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A Budgetary Signal as Banks Cannot Bear It All

Context

- India's **Union Budget 2026** introduces several financial-sector initiatives, including the creation of a market-making framework for corporate bonds, etc.
- While these measures may appear technical, they collectively reflect a **significant shift** in policy thinking.
- Rather than merely reforming banks, the government is attempting to address a **deeper structural imbalance** in India's financial architecture.
- The core issue is that Indian banks carry long-term credit risks that, in mature economies, are absorbed by financial markets.
- Consequently, the reforms represent a move away from a bank-dominated system toward a market-oriented financial structure.

Structural Imbalance in the Financial System

- Public discussions often attribute banking distress in India to **weak governance**, political interference, and poor risk management.

- Although these factors exist, they do not fully explain recurring banking crises. The more fundamental problem is institutional.
- India **lacks a deep corporate bond market**, forcing banks to finance large and risky projects.
- India possesses a relatively well-developed government securities market, with outstanding sovereign bonds approaching 90 percent of GDP.
- However, its corporate bond market is shallow, amounting to only about 15-16 percent of GDP, far smaller than those of the United States, Germany, or China.
- Because the economy still requires **long-term investment financing**, banks inevitably step in to fill this gap.
- As a result, banks hold around 60–65 percent of non-financial corporate debt, compared with roughly 30 percent in the United States and 40 percent in Europe.
- The difference arises not from managerial competence but from financial system design.

Maturity Mismatch and Financial Fragility

- Banks are structurally unsuited to finance long-term infrastructure projects.
- They fund themselves primarily through short-term deposits and therefore depend heavily on **liquidity and depositor confidence**.
- Yet they are expected to finance projects such as highways, power plants, ports, and telecom networks that require 15 to 20 years to generate returns.
- This creates a severe maturity mismatch: short-term liabilities funding long-term assets.
- When projects fail or are delayed, losses appear suddenly on bank balance sheets. In market-based systems, such losses are distributed gradually across investors.
- In India, however, they accumulate within banks, making the financial system more fragile and vulnerable to shocks.

Fiscal Costs and Credit Misallocation

- The consequences of this imbalance extend beyond banking stability. Since 2017, the government has injected over **₹3.2 lakh crore into public sector banks** to recapitalise them.
- These interventions stabilised the financial system but effectively transferred private corporate losses onto taxpayers, functioning as a hidden fiscal burden.
- Additionally, **large corporate exposures** tie up bank capital that could otherwise support smaller enterprises.
- This helps explain why small and medium-sized firms continue to face credit shortages despite repeated **bank recapitalisation**.
- Thus, the problem is not merely insufficient credit but misallocated credit.

Impact on Monetary Policy and Role of Budget 2026 Reforms

- **Impact on Monetary Policy**

- The concentration of risk within banks also weakens monetary policy transmission.
- When interest rates rise, banks burdened with long-term exposures hesitate to pass on higher costs.
- When rates fall, **impaired balance sheets** limit fresh lending. Consequently, borrowing costs in the real economy adjust unevenly to policy changes.
- In contrast, deep bond markets allow interest rates to reprice smoothly across maturities, improving the effectiveness of central bank policy.

• Role of Budget 2026 Reforms

- The Budget 2026 initiatives attempt to correct this structural deficiency.
- Measures such as improving corporate bond market liquidity, introducing hedging instruments like total-return swaps, providing partial credit guarantees for infrastructure, and expanding market-ready assets through REITs are designed to distribute credit risk beyond banks.
- By enabling institutional investors, pension funds, and other market participants to participate in long-term financing, these reforms aim to create a functioning corporate debt market.
- In essence, the **reforms seek to transform the financial system** from one where banks act as the economy's primary risk-bearers to one where markets share and price risk more efficiently.

Conclusion

- India's financial challenges stem less from **banking mismanagement** than from systemic design.
- A shallow corporate bond market has forced banks to shoulder long-term credit risk, creating financial fragility, fiscal burdens, distorted credit allocation, and weak monetary transmission.
- The financial-sector measures in Budget 2026 therefore represent more than **incremental reform**; they signal an effort to rebalance the financial architecture.
- Whether these initiatives succeed will determine whether India evolves into a resilient, market-based financial system or continues relying on banks as the economy's shock absorbers of last resort.

A Budgetary Signal as Banks Cannot Bear It All FAQs

Q1. What structural problem exists in India's financial system?

Ans. India's financial system is overly bank-centric, with banks carrying long-term credit risks that financial markets should normally distribute.

Q2. Why are banks vulnerable when financing infrastructure projects?

Ans. Banks rely on short-term deposits but lend for very long-term projects, creating a maturity mismatch that increases financial instability.

Q3. How does this system affect taxpayers?

Ans. When large loans fail, the government recapitalises public sector banks, and the cost is ultimately borne by taxpayers.

Q4. Why do small businesses face credit shortages?

Ans. Bank capital is heavily tied up in large corporate and infrastructure loans, leaving limited funds available for

small and medium enterprises.

Q5. What is the aim of the Budget 2026 financial reforms?

Ans. The reforms aim to develop corporate bond markets and distribute risk across investors instead of concentrating it on bank balance sheets.

Source: **The Hindu**

India's Federalism is in Need of a Structural Reset

Context

- The Constitution of India created a **federal** system with a pronounced **unitary**. At Independence, the **Constitution** prioritised **stability** and **unity** over dispersion of authority.
- The argument for recalibration arises from the transformation of India into a politically **mature**, administratively capable, and socially consolidated nation.
- Continued concentration of authority at the **Centre** now risks weakening **governance** rather than strengthening national cohesion.
- A rebalancing of **Union-State** relations is therefore presented not as a political demand but as a constitutional necessity.

Historical Context: Why Centralisation Emerged

- The immediate post-1947 environment shaped constitutional design. **Partition**, the integration of **princely** states, and fears of territorial fragmentation demanded a strong **Union**.
- Borrowing institutional features from the Government of India Act, 1935, authority was concentrated in New Delhi.
- Centralisation functioned as a defensive mechanism to secure **national**.
- However, institutional structures created in emergency conditions often persist beyond the crisis. What began as a protective arrangement evolved into a permanent administrative orientation.

Theoretical Foundations: The Meaning of Federalism

- Federalism rests on both allocation and restraint of authority. The effectiveness of public power depends on its proximity to information and accountability.
- Decision-making closer to citizens improves responsiveness and administrative accuracy.
- Excessive centralisation produces **fragility** because a single authority cannot efficiently manage diverse responsibilities.
- A government that simultaneously oversees strategic sectors and local welfare disperses its capacity. The strength of a federation lies not in the accumulation of functions but in disciplined limitation.

Political Practice: From Necessity to Habit

- For decades, the dominance of a single national party **reinforced central authority**. Political hierarchy reduced practical autonomy even where legal powers existed.
- Later, **coalition governments** and the rise of regional parties produced greater equilibrium without threatening unity.
- India's continued centralising orientation reflects persistence of early anxieties rather than present realities.
- The nation has moved beyond its formative insecurities, yet institutional reflexes remain.

Institutional Mechanisms of Centralisation

- Central authority expanded through multiple channels:
 - constitutional amendments,
 - legislation in the **Concurrent List**,
 - conditional fiscal transfers,
 - centrally sponsored schemes,
 - administrative oversight.
- Financial dependence has become a **decisive instrument of influence**. Ministries in New Delhi frequently duplicate state functions and steer priorities through procedural regulation.
- In certain areas, executive rule-making effectively overrides state legislation, altering the practical balance of power.

Judicial Doctrine and Constitutional Tension

- In **R. Bommai** (1994), the Supreme Court declared **federalism** part of the **Basic Structure** and affirmed that states are constitutionally **autonomous** within their spheres.
- Federalism derives from India's diversity and historical pluralism rather than administrative convenience.
- A tension thus arises between doctrine and practice: judicial interpretation recognises parity of authority, yet administrative patterns continue to concentrate control.

Functional Argument: Why Decentralisation Improves Governance

- India's size and diversity make uniform policy inherently limited. Regional variation in language, ecology, labour markets, and development levels requires flexible solutions.
- **Decentralisation** allows policy experimentation, containment of failure, and replication of success.
- Many effective national programmes began as state initiatives.
- Regional experimentation in nutrition programmes, literacy campaigns, and employment guarantees demonstrated how local innovation informs broader policy. Over-centralisation suppresses such adaptive learning.

The Way Forward: Recalibration, Not Disintegration

- The relationship between the Union and the states is not a zero-sum contest. Strengthening states does not weaken the Union; it sharpens its focus on genuinely national functions.

- Concentrated national authority combined with regional **autonomy** improves both administrative efficiency and democratic legitimacy.

Conclusion

- India has reached a stage where centralisation no longer serves its original purpose.
- A **calibrated redistribution** of functions would align authority with responsibility and enhance accountability.
- A **focused Union and trusted states together reinforce national unity**; durable cohesion arises not from control but from participation, cooperation, and balanced constitutional practice.

India's Federalism is in Need of a Structural Reset FAQs

Q1. Why did the Indian Constitution adopt a centralising structure?

Ans. The Constitution adopted a centralising structure to maintain stability and unity after Partition and the integration of princely states.

Q2. What is the basic principle of federalism described here?

Ans. Federalism means authority should be distributed so that governments closer to people handle local matters while the Union handles national concerns.

Q3. How has centralisation expanded over time?

Ans. Centralisation expanded through constitutional amendments, financial controls, and Union intervention in Concurrent List subjects.

Q4. Why is decentralisation considered beneficial for governance?

Ans. Decentralisation improves governance because local governments can design policies suited to regional needs and encourage innovation.

Q5. What is the main character Union-State relations?

Ans. A balanced distribution of powers will strengthen both national unity and administrative effectiveness.

Source: **The Hindu**

Reaffirming Reproductive Autonomy - Supreme Court's Progressive Turn on Late-Term Abortion

Context

- In a significant judgment, the Supreme Court of India overturned a Bombay High Court ruling and permitted a teenager to terminate her 30-week pregnancy.
- The decision assumes importance in the backdrop of the Medical Termination of Pregnancy **Act, 2021**.
- The act allows abortion up to 24 weeks under specified conditions but remains silent on late-term terminations beyond this limit, leaving courts to intervene on a case-by-case basis.

- This judgment marks a notable reaffirmation of women’s reproductive **autonomy** and expands the constitutional conversation on mental health, bodily integrity, and dignity.

Legal Framework - The MTP Act and Judicial Discretion

- **Expanded but limited statutory framework**

- The MTP (Amendment) Act, 2021 extended the gestational limit for abortion from **20 to 24** weeks for certain categories of women (including survivors of rape, minors, and other vulnerable groups).
- Beyond 24 weeks, termination is permissible only in cases of substantial foetal **abnormalities**, as diagnosed by Medical Boards.
- There is **no** explicit fundamental “**right to abortion**” under Indian law.

- **Judicial role in late-term abortions**

- Due to statutory limits, courts frequently adjudicate petitions for termination beyond 24 weeks.
- However, outcomes have been inconsistent, revealing judicial subjectivity and **moral complexities**.

Key Observations by the Supreme Court

- **Reproductive autonomy cannot be compelled**

- The Court emphatically stated that it “cannot compel” a woman to continue a pregnancy if she is unwilling.
- This marks a clear shift toward prioritising bodily autonomy and individual choice, consistent with **Article 21** (Right to Life and Personal Liberty).

- **Restrictive laws increase unsafe abortions**

- The Court acknowledged an important public health reality – restrictive access does not prevent abortions.
- It increases the risk of unsafe procedures by “quacks and unauthorised doctors”.
- Thus, access to safe Medical Termination of Pregnancy (MTP) services becomes central to **reproductive justice** and public health policy.

- **Mental health equals physical health**

- A landmark aspect of the judgment is the recognition of mental trauma as equally significant as physical health, placing mental health on par with physical health.
- It adopted a **broader**, health-based approach rather than a moralistic “pro-life vs pro-choice” **framework**.
- This aligns with a rights-based and health-centred interpretation of reproductive autonomy.

Health as a Determinant: Whose Health Matters?

- Abortion jurisprudence globally wrestles with the foetus's potential "**right to life**", and the pregnant woman's **right to choice**.
- The Bombay HC had denied termination citing that the foetus was "healthy and viable".
- The SC set this aside and prioritised the pregnant individual's unwillingness, thus clearly foregrounding maternal autonomy over foetal viability in this case.

The Minor and the Question of 'Illegitimacy'

- **Special consideration for minors**

- The Court referred to the petitioner as a "child" (she had conceived as a minor though she turned 18 later). It held that minors cannot be compelled to continue pregnancy.
- This is significant in light of rising cases of sexual abuse against minors, concerns under the POCSO Act, and the constitutional emphasis on dignity and best interests of the child.

- **Role of marital status**

- The pregnancy was described as "illegitimate" (outside marriage), which arguably influenced the Court's empathetic stance.
- However, this raises critical questions: Would the outcome have differed if the women were married?; Does marital status shape judicial perception of reproductive rights?

Inconsistency in Judicial Approach (The 2023 Case)

- In 2023, the SC rejected a 26-week termination plea of a married 27-year-old woman, despite her citing mental health concerns and an unwanted pregnancy.
- This contrast highlights judicial inconsistency, the continued influence of marital norms, and the entanglement of motherhood with marriage in legal reasoning.

Broader Constitutional and Social Questions

- **Marriage, motherhood and autonomy:** Indian women's sexual and reproductive autonomy often remains overshadowed by marital status.
- **This ties into:** The ongoing debate on the marital rape exception, societal notions of "legitimacy", and patriarchal assumptions about motherhood.
- **The Court's observation:** That "the mother's reproductive autonomy must be given emphasis" should ideally transcend marital and social categories.

Challenges

- **Absence of absolute right to abortion:** Decisions hinge on judicial discretion.
- **Inconsistent jurisprudence:** Similar cases yield divergent outcomes.
- **Foetal viability debate:** Ethical and legal tensions persist.
- **Marital status bias:** Marriage continues to shape legal outcomes.

- **Limited mental health integration:** Despite recognition, practical implementation remains weak.
- **Access barriers:** Medical Boards, procedural delays, and stigma hinder timely access.

Way Forward

- **Codify:** Reproductive autonomy as a fundamental right. Explicit recognition under Article 21 through judicial clarification or legislative reform.
- **Uniform:** Guidelines for late-term abortions. Clear medical and psychological parameters to reduce judicial arbitrariness.
- **Strengthen:** Public health infrastructure. Ensure safe, affordable, stigma-free access to abortion services. Expand trained providers and Medical Boards.
- **Mainstreaming:** Mental health. Integrate psychiatric evaluation and trauma-informed care in reproductive health policy.
- **De-link:** Autonomy from marital status. Ensure rights are not mediated by notions of legitimacy or marriage. Align abortion jurisprudence with gender justice principles.
- **Rights-based framework:** Move from morality-based reasoning to dignity, autonomy, and health-based reasoning.

Conclusion

- The Supreme Court's ruling marks a progressive reaffirmation of women's reproductive autonomy and a crucial shift toward a health-centred, dignity-based framework.
- By recognising mental health as central and rejecting coercive continuation of pregnancy, the Court strengthens the constitutional promise of **personal liberty**.
- However, **inconsistencies** across cases reveal that reproductive autonomy in India remains conditional and context-dependent.
- For reproductive rights to become truly inalienable, the guiding principle going forward must be unequivocal: a woman's reproductive **autonomy is integral** to her dignity, bodily integrity, and constitutional freedom.

Reaffirming Reproductive Autonomy FAQs

Q1. What is the significance of the Supreme Court's recent ruling permitting termination of a 30-week pregnancy?

Ans. The ruling reinforces that a woman's reproductive autonomy under Article 21 cannot be subordinated to foetal viability.

Q2. How does the MTP (Amendment) Act, 2021 balance reproductive rights and medical regulation in India?

Ans. The Act expands abortion access up to 24 weeks for specified categories while retaining medical oversight beyond that limit.

Q3. What is the role of mental health in determining the permissibility of abortion under Indian law?

Ans. Its recognition as equal to physical health broadens the interpretation of "risk to health" under the MTP framework.

Q4. What is the impact of marital status on women's reproductive autonomy in India?

Ans. Judicial inconsistencies reveal that women's reproductive rights are often influenced by marital norms.

Q5. Why is judicial intervention frequently required in late-term abortion cases in India?

Ans. Because the MTP Act lacks an absolute right to abortion beyond 24 weeks, courts must adjudicate based on health risks, foetal viability, etc.

Source: IE

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