
- ₹30,000 crore for MGNREGS
- Combined rural employment outlay: ₹1.25 lakh crore

Activists claim the allocation cannot support the promised 125 days of employment, and that States are being asked to prepare budgets without clarity on cost-sharing and implementation timelines.

## Background

### What is MGNREGS?

- The MGNREGS (2005) is a rights-based welfare law guaranteeing:
- 100 days of wage employment per rural household
- Demand-driven work
- Legal entitlement to wages within 15 days
- Transparency and social audit provisions

## It is considered one of the world's largest public employment programmes and serves as:

- A safety net during agrarian distress
- A rural consumption stabiliser
- A migration buffer
- A climate resilience tool via asset creation



### Proposed shift to VB-G RAM G

- The new framework claims to:
- Expand the guarantee to 125 days
- Integrate livelihoods and rural infrastructure
- Share costs 60:40 between the Centre and the States

However, the law is yet to be formally notified, and operational guidelines remain unclear.

## Features

### Transition ambiguity

- Activists argue there is no clarity on:
- When will end
- When VB-G RAM G begins
- State-wise allocations
- Pending liabilities
- Legal continuity of worker rights

₹30,000 crore may only cover dues and near-term liabilities, leaving no operational cushion.

### Funding gap

#### Civil society estimates:

- Real cost for 125-day guarantee: ~₹3.84 lakh crore
- Centre's expected share: ~₹2.3 lakh crore
- Actual allocation: ~₹96,000 crore

This suggests funding covers only ~40% of the required spending.

### Burden shifting to States.

- States must contribute 40%, but:
- Do not know their allocations
- Cannot plan fiscal commitments
- Risk implementation paralysis

## **Transparency concerns**

- Critics highlight:
- No mention in the Budget speech
- No implementation roadmap
- No normative allocation formula
- No notification timeline
- This undermines accountability in a rights-based programme.

## **Challenges**

### **Worker insecurity**

- Millions depend on guaranteed rural employment. A poorly managed transition may cause:
- Job uncertainty
- Payment delays
- Reduced work availability
- Wage distress

### **Fiscal realism**

#### **Expanding guarantee days without proportional funding risks:**

- Scheme dilution
- Hidden rationing
- Delayed payments
- State-level fiscal stress

### **Legal ambiguity**

- MGNREGS is a statutory right. Replacing it without:
- Parliamentary clarity
- Legal continuity
- Worker safeguards

raises constitutional and governance questions.

### **Way Forward**

- Publish a formal transition roadmap
- The government should release:
- Legal timeline
- Implementation phases
- Worker protection clauses
- Payment guarantees

### **Ensure funding adequacy**

- Employment guarantees must be:
- Demand-driven
- Fully budgeted

- Shielded from arbitrary caps

### **Protect legal rights**

- Any replacement must preserve:
- Right to demand work
- Time-bound wage payments
- Social audits
- Transparency rules

### **Clarify State allocations**

- States need early disclosure of:
- Normative allocation formulas
- Cost-sharing commitments
- Operational responsibilities

### **Strengthen digital and asset focus**

- Use the transition to:
- Improve worksite management
- Create climate-resilient assets
- Link employment with livelihoods

### **Conclusion**

The controversy over rural employment funding is not just about numbers; it is about the credibility of welfare guarantees. MGNREGS is a legal safety net for India's most vulnerable households. Any transition must be transparent, adequately financed, and legally sound. Expanding the guarantee to 125 days is politically attractive, but without funding clarity, it risks becoming symbolic. Rural employment policy must balance ambition with fiscal honesty, or workers will pay the price.

## **4. External team involved in PSLV probe; next launch date in June, says Minister**

### **Why in the News?**

The Indian Space Research Organisation (ISRO) is investigating two consecutive failures of its trusted Polar Satellite Launch Vehicle (PSLV), with the Union Minister of State for Space confirming that an external third-party team is part of the probe. A fresh launch is being targeted for June, subject to technical clearance. The issue has drawn attention because PSLV has historically been India's most reliable launch vehicle, and the back-to-back failures in 2025 are rare in its operational history.



## Background

- The Indian Space Research Organisation developed the Polar Satellite Launch Vehicle (PSLV) in the 1990s as a workhorse rocket.
- PSLV has launched:
  - Earth observation satellites
  - Navigation satellites
  - Interplanetary missions such as Mars Orbiter Mission
  - Numerous commercial payloads for foreign customers
- Before the recent incidents, PSLV had built a reputation for high reliability, with over 50 successful missions.

## Recent Failures

- PSLV-C61 (May 18, 2025)  
Third stage failed to ignite → loss of EOS-09 satellite
- PSLV-C62 (January 12, 2026)  
Similar third-stage ignition failure → 16 satellites lost

The similarity in failure pattern raised concerns about systemic issues in the propulsion stage.

## Features

## PSLV as a Strategic Asset

- Four-stage launch vehicle (solid + liquid propulsion mix)
- Designed for sun-synchronous and polar orbits
- Backbone of India's:
  - Remote sensing programme
  - Defence and strategic imaging
  - Commercial launch market

## External Third-Party Review

- ISRO has brought in an independent appraisal team
- **Objective:**
  - Increase transparency
  - Restore confidence among global clients
  - Validate internal findings
- Minister emphasised this is about confidence-building, not a lack of expertise.

## Commercial Confidence Remains Intact

- No satellite customer has withdrawn launch requests
  - 18 launches planned this year, including:
    - 6 private sector payloads
    - Major international missions from Japan, the USA, and France still scheduled
- This indicates continued trust in India's launch ecosystem.

## June Launch Target

- Next PSLV mission planned after technical corrections
- Aggressive timeline suggests:
  - Rapid diagnostic capability
  - Strong institutional confidence

## Challenges

### Reliability Perception Risk

- Two consecutive failures can:
  - Affect insurance premiums
  - Raise investor concerns
  - Slow commercial contracts
- Impact India's reputation in a competitive global launch market

### Technical Root Cause Complexity

- Repeated third-stage failure suggests:
  - Possible manufacturing defect
  - Design vulnerability
  - Quality control lapses
  - Supply chain issues

Identifying a subtle systemic flaw is difficult and time-consuming.

## Private Sector Ecosystem Sensitivity

- India is promoting:
- Commercial space startups
- Private launch services
- Global partnerships

Any perception of instability could slow private sector momentum.

## Launch Schedule Pressure

- Targeting June creates pressure to:
- Fix issues quickly
- Avoid rushed certification
- Maintain safety margins

Balancing speed and safety is critical.

## Way Forward

### Institutionalised Independent Safety Audits

- Make third-party technical audits routine
- Build an external oversight framework
- Encourage peer review from international partners

### Strengthen Quality Assurance Chain

- End-to-end inspection of:
  - Vendors
  - Components
  - Assembly processes
- Digital traceability for propulsion systems

### Redundancy in Critical Stages

- Enhanced sensors in ignition systems
- Real-time failure detection
- Abort and recovery protocols

### Transparent Communication

- Publish investigation findings (non-sensitive portions)
- Regular public briefings
- Confidence-building with global customers

## Conclusion

The PSLV setbacks represent a rare but serious technical interruption in one of India's most successful space programmes. However, the decision to involve an external appraisal team signals maturity, transparency, and confidence in institutional processes. The continued trust of international customers shows that India's space credibility remains strong.

## 5. Wetlands as a national public good

### Why in the News?

World Wetlands Day 2026, observed on February 2 under the theme “Wetlands and traditional knowledge: Celebrating cultural heritage”, has renewed attention on India’s wetlands as ecological, cultural, and economic lifelines. The discussion, amplified by experts like Soumya Swaminathan, highlights the urgent need to treat wetlands not as wastelands but as national public goods essential for water security, climate resilience, biodiversity, and livelihoods. India’s rapid urbanisation, infrastructure expansion, and hydrological disruptions have intensified wetland degradation, making policy reform and community stewardship central to environmental governance.

### Background

Wetlands in India historically evolved through a blend of traditional ecological knowledge and community governance:

- Tamil Nadu’s tank irrigation (kulam) systems created cascading water networks
- Kerala’s kenis in Wayanad supported ritual and drinking water systems
- Andhra Pradesh’s wetlands sustained traditional fishing economies

### Wetlands function as:

- Natural flood buffers
- Groundwater recharge zones
- Biodiversity hotspots
- Carbon sinks
- Livelihood systems

### Policy architecture already exists:

- Wetlands (Conservation and Management) Rules, 2017
- National Plan for Conservation of Aquatic Ecosystems (NPCA)
- Coastal Regulation Zone (CRZ) framework
- Ramsar Convention on Wetlands commitments

India currently has 98 Ramsar sites, indicating global recognition but also a responsibility to ensure effective stewardship.

Despite this, India has lost nearly 40% of its wetlands in three decades, and about half of the remaining wetlands show ecological stress.

### Features

#### Ecological Infrastructure

- Wetlands act as nature-based infrastructure:
- Flood mitigation
- Water purification
- Climate adaptation buffers
- Coastal protection (mangroves, lagoons)

They provide ecosystem services that would cost billions if replicated artificially.

## **Cultural and Social Commons**

### **Wetlands are embedded in:**

- Rituals
- Traditional livelihoods
- Community identity
- Local governance systems

They represent living heritage rather than isolated ecosystems.

## **Economic Security**

### **Wetlands support:**

- Fisheries
- Agriculture
- Tourism
- Drinking water systems

Their degradation translates into hidden economic losses.

## **Disaster Risk Reduction**

Floodplains, mangroves, and urban wetlands absorb shocks from:

- Cyclones
- Floods
- Storm surges
- Extreme rainfall

They are low-cost climate insurance systems.

## **Challenges**

### **Encroachment and Land Conversion**

- Urbanisation and infrastructure expansion have erased or fragmented wetlands. Many are treated as vacant land for real estate.

### **Hydrological Disruption**

- Dams
- Channelisation
- Sand mining
- Groundwater over-extraction

These alter natural water flows, destroying wetland ecology.

### **Pollution and Eutrophication**

- Untreated sewage, industrial effluents, and agricultural runoff convert wetlands into waste sinks, collapsing biodiversity.

### **Governance Fragmentation**

- Multiple agencies manage land, water, forests, and urban planning with poor coordination, leading to policy silos.

### **Capacity Constraints**

#### **State wetland authorities often lack:**

- Technical staff
- GIS and hydrology expertise
- Enforcement capacity

- Community engagement frameworks

## Way Forward

### Watershed-Scale Governance

- Shift from isolated beautification projects to basin-wide wetland programmes integrating hydrology, land use, and biodiversity.

### Boundary Notification and Legal Protection

- Clear demarcation of wetland boundaries
- Public access to maps
- Participatory dispute resolution
- Legal buffer zones

### Treat Wastewater Before Wetland Entry

- Wetlands must not substitute for sewage treatment. Constructed wetlands can complement but not replace treatment plants.

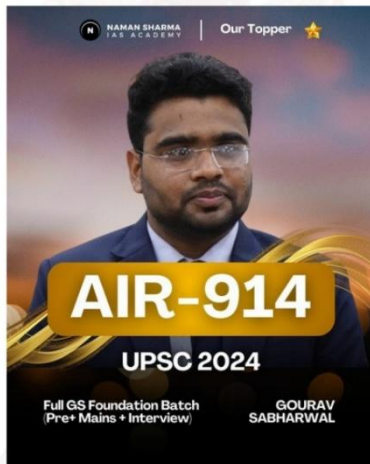
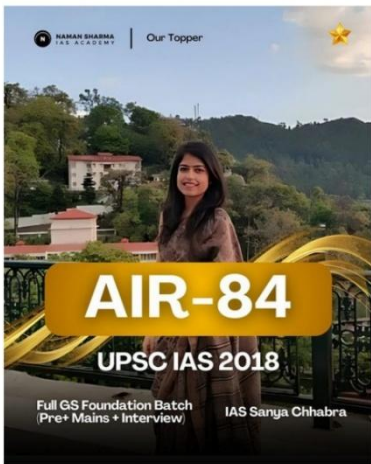
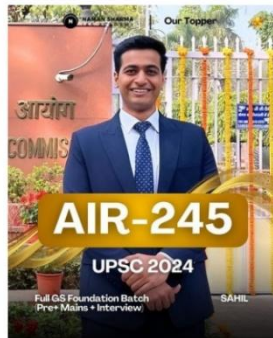
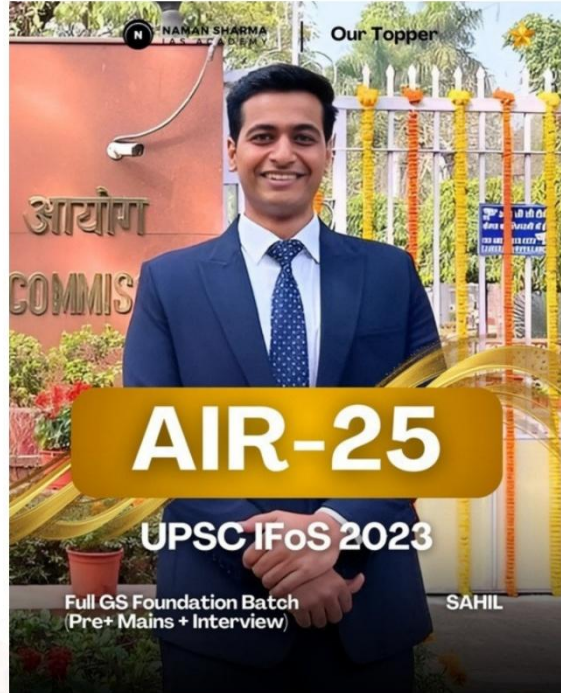
### Restore Hydrological Connectivity

- Reopen feeder channels
- Prevent blockages
- Regulate extraction
- Protect catchments

## Conclusion

Wetlands are not decorative landscapes; they are public ecological assets underpinning India's water security, disaster resilience, and cultural continuity. The real reform lies in shifting from short-term projects to long-term programmes, from cosmetic beautification to ecological functionality, and from departmental silos to watershed governance.

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