



**NAMAN SHARMA**  
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# Daily

# **CURRENT AFFAIRS**

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# 1. Israel won't hit Iran's gas facility again: Trump

## Why in the News?

The news highlights a dangerous escalation in West Asia involving direct attacks on critical energy infrastructure by Israel and Iran, with significant geopolitical and economic repercussions. Key developments include:

- **Israeli Strike:** Israel attacked Iran's South Pars gas field, a vital energy asset shared with Qatar.
- **U.S. Disavowal:** Former U.S. President Donald Trump publicly distanced the U.S. from the attack, claiming no prior knowledge, while warning Iran against further strikes on Qatari facilities.
- **Iranian Retaliation:** Iran responded by targeting energy facilities in Qatar (Ras Laffan), the UAE (Habshan), Saudi Arabia (Samref refinery), and Israel (Haifa refinery), causing extensive damage.
- **Diplomatic Fallout:** Qatar expelled Iranian military attachés, and the UAE condemned the attacks as a violation of international law.
- **Economic Shock:** Global oil prices surged, with Brent crude crossing \$115 per barrel.



## Background

- **The Shadow War:** Israel and Iran have engaged in a covert conflict for years, with cyberattacks, assassinations, and strikes on shipping, aimed at avoiding full-scale war. This event represents a breakdown of those unwritten rules.
- **Axis of Resistance:** Iran relies on proxies (Hezbollah, Hamas, Houthis) to project power. Recent conflicts involving these groups have heightened regional volatility.
- **Energy Geopolitics:** The Persian Gulf is the world's energy heartland.
  - South Pars/North Field: The world's largest natural gas field, shared by Iran and Qatar. Qatar's Ras Laffan Industrial City handles roughly 20% of global LNG exports, making it a critical node for global energy security.
  - Vulnerability: Attacks on such facilities directly impact global energy supplies and prices.

- **U.S. Role:** The U.S. has traditionally acted as the security guarantor for Gulf Arab states. The reported disconnect between the U.S. and Israel over the strike raises questions about alliance cohesion and the reliability of U.S. security commitments.
- **Recent Diplomacy:** The attacks threaten recent regional rapprochement efforts, including the Abraham Accords (Israel-UAE normalisation) and the Saudi-Iran détente brokered by China in 2023.

## Feature

- **Direct Targeting of Energy Infrastructure:** Unlike past confrontations focused on military or nuclear sites, this conflict directly targets civilian energy infrastructure—the economic backbone of the region. This represents a dangerous new threshold.
- **U.S. Position Ambiguity:** Trump’s public disavowal of Israel’s strike, contradicted by Israeli officials claiming prior U.S. knowledge, creates confusion. Simultaneously, his threat to “massively blow up” South Pars if Qatar is attacked reflects a selective deterrence approach, complicating crisis management.
- **Expansion of Conflict:** Iran’s retaliation against the UAE, Saudi Arabia, and Qatar transforms a bilateral Iran-Israel conflict into a multilateral one, directly threatening Gulf Cooperation Council (GCC) states and their critical infrastructure.

## Divergent Gulf Responses:

- **Qatar:** Took strong diplomatic action by expelling Iranian diplomats, signalling anger at being dragged into the conflict despite its traditionally mediating role.
- **UAE:** Issued a strong condemnation while stopping short of severing ties, reflecting a balance between security concerns and long-term diplomatic engagement with Iran.
- **Economic Warfare:** The surge in oil prices demonstrates the weaponisation of energy markets. Sustained attacks could cause global supply shocks, inflation, and energy insecurity for major importers like India.

## Challenge

- **Risk of Regional War:** The cycle of retaliation risks spiralling into a full-scale regional war, potentially drawing in the U.S., Iran’s proxies, and other actors, with catastrophic consequences.
- **Global Energy Security:** The Persian Gulf accounts for nearly 30% of global oil exports. Attacks on Ras Laffan (LNG), Saudi refineries, and UAE facilities threaten global energy supplies, economic stability, and India’s energy security.
- **Undermining Regional Diplomacy:** The attacks undermine the Abraham Accords and the Saudi-Iran rapprochement. Gulf states face a dilemma: balancing ties with Israel against the immediate threat of Iranian retaliation.
- **Maritime Security:** The South Pars field is adjacent to the Strait of Hormuz, through which about 20% of global oil passes. Escalation could lead to Iran disrupting this chokepoint, impacting global shipping.
- **U.S. Credibility:** Conflicting signals from the U.S. administration raise doubts about its reliability as an ally to Israel and as a security guarantor for Gulf states, potentially prompting regional states to hedge their security alignments.
- **Violation of International Law:** Attacks on civilian infrastructure raise serious concerns under International Humanitarian Law, which mandates the protection of civilian objects during conflict.

## Way Forward

- **Immediate De-escalation:** Establishing direct or indirect communication channels to prevent miscalculation. Neutral actors like Oman, Iraq, or Qatar could facilitate back-channel diplomacy to halt the cycle of retaliation.
- **Strengthening Energy Infrastructure:** Gulf states must accelerate investments in integrated air defence systems, drone defence, and cybersecurity to protect critical energy facilities. A collective GCC defence architecture could enhance resilience.
- **Reviving Regional Diplomacy:** Major powers (U.S., China, EU) must push for a comprehensive regional security dialogue that includes Iran and Gulf states, addressing mutual security concerns beyond the nuclear deal. The Shanghai Cooperation Organisation (SCO) or other multilateral platforms could be leveraged.
- **Economic Deterrence and Stability:** The international community should consider mechanisms to protect energy infrastructure as global public goods, with coordinated responses to attacks. Strategic petroleum reserves (like India's) can be used to stabilise markets during shocks.
- **India's Role:** As a major energy importer with strategic ties to Iran, Israel, and all GCC states, India can:
  - Engage diplomatically with all parties to urge restraint.
  - Protect its diaspora and energy assets in the region.
  - Utilise platforms like I2U2 (India-Israel-UAE-USA) to promote regional stability and energy security cooperation.

## Conclusion

The direct attacks on South Pars and subsequent retaliation against energy hubs across the UAE, Qatar, and Saudi Arabia represent a perilous turning point in West Asian geopolitics. The conflict has shattered the unwritten rules of engagement, targeting the region's economic lifelines and threatening global energy security. The ambiguous stance of the U.S., combined with the vulnerability of critical infrastructure, creates a volatile environment with potential for catastrophic escalation.

## 2. Stock markets crash over 3% as oil price spikes to \$114 a barrel

### Why in the News?

- **Soaring Oil Prices:** Brent crude surged to \$114 a barrel following Israeli and Iranian attacks on critical energy infrastructure in the Gulf region.
- **Rupee Depreciation:** The Indian rupee plunged to a record low of ₹92.89 against the U.S. dollar.
- **Global Monetary Policy:** The U.S. Federal Reserve signalled a hawkish stance, holding interest rates steady and indicating that persistent inflation could delay rate cuts, prompting foreign capital outflows from emerging markets like India.
- **Market Volatility:** All 21 sectoral indices declined, with Nifty Auto falling over 4%, while gold prices also tumbled 3% to \$4,650 per ounce.

## Background

- **Geopolitical Escalation in West Asia:** As detailed in the previous analysis, Israel's strike on Iran's South Pars gas field and Iran's retaliatory attacks on energy facilities in Qatar (Ras Laffan), the UAE (Habshan), Saudi Arabia (Samref), and Israel have directly threatened the region's energy infrastructure. These facilities are critical to global oil and gas supplies.
- **India's Energy Dependence:** India is the world's third-largest oil importer, sourcing approximately 85% of its crude oil requirements from imports. The West Asian region (Iraq, Saudi Arabia, UAE, Qatar) accounts for a significant share of India's oil and gas imports. Any disruption or price spike directly impacts India's current account deficit (CAD), fiscal deficit, and inflation.
- **U.S. Federal Reserve Policy:** Since 2022, the U.S. Fed has been on a monetary tightening cycle to combat inflation. Higher interest rates in the U.S. make dollar-denominated assets more attractive, leading to Foreign Portfolio Investor (FPI) outflows from emerging markets like India. The Fed's latest signal that rate cuts in 2026 are uncertain has exacerbated this trend.
- **Historical Precedent:** The current market crash is the fifth instance since 2021 where benchmark indices have fallen over 3% in a single session. Previous such episodes were often linked to global shocks (e.g., COVID-19, Russia-Ukraine war, U.S. banking crises), highlighting India's exposure to global volatility.

## Market meltdown

BSE Sensex registered a **massive 3.26% drop**. A look at commodity-wise performance



Sector	% change	Sector	% change
Auto	-4.07%	Fast Moving Consumer Goods	-2.40%
Realty	-3.79%	Healthcare	-2.34%
Finance	-3.66%	Oil and gas	-2.17%
Industrials	-3.49%	Energy	-1.73%
IT	-3.41%	Power	-1.67%
Capital goods	-2.88%		
Telecom	-2.70%		

SOURCE: BSE INDIA

## Feature

- **Geopolitical- Economic Nexus:** The crisis demonstrates the direct transmission of geopolitical conflict into economic instability. Attacks on energy infrastructure in West Asia led to an immediate spike in oil prices, which in turn triggered stock market panic, currency depreciation, and inflationary concerns in India.
- **Oil Price Shock:** Brent crude crossing \$114 per barrel represents a significant supply-side shock. For India, every \$10 increase in oil prices widens the CAD by approximately \$10-12 billion and increases inflation by 30-40 basis points.

- **Currency Depreciation:** The rupee's fall to ₹92.89 per dollar reflects a combination of dollar strength (due to Fed policy) and higher oil import bills (increasing demand for dollars). A weaker rupee further fuels imported inflation, particularly for oil and other essential commodities.
- **Capital Outflows:** The hawkish Fed stance makes U.S. treasuries more attractive, triggering FPI outflows from Indian equity and debt markets. This selling pressure exacerbates the market decline and rupee weakness, creating a vicious cycle.
- **Broad-Based Sell-off:** The decline was not sector-specific but broad-based, with all 21 sectoral indices in the red. Auto, banking, and oil-sensitive sectors were particularly hard hit, reflecting concerns over input costs, demand compression, and overall economic slowdown.
- **Safe-Haven Asset Anomaly:** Gold, traditionally a safe-haven asset, also tumbled 3%. This unusual movement indicates that investors were liquidating even traditional hedges to cover margin calls or shift to cash/dollar assets, reflecting extreme risk aversion.

## Challenge

- **Inflationary Pressures:** Higher oil prices directly increase transportation and manufacturing costs, feeding into retail and wholesale inflation. This complicates the Reserve Bank of India's (RBI) monetary policy stance, potentially delaying any rate cuts and putting pressure on growth.
- **Fiscal Deficit Management:** The government faces a dilemma: reducing excise duties on fuel to cushion consumers would widen the fiscal deficit, while maintaining duties would pass the burden to citizens and fuel inflation. The fiscal glide path committed in the Union Budget may come under pressure.
- **Current Account Deficit (CAD):** A sustained period of high oil prices worsens India's CAD, putting pressure on the balance of payments and making the economy more vulnerable to external shocks.
- **Foreign Portfolio Outflows:** Sustained FPI outflows weaken the rupee, reduce liquidity in domestic markets, and can lead to a correction in asset prices, impacting household wealth and investor sentiment.
- **Policy Dilemma for RBI:** The RBI faces a classic trade-off. Raising rates to defend the rupee and control inflation could stifle growth. Allowing depreciation could fuel imported inflation. Balancing these objectives becomes increasingly difficult in a volatile global environment.
- **Economic Growth Risks:** High oil prices act as a tax on consumers and businesses, reducing disposable income and corporate margins. This could dampen consumption and investment, slowing India's growth momentum.
- **Supply Chain Disruptions:** If the conflict escalates further and disrupts maritime routes like the Strait of Hormuz, India's energy security and broader trade flows could be severely impacted.

## Way Forward

- **Strategic Petroleum Reserves (SPR):** India should consider calibrated release from its SPR to moderate domestic prices and signal market stability.
- **Dollar Swap Arrangements:** The RBI can utilise swap arrangements with other central banks (e.g., Japan, UAE) to manage rupee volatility without excessively depleting foreign exchange reserves.
- **FPI Confidence:** The government and RBI should maintain clear communication on policy stability to reassure foreign investors. Addressing procedural friction and ensuring market depth can help retain long-term investors.

- **Fuel Duty Adjustment:** The government may consider a temporary reduction in excise duties on petrol and diesel if oil prices remain elevated, balancing fiscal prudence with inflationary concerns.

### Medium to Long-Term:

- **Energy Diversification:** Accelerate the transition to renewable energy (solar, wind, green hydrogen) to reduce dependence on imported fossil fuels. Expanding nuclear power capacity is also critical.
- **Strategic Partnerships:** Strengthen energy partnerships with diverse suppliers, including Russia (under long-term agreements), the U.S., Guyana, and African nations, to reduce over-reliance on any single region.
- **Indigenous Production:** Boost domestic oil and gas exploration under policies like the Hydrocarbon Exploration and Licensing Policy (HELP) to enhance self-reliance.
- **Internationalisation of Rupee:** Continue efforts to promote rupee trade with partner countries (UAE, Russia, etc.) to reduce dollar demand for oil imports over time.
- **Currency Resilience:** Maintain robust foreign exchange reserves (currently over \$600 billion) as a buffer against external shocks. The RBI's approach of managing volatility rather than targeting a fixed exchange rate has served well and should continue.

### Conclusion

The simultaneous crash in Indian stock markets, surge in oil prices to \$114 a barrel, and rupee depreciation to a record low underscore the profound vulnerability of emerging economies like India to external shocks. The triggering event—geopolitical escalation in West Asia targeting critical energy infrastructure—demonstrates how regional conflicts can rapidly transmit into domestic economic instability through the energy and financial channels.

## 3. Iran is creating an approval process for allowing ships through the Hormuz Strait: an intelligence firm

### Why in the News?

Iran is implementing a new, formalised approval process to control the passage of ships through the Strait of Hormuz, a critical chokepoint for global energy supplies. This has come to light due to the unusual movements of the Indian LPG carrier Shivalik, which travelled through Iranian territorial waters to receive clearance. The development highlights escalating tensions in West Asia, where the strategic waterway has become a high-stakes arena for confrontation between Iran, Israel, and the United States.

### Background

The Strait of Hormuz is the world's most important oil transit channel, through which about 20% of global petroleum consumption passes. Tensions have been simmering for years, but the current crisis escalated dramatically following Israeli strikes on Iranian gas fields at South Pars. This attack prompted Iran to tighten its control over the strait as a means of asserting sovereignty and screening vessels.

In response to the heightened risk, Iran began offering a "safe corridor" through its territorial waters. Unlike the traditional international shipping lanes, this route brings vessels close to the Iranian coast, allowing the Islamic Revolutionary Guard Corps (IRGC) Navy and port authorities to visually inspect and approve ships. Intelligence firm Lloyd's List Intelligence (LLI) reported that this system is now evolving into a formal approval process, with reports of at least one tanker being charged a fee of \$2 million for passage.

## Features

- **New Approval Process:** Iran is creating a structured system requiring ships to seek permission and traverse a specific route near the Iranian coast, often around islands like Larak Island, for visual confirmation by Iranian forces.
- **Targeted Restrictions:** Iran's Foreign Minister Abbas Araghchi stated that while the strait remains operational, Iran will not permit vessels linked to the U.S. or Israel to pass through.
- **Indian Engagement:** India has been in direct talks with Tehran regarding its stranded vessels. Officials identified 22 India-bound ships, with 20 deemed critical to energy security.
- **Operational Pause:** After the Israeli strikes on South Pars, the approval process for Indian and other ships was paused. Indian vessels stuck for over two weeks have been advised to "stay put" until the situation stabilises.

## Challenges

- **Energy Security Risk:** India, a major importer of crude and LPG, faces significant risks to its energy supply if shipping through the strait is disrupted or heavily delayed.
- **Sovereignty vs. International Law:** Iran's imposition of a unilateral approval process and the request for fees challenge the principle of innocent passage under international maritime law, potentially setting a precedent for state-controlled chokepoints.
- **Escalation of Conflict:** The process exposes vessels to proximity with Iranian military assets, making them potential pawns or targets in the broader conflict between Iran, Israel, and the U.S.



- **Logistical Gridlock:** With ships being asked to cluster together for clearance and the process being paused intermittently, there is a risk of severe logistical bottlenecks and increased shipping costs.

## Way Forward

- **Diplomatic Engagement:** India is leveraging its diplomatic channels with Tehran, as evidenced by Prime Minister Narendra Modi's conversation with President Masoud Pezeshkian, to secure the safe passage of its vessels.
- **Maritime Coordination:** Shipping companies and navies may need to establish stricter coordination with Iranian port authorities to ensure compliance with the new route requirements without compromising safety.
- **Alternative Strategies:** In the long term, nations dependent on Gulf energy may need to explore alternative supply chains, strategic petroleum reserves, or increased reliance on overland routes to mitigate vulnerability to disruptions in the Strait of Hormuz.
- **De-escalation Efforts:** The international community is likely to call for de-escalation between Israel and Iran to restore the normal flow of traffic through the strait, as a prolonged shutdown or extreme restrictions would impact global oil prices.

## Conclusion

Iran's creation of an approval process for the Strait of Hormuz represents a significant shift in maritime security dynamics in West Asia. While intended to protect Iran's coastal infrastructure and screen for hostile vessels, the move introduces new layers of bureaucracy, cost, and risk for global shipping. For countries like India, this situation underscores the delicate balance of maintaining energy security while navigating the complex geopolitical rivalries in the region. The immediate future hinges on diplomatic negotiations and the broader trajectory of the Iran-Israel conflict.

## 4. New GDP series, charting the path ahead

### Why in the News?

India has officially launched a new GDP series with the base year updated to 2022-23. Released by the Ministry of Statistics and Programme Implementation on February 27, 2026, this series addresses the long-standing demand for a more accurate reflection of the Indian economy, replacing the outdated 2011-12 base year. The release provides revised estimates for FY 2022-23, 2023-24, and 2024-25, marking a significant methodological overhaul in how India calculates its economic output.

### Background

The base year for national accounts is periodically updated to capture structural changes in the economy. The previous series (2011-12) had become outdated due to shifts in consumption patterns, the rise of the digital economy, the formalisation of the economy post-GST, and the expansion of the unincorporated sector. The new series (2022-23) incorporates more recent data sources and refined methodologies to provide a more realistic picture of the size and structure of the Indian economy.

## Features of the New Series

### Revised Economic Size

- GDP at current prices (in ₹ lakh crore) is now estimated at:
  - FY 2022-23: ₹261.18
  - FY 2023-24: ₹289.84
  - FY 2024-25: ₹318.07 (first revised estimate)
- These aggregates are 3–4% lower than earlier estimates based on the previous series, indicating a more conservative and accurate measurement.

### Sectoral Composition (FY 2024-25 at current prices)

- Primary Sector: 21.4% of Gross Value Added (GVA)
- Secondary Sector: 25.8% of GVA
- Tertiary Sector: 52.9% of GVA
- Manufacturing showed strong real GVA growth: 12.7% (2023-24) and 9.3% (2024-25).



### Expenditure Side

- Private Final Consumption Expenditure (PFCE) remained stable at around 56% of GDP during 2023-24 and 2024-25, both at current and constant prices.

### Major Methodological Refinements

Area

Refinement

Multi-activity Enterprises

GVA of non-financial private corporate enterprises is now apportioned across business activities using revenue share data (MGT 7/7A), rather than allocating the entire GVA to the major activity.

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Non-filing Companies	A separate blown-up factor at the industry × size class level (based on paid-up capital) is used to account for active companies that did not file returns.
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LLP Coverage	Limited Liability Partnerships (LLPs) are now comprehensively covered using Ministry of Corporate Affairs (MCA) data.
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Household Sector	GVA is now estimated using GVAPW (GVA per worker) from the Annual Survey of Unincorporated Sector Enterprises (ASUSE), multiplied by worker estimates from the Periodic Labour Force Survey (PLFS). Earlier, base-year estimates were extrapolated using indicators.
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Real GVA Estimation	Expanded use of double deflation and volume extrapolation methods, aligning with international guidelines.
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PFCE Benchmarking	Private consumption estimates are now more directly derived from the Household Consumption Expenditure Survey (HCES) 2022-23 for items with low income elasticity.
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## Challenges Ahead

### State-Level Allocation of Private Corporate GVA

- While national-level GVA for private corporations is robust using MCA data, allocating it across states to derive Gross State Value Added (GSVA) remains problematic.
- Previously, manufacturing GVA was allocated using Annual Survey of Industries (ASI) shares.
- Issue: The ASI frame is truncated. In 2011-12, MCA listed 135,802 manufacturing companies, but ASI covered only 67,649 factories under the corporate sector.
- Consequence: State GDP figures may not reflect reality if based on an incomplete sampling frame.

### Volatility in Household Sector Estimates

- The new method multiplies ASUSE-based GVAPW with PLFS-based worker counts.

- Observed volatility: All-India GVAPW for "manufacture of rubber and plastic products" fluctuated significantly:
  - 2021-22: ₹1,63,078
  - 2022-23: ₹2,55,447
  - 2023-24: ₹2,01,930
- Similar volatility was observed at the state level (e.g., Bihar manufacturing).
- The methodology allows the use of a three-year moving average to smooth fluctuations, but this is a post facto adjustment rather than a solution to underlying data instability.

## Way Forward

### Improving ASI Sampling Frame

- The ASI frame should be updated using MCA and GST databases to ensure comprehensive coverage of corporate sector units.
- This would enable more accurate allocation of national corporate GVA across states, improving GSDP estimates.

### Exploring Sample Surveys for Active Companies

- A properly designed sample survey of active companies could supplement administrative data and provide reliable state-level shares of GVA.

### Refining ASUSE Methodology

- To reduce volatility in GVAPW estimates, a rotating panel design with substantial sample overlap between consecutive years (similar to PLFS) could be introduced.
- This would yield more stable annual estimates and improve the reliability of household sector GVA.

## Conclusion

The new GDP series with base year 2022-23 represents a significant advancement in India's national accounts, incorporating richer data sources, modern methodologies, and better alignment with international standards. However, challenges remain, particularly in accurately allocating corporate GVA across states and stabilising household sector estimates. Addressing these through improvements in the ASI sampling frame and ASUSE survey design will be critical for further enhancing the accuracy and reliability of both GDP and GSDP estimates in the future.

## 5. AI-powered tax governance in India and its challenges

### Why in the News?

At the India AI Impact Summit in February 2026, global leaders and tech titans highlighted India's progress in applying Artificial Intelligence (AI) to real-world problems. One significant area of application is tax revenue mobilisation and governance, particularly through the Income Tax Department's (ITD) Project Insight (PI). With India facing persistent challenges of a low tax-GDP ratio and high tax evasion, the effectiveness and ethical implications of this AI-driven approach have become a subject of critical examination.

## Background

India has long struggled with a low tax-GDP ratio. During 2001-22, the average stood at 16.36%, the lowest among emerging and developing economies. Additionally, the country loses an estimated 4.3% of tax revenues annually to evasion. To address this, the ITD launched Project Insight (PI) in 2017 (fully operational by 2019) to leverage AI and data analytics for strengthening tax administration, encouraging voluntary compliance, and making enforcement fairer and more equitable.

Features of Project Insight (PI)

Project Insight operates through a three-component structure:

### Component

### Function

INTRAC (Income Tax Transaction Analysis Centre)

The analytical engine that uses AI to process financial data from banks, financial institutions, property registrations, GST payments, and high-value purchases to create a 360-degree taxpayer financial profile.

Compliance Management Centralized Processing Centre

Ensures behavioral compliance using INTRAC data. It employs a NUDGE strategy (Non-intrusive Usage of Data to Guide and Enable) through SMS/email reminders to prompt corrective action.

Taxpayer Interface

Allows taxpayers to either file revised returns or stand by their original filings after receiving nudges.

## Benefits of AI in Tax Administration

- **Accurate Risk Assessment:** AI helps identify tax evasion by detecting inconsistencies between declared income and actual financial activity.
- **Prioritisation:** Enables tax authorities to focus on high-risk, sophisticated evasion cases.
- **Automation:** Automates routine tasks, freeing up administrators for complex judgment-based work.
- **Enhanced Taxpayer Services:** AI-powered chatbots and tools assist in filing correct returns and preventing tax scams.

## Outcomes of Project Insight

### Project Insight has begun showing measurable results:

- **Revised Returns:** Since 2020-21, over 1 crore revised returns have been filed, yielding an additional ₹11,000 crore in taxes.

- **Foreign Income Campaign:** Out of 19,501 taxpayers contacted, 62% corrected their returns. 30,161 filers declared overseas assets worth ₹29,208 crore and foreign income (including crypto) of ₹1,089 crore.
- **Deduction Corrections:** A campaign covering 6.25 lakh taxpayers corrected false claims for political donation deductions, yielding ₹410 crore in additional taxes.
- **Refund Processing:** Average refund processing time dropped from 93 days to 17 days.
- **Restaurant Sales Suppression:** Using AI and big data, the ITD discovered that restaurants across India suppressed sales turnover of ₹70,000 crore since 2019-20 through sophisticated methods like selective deletion of cash invoices and manipulation of bill values.

## Challenges and Risks

### Data Provenance and Quality

- AI systems are only as reliable as the data they are trained on.
- AI can identify outliers but cannot always distinguish genuine evasion from legitimate complexity (e.g., variable-income professionals, joint family structures, clerical errors).
- Without accessible human review, taxpayers may struggle to prove the legitimacy of flagged patterns.

### Algorithmic Bias

- AI models trained on historical enforcement data can replicate existing socio-economic or geographic biases.
- This risks disproportionately targeting certain communities or regions, as seen in the Dutch childcare benefits scandal.

### Explainability and Due Process

- For legitimacy, taxpayers need transparency: why they were flagged, how data is used, and how decisions are made.
- A clear and easy mechanism to challenge decisions is essential.
- A human-in-the-loop evaluation must exist for any decision with serious consequences.

### Data Privacy and Security

- Access to sensitive financial and personal data creates a large attack surface for potential breaches and exploitation.

### Lack of Oversight Mechanisms

- India currently lacks:
  - An AI ombudsperson to review contested decisions.
  - Mandatory algorithmic impact assessments.
  - Public reporting of false-positive and appeal-success rates.
  - External audits of risk-scoring models.

## Way Forward

- **Establish an AI Ombudsperson:** An independent authority to review contested AI-driven tax decisions and ensure accountability.
- **Mandate Algorithmic Impact Assessments:** Require regular assessments to identify and mitigate biases and unintended consequences.
- **Ensure Transparency:** Publicly report key metrics such as false-positive rates, appeal success rates, and the number of human reviews conducted.

- **Conduct External Audits:** Independent audits of risk-scoring models to verify fairness and accuracy.
- **Strengthen Human Oversight:** Maintain a meaningful human-in-the-loop for decisions that carry significant financial or legal consequences for taxpayers.

## Conclusion

Project Insight represents a significant leap forward in India's tax administration, leveraging AI to enhance compliance, increase revenues, and reduce processing times. The results from revised returns to the detection of large-scale evasion demonstrate its potential. However, as India transitions to algorithmic tax governance, the risks of bias, opacity, and privacy breaches cannot be ignored. Without robust safeguards—including an AI ombudsperson, algorithmic impact assessments, and external audits—the system risks becoming a hidden surveillance mechanism that undermines taxpayer trust and fairness. India now faces a clear choice: to build a tax intelligence system that is both ethical and effective.

## 6. Modi, Jaishankar call for dialogue as strikes escalate

### Why in the News?

Prime Minister Narendra Modi and External Affairs Minister S. Jaishankar have been holding a flurry of telephone conversations with leaders across the region and beyond, while France has revealed that it is working "closely together" with India to reduce tensions. The targeting of civilian energy infrastructure has drawn sharp condemnation from New Delhi, marking a subtle shift in its diplomatic posture.



## Background

West Asia has witnessed a significant escalation since late February 2026, with Israel and Iran conducting strikes on each other's territory and on energy infrastructure across the Gulf. Key installations such as Qatar's Ras Laffan gas facility, one of the world's largest liquefied natural gas (LNG) production sites, have been hit, causing major losses. The conflict has disrupted global energy markets and poses a direct threat to India's energy security, given the region's centrality to India's oil and gas imports.

India has traditionally maintained a delicate balancing act in West Asia, engaging with all major players, including Iran, Israel, and the Gulf Cooperation Council (GCC) states, while avoiding taking sides. This crisis has tested that approach, especially as India chairs the BRICS grouping this year and seeks to navigate divergent positions among its members.

## Key Developments

### India-France Coordination

- French President Emmanuel Macron stated that India and France are "working closely together" to de-escalate tensions, following a telephone conversation with Prime Minister Modi on Thursday.
- Modi described the call as an opportunity to advance "peace and stability in the region and beyond."

### Shift in India's Public Stance

- In the past, New Delhi had condemned Iran's attacks on Gulf states but not strikes by the U.S. and Israel.
- Recently, India co-sponsored a UN Security Council resolution that condemned only Iranian strikes.
- Marked shift: The government now emphasises the need to avoid attacking civilian infrastructure "across the region," without singling out any party.
- MEA spokesperson Randhir Jaiswal stated: "Recent attacks against energy installations in different locations across this region are deeply disturbing and only serve to further destabilise an already uncertain energy scenario for the whole world."

## High-Level Diplomatic Outreach

- Prime Minister Modi has spoken to leaders across the region since February 28, including:
  - Qatar: Expressed solidarity with Sheikh Tamim bin Hamad Al Thani, strongly condemning attacks on energy infrastructure after Ras Laffan was hit.
  - Jordan, Malaysia, Oman: Engaged in calls to discuss regional stability.
  - Iran and Israel: Spoke to both sides, emphasising dialogue and diplomacy.
  - United States: Also spoke with President Donald Trump.
- External Affairs Minister S. Jaishankar:
  - Met UAE Minister of State for International Cooperation Reem Al Hashimy.
  - Spoke to Israeli Foreign Minister Gideon Saar over the telephone.

## Multilateral Groupings: BRICS vs. SCO

- India is chairing BRICS this year but has been unable to craft a consensus statement due to differences between Iran and the UAE (both members).
- In contrast, the Shanghai Cooperation Organisation (SCO)—which includes Iran but not the UAE—issued a statement on March 2 condemning the strikes on Iran as well as the ensuing conflict.
- MEA spokesperson Jaiswal explained: "BRICS membership and SCO membership are two different categories. If you look at the members, you will get an answer as to why we are having issues in forming a consensus."

## India's Diplomatic Approach

Element	Detail
Balancing Act	Engaging both Iran and Israel, as well as Gulf states, to maintain strategic ties across the region.
Energy Security Focus	Strong condemnation of attacks on energy infrastructure reflects India's vulnerability as a major importer of oil and gas from the Gulf.
Emphasis on Dialogue	Modi repeatedly called for a return to "dialogue and diplomacy" in his conversations.
Bilateral Coordination	Close coordination with France signals an effort to work with like-minded powers to push for de-escalation.

## Challenges Ahead

### Divergence Within Multilateral Forums

- India's inability to secure a BRICS consensus highlights the difficulty of managing rivalries between member states (Iran vs. UAE).
- This limits India's ability to project unified leadership through the grouping it chairs.

### Balancing Regional Relationships

- India maintains deep strategic ties with Israel (defence, technology) and Iran (Chabahar port, energy) as well as with Gulf states (trade, remittances, diaspora).
- Any perceived tilt could damage long-standing partnerships.

### Energy Security Risks

- Attacks on Ras Laffan and other installations threaten global LNG supplies.
- India, a major importer, faces potential price volatility and supply disruptions.

### Escalation Risks

- With both sides continuing strikes, the conflict shows no immediate signs of abating.
- India's call for de-escalation may have a limited impact without broader international coordination.

## Way Forward

- **Sustained Diplomatic Engagement:** India will likely continue its high-level outreach to all stakeholders, leveraging its unique position as a country with strong ties to Iran, Israel, and the Gulf states.

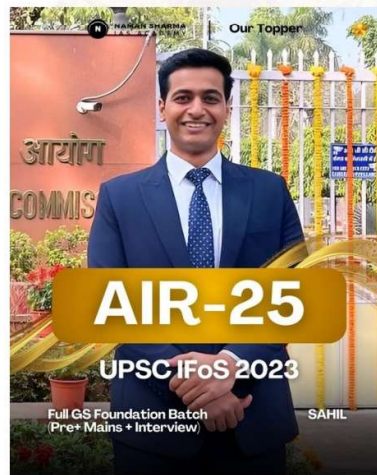
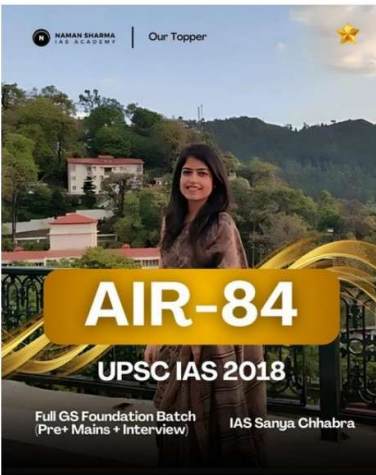
- **Leverage Multilateral Platforms:** As BRICS chair, India may attempt to facilitate informal dialogue among members, even if a formal consensus remains elusive.
- **Energy Security Contingencies:** India may need to accelerate diversification of energy sources, tap into strategic petroleum reserves, and explore alternative supply routes to mitigate disruption risks.
- **Coordinate with Like-Minded Powers:** Close coordination with France—and potentially other European and Gulf partners—could amplify pressure for a cessation of attacks on civilian infrastructure.

## Conclusion

India's diplomatic response to the escalating West Asia crisis reflects a careful recalibration of its stance. While maintaining engagement with all sides, New Delhi has sharpened its focus on the unacceptability of attacks on civilian energy infrastructure—a shift from its earlier position of condemning only Iranian strikes. With Prime Minister Modi and External Affairs Minister Jaishankar actively reaching out to regional and global leaders, India is positioning itself as a voice for dialogue and de-escalation.



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