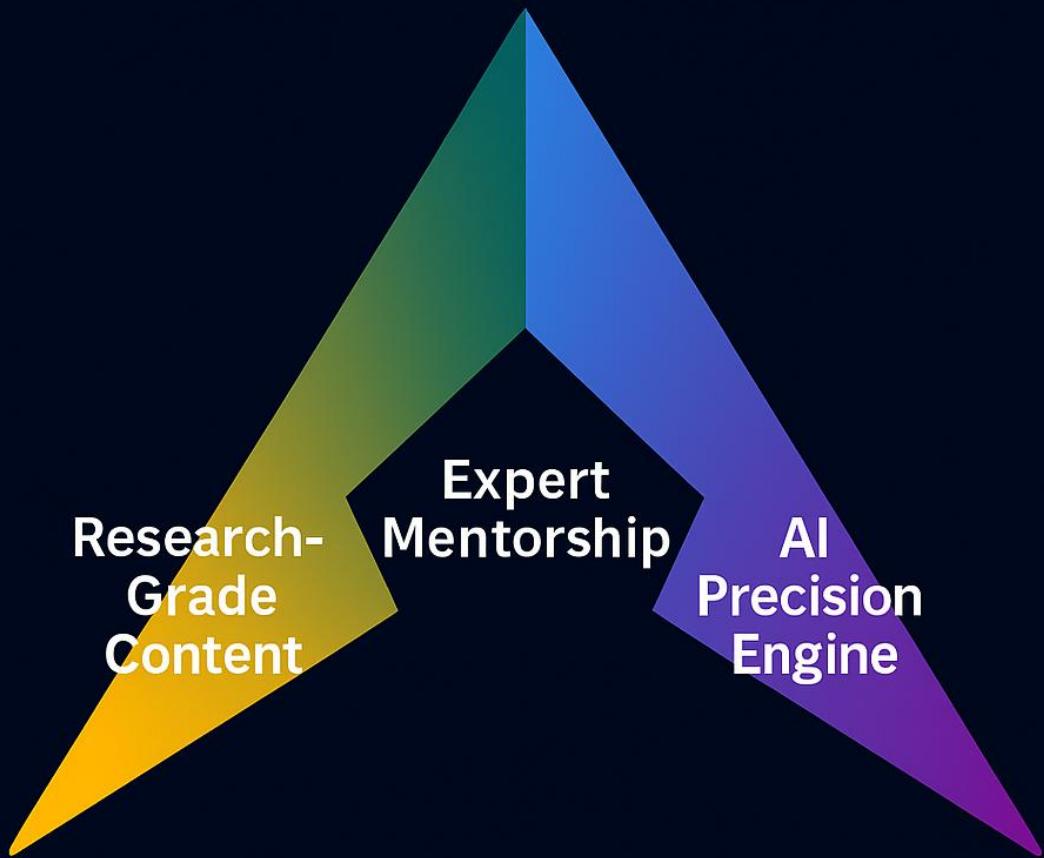


# PrepAlpine

**The Next-Generation UPSC Institution**

Where Research Meets Mentorship & Precision



**Preparation Meets Precision**

A Next-Generation Learning Institution

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**First Edition: January 2026**

Printed and published by PrepAlpine

## DAILY CURRENT AFFAIRS DATED 11.01.2026

### GS Paper III: Economics

#### 1. GST, States' Revenue Loss and Fiscal Federalism in India

##### a. Introduction

The Goods and Services Tax (GST) represents one of India's most far-reaching fiscal reforms, aimed at simplifying the indirect tax structure and strengthening cooperative federalism through a unified national market. By subsuming multiple central and state taxes, GST sought to improve efficiency, compliance, and transparency, while institutionalising shared decision-making through the GST Council.

While GST has delivered gains in tax administration and market integration, States increasingly argue that its evolving design has weakened their fiscal autonomy. Rate reductions, growing reliance on cesses and surcharges, and the end of the compensation mechanism have together created revenue uncertainty for States. The debate today is therefore not about GST's relevance, but about its impact on States' capacity to finance development and welfare.

## GST Policy: National Priorities vs State Concerns

National Objectives	State Concerns
■ Inflation control	■ Revenue predictability
■ Macro stability	■ Fiscal autonomy
■ Uniform national market	■ Flexibility in rate-setting
■ Ease of compliance	■ Adequate fiscal space

Need for Reconciliation, not Centralisation

##### b. GST and the Changing Fiscal Position of States

###### i. Surrender of Taxing Powers

With the introduction of GST, States gave up several major sources of revenue:

###### Subsumed State taxes

- Value Added Tax (VAT)
- Entry tax
- Entertainment tax and other indirect levies

###### Assurance at the time of adoption

- Guaranteed revenue growth.
- Compensation for revenue loss for a fixed period.
- Equal voice in rate-setting through the GST Council.

## **ii. Post-Compensation Reality**

The expiry of the compensation period has altered this balance:

### **Increased exposure to revenue volatility**

- Structural and cyclical shocks directly affect State finances.

### **Rising expenditure responsibilities**

- Social sector obligations.
- Infrastructure and climate-related spending.

## **c. Sources of Revenue Stress for States**

### **i. GST Rate Reductions**

#### **Policy rationale**

- Rate cuts aimed at controlling inflation.
- Intended to stimulate consumption and growth.

#### **Impact on States**

- Slower GST revenue growth.
- Significant annual revenue shortfalls.

#### **Structural limitation**

- States lack independent power to raise rates unilaterally.

### **ii. End of GST Compensation**

#### **Expiry in mid-2022**

- States must now absorb revenue gaps on their own.

#### **Timing challenge**

- Coincides with post-pandemic fiscal stress.
- Increased demand for welfare and recovery spending.

### **iii. Rising Use of Cesses and Surcharges**

#### **Nature of cesses and surcharges**

- Excluded from the divisible pool.
- Not shared with States.

#### **Federal concern**

- Shrinking effective divisible pool.
- Perception of centralisation of fiscal power.

### **iv. Constraints on State Borrowing**

#### **Borrowing limits linked to GSDP**

- Restrict fiscal flexibility during revenue shocks.

#### **Additional pressures**

- Changes in GSDP estimation methods.
- Conditional borrowing linked to reforms.

#### **v. Centrally Sponsored Schemes (CSS)**

##### **Design constraints**

- Mandatory State matching contributions.
- Rigid guidelines on implementation.

##### **Fiscal impact**

- Reduced State discretion.
- Constrained prioritisation of local needs.

### **d. Implications for Federalism and Development**

#### **i. Cooperative Federalism Under Strain**

##### **Trust deficit**

- Persistent revenue stress weakens Centre–State trust.
- Makes consensus in the GST Council harder.

#### **ii. Impact on Capital Expenditure**

##### **Infrastructure investment**

- States' capital spending constrained by fiscal stress.
- Long-term growth implications.

##### **Dependence on central support**

- Increased demand for capital assistance from the Centre.

#### **iii. Welfare and Social Sector Spending**

##### **States as primary implementers**

- Health, education, employment, and social protection.

##### **Revenue uncertainty**

- Directly affects service delivery and inclusiveness.

### **e. Balancing National Objectives and State Autonomy**

GST policy reflects a tension between:

##### **National priorities**

- Inflation control.
- Macroeconomic stability.

##### **State concerns**

- Predictable revenues.
- Adequate fiscal space.
- Respect for federal principles.

A sustainable GST framework must reconcile these perspectives rather than privilege one over the other.

## **f. Way Forward**

To strengthen GST and cooperative federalism:

### **i. Build safeguards before major rate cuts**

- Assess revenue impact on States in advance.

### **ii. Address cesses and surcharges**

- Share select cesses with States, or
- Provide compensatory transfers.

### **iii. Provide counter-cyclical support**

- Temporary revenue support during downturns.

### **iv. Enhance borrowing flexibility**

- Relax borrowing limits under exceptional circumstances.

### **v. Reform Centrally Sponsored Schemes**

- Greater design and implementation autonomy for States.

### **vi. Strengthen the GST Council**

- Preserve its consensus-driven character.

## **Conclusion**

GST remains a cornerstone of India's indirect tax reforms and market integration. However, its long-term success depends on the fiscal health of States, which bear primary responsibility for development and welfare delivery. Addressing revenue stress, restoring fiscal autonomy, and reinforcing cooperative federalism are essential to ensure that GST supports both national economic objectives and effective State-level governance.

## **GS Paper III: Environment**

### **2. U.S. Withdrawal from Global Climate Frameworks and Its Impact on Climate Action**

#### **a. Introduction**

Global climate action rests on three interlinked pillars: multilateral cooperation, shared scientific understanding, and predictable climate finance. The United Nations Framework Convention on Climate Change (UNFCCC) provides the political and legal architecture for collective action, while the Intergovernmental Panel on Climate Change (IPCC) supplies authoritative scientific assessments that inform negotiations, national policies, and even judicial reasoning.

A withdrawal by the United States—the world's largest historical emitter and a key architect of the post-war international order—therefore has implications that go far beyond its domestic policy choices. Such a move affects trust, reciprocity, and the overall credibility of global climate governance. Understanding these consequences is essential to assessing the future trajectory of international climate action.

#### **b. Drivers Behind the U.S. Exit from UNFCCC and IPCC**

The impulse to withdraw from global climate frameworks is shaped primarily by domestic political and ideological factors.

### i. Sovereignty and economic concerns

- International climate commitments are perceived as constraints on national sovereignty.
- Emission limits are framed as threats to industrial competitiveness and fossil fuel-based growth.

### ii. Ideological contestation of climate science

- Climate regulation is portrayed as economically burdensome.
- Scientific consensus is sometimes questioned or politicised.

### iii. Political economy pressures

- Strong influence of coal, oil, and gas lobbies.
- Climate policy becomes polarising in electoral politics.

### iv. National interest narrative

- Multilateral regimes are seen as imposing disproportionate obligations on developed countries.
- Flexibilities available to emerging economies are portrayed as unfair.

## Distancing from IPCC: Institutional vs Scientific Effects

### Institutional Impact

- No official nomination of experts
- Reduced agenda-setting power
- Lower influence over assessment framing



### Deeper Systemic Impact

- Science-policy interface weakens
- Shared benchmarks lose political authority
- Fragmentation of climate consensus

### c. What Withdrawal from the UNFCCC Implies

#### i. Legal and Institutional Consequences

##### Loss of Party status

- The U.S. would no longer be a Party to the UNFCCC.
- Participation in Conference of Parties (COP) negotiations would cease.

##### Automatic exit from subsidiary agreements

- Withdrawal from UNFCCC entails exit from all protocols under it.
- Includes the Paris Agreement.

#### ii. Impact on Accountability Mechanisms

##### Exit from transparency and reporting systems

- No participation in global stocktake processes.
- Weakening of mutual monitoring and peer pressure.

##### Broader implication

- Climate governance relies on trust and reciprocity rather than enforcement.
- U.S. exit weakens the credibility of this cooperative framework.

#### **d. Implications of Distancing from the IPCC**

The IPCC plays a distinct but critical role in climate governance by synthesising global scientific knowledge.

##### **i. Institutional impact**

- U.S. would no longer officially nominate experts.
- Reduced influence over assessment processes.

##### **ii. Scientific contribution**

- American scientists may still contribute informally.
- Expertise is not lost, but institutional ownership is weakened.

##### **iii. Deeper concern**

- Weakening of the science–policy interface.
- Shared scientific benchmarks lose political authority when major powers disengage.

#### **e. Impact on Global Climate Finance**

Climate finance is among the most contentious pillars of climate negotiations.

##### **i. Role of multilateral funds**

- Green Climate Fund and Global Environment Facility operate under UNFCCC.
- Support mitigation and adaptation in developing countries.

##### **ii. Consequences of U.S. exit**

- Reduced influence over design and allocation of climate finance.
- Greater political ease for future administrations to withhold contributions.

##### **iii. Trust deficit for developing countries**

- Finance targets have already expanded beyond the \$100 billion goal.
- Withdrawal by a major historical emitter raises equity concerns.

#### **f. Effects on International Climate Cooperation**

Climate negotiations function on reciprocal expectations.

##### **i. Disruption of collective balance**

- Other countries may delay or dilute commitments.
- Equity-based demands from developing nations intensify.

##### **ii. Political cover for climate laggards**

- Withdrawal legitimises inaction by others.
- Slows urgent global emission reductions.

##### **iii. Fragmentation of governance**

- Shift towards regional, bilateral, or multilateral arrangements.
- Weakening of universality and legitimacy of UN-led frameworks.

## **g. Economic and Strategic Costs for the United States**

Ironically, withdrawal may harm U.S. interests.

### **i. Economic uncertainty**

- Policy volatility increases investor risk.
- Long-term planning becomes difficult.

### **ii. Trade and competitiveness risks**

- Exposure to carbon border adjustment mechanisms.
- Climate-linked trade and finance standards disadvantage non-aligned exporters.

### **iii. Strategic costs**

- Loss of leadership in setting global rules.
- Reduced influence over emerging green industrial standards.

## **h. Options for Policymakers, Especially in Developing Countries**

### **i. International Strategies**

#### **Strengthen issue-based coalitions**

- Focus on adaptation, finance, and equity.

#### **Alternative leadership**

- European Union, emerging economies, and vulnerable country groups.
- Role of cities, firms, and sub-national actors.

### **ii. Domestic Resilience**

#### **Invest in climate adaptation**

- Disaster preparedness and early-warning systems.
- Climate-resilient agriculture and heat action plans.

#### **Reduce dependence on uncertain global finance**

- Integrate climate resilience into development planning.

### **Conclusion**

Withdrawal of the United States from the UNFCCC and IPCC does not halt global climate action, but it weakens trust, slows cooperation, and raises the cost of collective response. Climate change is a global commons challenge that cannot be addressed through unilateralism.

In the long run, even major powers risk economic and strategic losses by distancing themselves from multilateral climate governance. Sustainable climate action depends not only on emission targets, but on credibility, cooperation, and a shared sense of responsibility.

## Reader's Note — About This Current Affairs Compilation

Dear Aspirant,

This document is part of the PrepAlpine Current Affairs Series — designed to bring clarity, structure, and precision to your daily UPSC learning.

While every effort has been made to balance depth with brevity, please keep the following in mind:

### 1. Orientation & Purpose

This compilation is curated primarily from the UPSC Mains perspective — with emphasis on conceptual clarity, analytical depth, and interlinkages across GS papers.

However, the PrepAlpine team is simultaneously developing a dedicated Prelims-focused Current Affairs Series, designed for:

- factual coverage
- data recall
- Prelims-style MCQs
- objective pattern analysis

This Prelims Edition will be released separately as a standalone publication.

### 2. Content Length

Some sections may feel shorter or longer depending on topic relevance and news density. To fit your personal preference, you may freely resize or summarize sections using any LLM tool (ChatGPT, Gemini, Claude, etc.) at your convenience.

### 3. Format Flexibility

The formatting combines:

- paragraphs
- lists
- tables
- visual cues

—all optimised for retention.

If you prefer a specific style (lists → paras, paras → tables, etc.), feel free to convert using any free LLM.

### 4. Monthly Current Affairs Release

The complete Monthly Current Affairs Module will be released soon, optimized to a compact 100–150 pages — comprehensive yet concise, exam-ready, and revision-efficient.

### 5. Join the PrepAlpine Discord Community

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#### What You'll Experience

- **Peer-to-Peer Discussions**

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- **An Evolving Learning Culture**  
A serious, supportive, and intelligent peer environment — no noise, no clutter. Learning grows here through interaction, reflection, and structured peer collaboration.

“From Isolation to Interaction — Learn the UPSC Way, the Smart Way.”

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If you feel any important theme is missing or under-covered, simply post it in the “Suggestions” channel on our Discord server.

Our content team regularly reviews inputs and includes relevant suggestions in upcoming Monthly Current Affairs Modules.

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Together, these resources embody the PrepAlpine vision:

Better Content. Smarter Mentorship. Intelligent Preparation.

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