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PrepAlpine

Email: info@PrepAlpine.com

Website: PrepAlpine.com

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GS Paper III: Economics

1. Household Financial Stability in India: Limits and Emerging Risks

a. Introduction

At the aggregate macroeconomic level, India's economy appears relatively stable. Economic growth has shown resilience, inflation remains broadly manageable, and public investment—especially in infrastructure—has expanded steadily. Private consumption demand also appears to be holding up, reinforcing a sense of overall stability.

However, this macro-level comfort masks growing stress at the household level. Indian households are saving less, borrowing more, and absorbing economic risks that were earlier partially borne by the State. This divergence between aggregate stability and household vulnerability creates a form of *hidden fragility* within India's growth process.



b. Why Household Financial Stability Matters

Households occupy a central position in India's economic structure.

Role in Aggregate Demand

- Private Final Consumption Expenditure accounts for nearly 60% of GDP, making households the primary engine of growth.

Stabilising Function

- Financially secure households maintain consumption even during shocks.

- Weak household balance sheets lead to sharp consumption cutbacks, amplifying economic downturns.

Household financial stability is thus not a peripheral issue, but a core pillar of macroeconomic stability and growth resilience.

c. The Illusion of Aggregate Comfort

Headline macroeconomic indicators project reassurance.

Positive Aggregate Signals

- Relatively strong GDP growth.
- Gradual fiscal consolidation.
- Controlled inflation.

Contrasting Household Reality

- Income growth has been uneven across sectors and regions.
- Household savings have become volatile and, at times, sharply compressed.
- Household borrowing has risen steadily.

As a result, the financial buffers that once protected families against shocks are weakening. Macroeconomic stability is increasingly concealing microeconomic stress.

d. Household Debt: Why Low Ratios Can Be Misleading

India's household debt stands at around 40% of GDP, lower than in many advanced and emerging economies. On the surface, this suggests manageable leverage.

However, debt-to-GDP ratios reveal only the *quantity* of debt, not its *quality*.

What Aggregate Ratios Miss

- Income security of borrowers.
- Adequacy and stability of household savings.
- Capacity to service debt during adverse conditions.

The real concern is not how much households borrow, but why they borrow and whether such borrowing is sustainable.

e. Changing Nature of Household Borrowing

A structural shift has occurred in household borrowing behaviour.

Earlier Pattern

- Borrowing primarily for asset creation—housing, education, or long-term investment.
- Debt supported future income generation.

Recent Shift

- Increasing use of credit for consumption smoothing and daily expenses.
- Borrowing to offset stagnant or insufficient income growth.

Borrowing is now substituting for income rather than complementing it, signalling deeper stress in household finances.

f. Savings Stress and Growing Financial Fragility

Household net financial savings have become volatile and, in several phases, sharply compressed.

Erosion of Safety Buffers

- While assets may still exceed liabilities in aggregate terms, margins of safety have narrowed.
- Reduced savings limit households' ability to absorb shocks.

Practical Consequences

- Health emergencies, job loss, or inflationary spikes can quickly cause distress.
- Even small shocks now have disproportionate financial impact.

Households may appear solvent on paper, but financial fragility has increased in practice.

g. Shift of Economic Risk from the State to Households

Fiscal strategy has increasingly emphasised capital expenditure to support long-term growth.

Changing Fiscal Priorities

- Greater focus on infrastructure investment.
- Limited fiscal space for income support and counter-cyclical transfers.

Resulting Risk Shift

- Households must self-insure against employment instability, health shocks, and income volatility.
- Economic risk is being transferred from the State to individuals.

This marks a structural alteration of the social contract underpinning growth.

h. Why Household Stress Is a Macroeconomic Concern

Debt-financed consumption is inherently unstable.

Behaviour During Stress

- If income growth slows or credit tightens, households cut consumption sharply.
- Thin savings buffers prevent gradual adjustment.

Macroeconomic Impact

- Consumption-led growth becomes fragile.
- Economic downturns become deeper and more prolonged.

Household financial stress therefore translates directly into system-wide macroeconomic vulnerability.

i. Structural Drivers of Household Financial Stress

Multiple structural factors underpin this emerging fragility.

Income and Employment Constraints

- Uneven real income growth.
- Weak job creation in labour-intensive sectors.

Cost and Credit Dynamics

- Rising cost of living eroding purchasing power.

- Rapid growth of unsecured retail credit.

Limited Risk-Sharing

- Constrained fiscal capacity for expansive welfare support.

Together, these factors weaken household balance sheets even as headline growth remains favourable.

j. Implications for India's Growth Strategy

A growth model sustained by household borrowing is not durable.

Long-Term Sustainability Requires

- Broad-based real income growth.
- Stable and predictable savings behaviour.
- Reduced dependence on debt-financed consumption.

Without addressing household stress, aggregate growth remains exposed to sudden reversals, regardless of strong public investment.

k. Way Forward

Strengthening household financial stability requires a coordinated policy approach.

Income and Employment

- Promote labour-intensive growth and wage expansion.

Savings and Credit

- Encourage long-term and formal savings instruments.
- Curb excessive reliance on unsecured consumer credit.

Risk-Sharing Mechanisms

- Strengthen health insurance, employment protection, and safety nets.

Policy Monitoring

- Track not only the size of household credit but its purpose and sustainability.

Public investment must be complemented by income security and social protection to sustain consumption-led growth.

Conclusion

India's growth appears stable in aggregate, but rising household borrowing, volatile savings, and uneven income growth reveal a hidden fragility that could undermine consumption-led growth if left unaddressed.

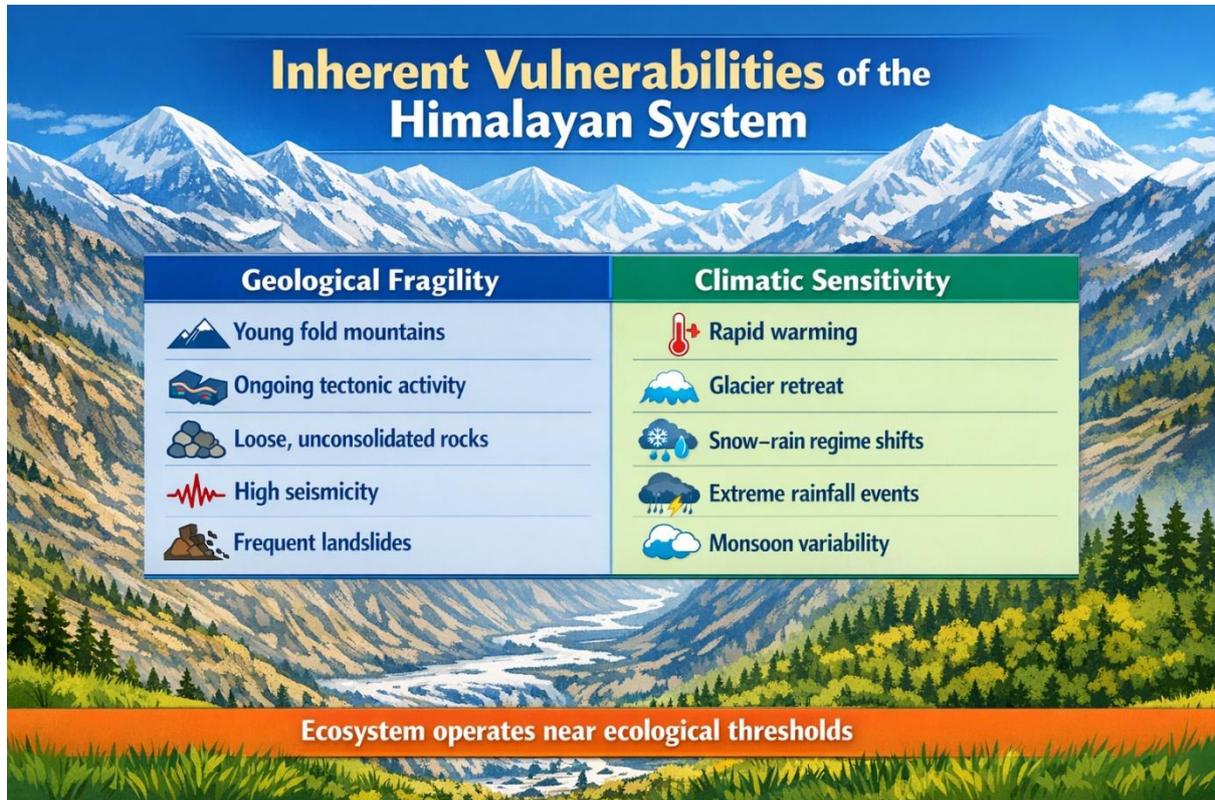
GS Paper III: Disaster Management

2. Himalayan Ecosystem Fragility and Unsustainable Development

a. Introduction

The Himalayan region is experiencing a sharp rise in disasters such as landslides, flash floods, cloudbursts, avalanches, and glacier-related hazards. While climate change has intensified natural risks, the scale and frequency of recent disasters point to a deeper structural problem.

Unscientific and poorly regulated development is pushing an already fragile ecosystem beyond its natural limits. Infrastructure meant to enhance connectivity and growth is increasingly acting as a disaster trigger, transforming environmental stress into humanitarian and economic crises.



b. Why the Himalayas Are Inherently Fragile

The Himalayas are among the youngest and most dynamic mountain systems in the world.

Geological Vulnerability

- Ongoing tectonic activity makes the region earthquake-prone.
- Steep slopes composed of loose, unconsolidated material are naturally unstable.

Climatic Sensitivity

- Extensive glaciers and snow-fed rivers respond sharply to temperature changes.
- Minor shifts in rainfall or land use can produce disproportionate impacts.

Because of these features, the Himalayan ecosystem operates close to its ecological thresholds, making it extremely sensitive to human disturbance.

c. Climate Change as a Risk Multiplier

Climate change has significantly altered the Himalayan environment.

Observed Changes

- Warming rates higher than the global average.
- Reduced snowfall and shorter winter periods.
- Accelerated glacier retreat.

Disaster Implications

- Increased frequency of cloudbursts and extreme rainfall.
- Rising incidence of landslides, flash floods, avalanches, and Glacier Lake Outburst Floods.

Climate change does not act in isolation; it magnifies vulnerabilities created by unsustainable development.

d. Ecological Role of Himalayan Forests

Himalayan forests perform irreplaceable ecological and protective functions.

Slope and Soil Stability

- Tree species such as oak and deodar bind soil and stabilise slopes.
- Root systems reduce erosion and landslide probability.

Hydrological Regulation

- Forests absorb rainfall and release water gradually.
- Flood peaks are moderated while base flows are sustained.

Climate and Biodiversity Functions

- Maintenance of cooler local microclimates.
- Support for rich biodiversity and mountain livelihoods.

In effect, forests function as natural disaster-mitigation infrastructure.

e. Why Deforestation Is Especially Dangerous in the Himalayas

Deforestation in fragile mountain terrain has severe and often irreversible consequences.

Immediate Impacts

- Loss of root systems destabilises slopes.
- Increased landslides and debris flows.

Downstream Effects

- Rising sediment loads intensify floods.
- Degradation of river ecosystems.

Limits of Compensatory Afforestation

- Mature Himalayan forests are site-specific and developed over decades.
- Transplantation or plantation cannot replicate their ecological functions.

Thus, forest loss in the Himalayas is functionally irreversible within human timescales.

f. Infrastructure Development as a Disaster Trigger

The scale and manner of recent infrastructure expansion have amplified environmental risks.

Road and Construction Practices

- Excessive hill cutting beyond natural slope limits.
- Poorly designed widening projects ignoring terrain sensitivity.

Hydropower and Tunnelling

- Inadequate geological assessments.
- Blasting and tunnelling destabilising entire hill systems.

Waste Disposal

- Excavated material dumped on slopes or into river valleys.
- Creation of artificial landslide zones.

Many disasters are thus triggered not by extreme natural events alone, but by unsafe land-use decisions.

g. Neglect of Scientific and Planning Principles

Development in the Himalayan region often violates established scientific norms.

Ignored Principles

- Natural slope stability and angle of repose.
- Carrying capacity of fragile mountain ecosystems.

Governance Gaps

- Fragmented Environmental Impact Assessments.
- Failure to assess cumulative impacts of multiple projects.

Disaster Risk Reduction

Risk reduction is treated as secondary rather than integral to planning.

This reflects a governance failure, not a lack of scientific knowledge.

h. Impact on Rivers and Water Security

Himalayan ecosystems play a critical role in regulating river systems.

Natural Regulation Functions

- Moderation of snowmelt and runoff.
- Control of sediment flow.
- Maintenance of water quality and temperature.

Consequences of Ecological Damage

- Sudden floods in the short term.
- Reduced base flows in the long term.

These disruptions affect agriculture, drinking water supply, and hydropower far downstream.

i. A National Challenge, Not a Regional One

The Himalayas influence India's monsoon systems, sustain major river basins, and support livelihoods across northern and eastern India.

Large-scale destabilisation of this region threatens:

- Ecological balance,

- Economic stability, and
- Human security at the national level.

The health of the Himalayas is therefore inseparable from India's environmental and developmental future.

j. Development versus Disaster Resilience: Reframing the Debate

The issue is not development versus environment.

Real Choice

- Unscientific, disaster-prone development, or
- Ecologically sensitive, disaster-resilient development.

Long-Term Perspective

Infrastructure that ignores ecological limits ultimately undermines connectivity, security, and growth objectives.

Resilience is thus a precondition for sustainable development, not an obstacle to it.

k. Way Forward

Future development in the Himalayan region must be resilience-driven.

Infrastructure Planning

- Respect geological limits and slope stability.
- Adapt road width and design to terrain sensitivity.

Forest and Land Management

- Treat forests as critical protective assets.
- Enforce strict protection in high-risk zones.

Governance Reforms

- Conduct cumulative impact assessments.
- Ensure independent scientific oversight.

Climate-Sensitive Planning

- Mainstream adaptation and disaster risk reduction.
- Regulate tourism and urbanisation based on carrying capacity.

Conclusion

In the Himalayas, ignoring ecological limits converts development into disaster; only science-based, resilience-driven planning can secure both growth and safety in this fragile region.

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.

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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.

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The formatting combines:

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- lists
- tables
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—all optimised for retention.

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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.

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