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EDITORIAL ANALYSIS

Resilient, But Risks Need Watching

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Resilient, But Risks Need Watching

 **The Indian Express** 2 July 2026 **GS3**

Source: ujyari.com — researched, fact-checked & UPSC-mapped



INTERVIEW ANGLE

"PMI is in expansion, GST collections are rising and consumption is holding, yet the rupee is under pressure and foreign investors are pulling out. How do you read an economy that is strong at home but exposed abroad?"

Source: [Original editorial](#)  [The Indian Express](#)

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WHY THIS MATTERS NOW

As of **mid-2026**, India's domestic engine looks strong: manufacturing **PMI** is in expansion, **GST** collections are rising and consumption is firm. But the external account is under pressure, a **50% US tariff** on select goods, a depreciating **rupee**, and **record FPI outflows**. For an aspirant, this is a live GS3 case on **growth, external-sector vulnerability** (<https://ujyari.com/vocab/vulnerability/>) and **macroeconomic management**.

THE CRUX IN 60 WORDS

India's **high-frequency indicators** (PMI above 53, GST up ~8% year on year, firm consumption) point to underlying strength. But **US tariffs**, a **softer rupee** and **record foreign portfolio outflows** are real downside risks. Policy has begun to respond (RBI's Fully Accessible Route, tax relief for FIIs), yet sustaining the recovery needs **vigilant, coordinated macro management**, not complacency.

THE ISSUE, DECODED

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CONCEPT	WHAT IT MEANS	WHY IT MATTERS
High-frequency indicators	PMI, GST, vehicle sales, consumer confidence	Real-time read on momentum before GDP data
US tariff exposure	50% duty on select Indian goods	Hits labour-intensive MSME exporters and jobs
FPI outflow	Foreign investors selling Indian equities	Pressures the rupee and equity valuations
Fully Accessible Route (FAR)	G-secs open to foreign investment without limit	A tool to attract stable debt inflows

THE ANALYSIS: STRONG AT HOME, EXPOSED ABROAD

- 1 Domestic momentum is real.** Manufacturing PMI in expansion, GST net revenue growing near 8% year on year, and firm vehicle sales and consumer confidence show resilient private consumption.
- 2 The external account is the soft spot.** A 50% US tariff on select goods squeezes textiles, seafood and auto components; the rupee has weakened; FPI ownership fell to a multi-year low.
- 3 Policy has moved.** The RBI widened the FAR to long-tenor G-secs and the government removed capital-gains and interest taxes for FIIs to court flows back.
- 4 Confidence, not just liquidity.** Durable flows return on policy stability and a credible growth story, not on tax tweaks alone.

DATA AND INSTITUTIONS VAULT

manufacturing PMI in **expansion** (above 50, reading ~53.9 in a recent month); net **GST** revenue up ~**8% year on year**; growth projected near **6.6 to 6.9%** for 2026-27. **Stress: 50% US tariff** on select Indian goods; **rupee depreciation**; **record FPI outflows** in 2026, with FPI ownership of listed stocks at a multi-year low. **Policy tools: RBI's Fully Accessible Route (FAR)** widened to 15/30/40-year G-secs; removal of **capital-gains and interest taxes for FIIs**. **Concepts:** current account, hot money vs durable capital, PMI (a diffusion index; 50 is the no-change line), foreign-exchange reserves as a buffer.

THE DEBATE

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Argument that the risks are serious: Tariffs threaten jobs in labour-intensive MSME clusters, capital flight pressures the rupee, and confidence effects can be self-reinforcing, so **vigilance** (<https://ujijari.com/vocab/vigilance/>) is essential.

Argument that resilience (<https://ujijari.com/vocab/resilience/>) **will hold:** Domestic demand, easing inflation, ample reserves and growth near 6.6 to 6.9% can absorb the shock; portfolio flows are volatile and can reverse, as partial FPI buying in early 2026 showed.

Balanced verdict: Both are right. The base is strong, but the external tail risk is real. The honest read is a resilient economy that must not be complacent, one that manages the rupee, diversifies exports and courts durable capital.

HOW TO THINK ABOUT THIS (TRANSFERABLE SKILL)

An economy can be strong in level (high PMI, rising GST) yet fragile at the margin (tariffs, outflows). Good analysis asks which indicators are structural and which are shocks, and whether the shock is domestic or imported. Here, the strength is domestic and the fragility is external, so the policy answer is external management, not domestic stimulus.

DIAGRAM-IN-WORDS

Strong domestic base (PMI expansion + GST up + firm consumption) -> BUT external shocks (50% US tariff + strong dollar + oil risk) -> rupee depreciation + record FPI outflows -> policy response (FAR widened + FII tax relief) -> need durable capital + export diversification + steady rupee -> recovery sustained

THE WAY FORWARD

- 1 **Defend the rupee smartly.** Use reserves to smooth **volatility** (<https://ujijari.com/vocab/volatility/>), not to fix a level, and let the exchange rate absorb genuine shocks.
- 2 **Diversify export markets.** Deepen trade with the EU, Gulf, ASEAN and Africa to cut dependence on tariff-exposed US demand.
- 3 **Court durable capital.** Prioritise long-horizon FDI and long-tenor debt over hot money through policy stability and **ease of doing business** (<https://ujijari.com/terms/ease-of-doing-business/>).
- 4 **Protect MSME exporters.** Cushion tariff-hit clusters (textiles, seafood, auto components) with credit and market-access support.

THE TAKEAWAY BOX

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Credit India's domestic momentum (PMI, GST, consumption), then argue the external risks (US tariffs, rupee, FPI outflows) and the calibrated (<https://ujjyari.com/vocab/calibrated/>) macro management needed to sustain the recovery.

"The recovery is real but not risk-free: resilient, but watch the risks."

PMI 50 is the no-change line; 50% US tariff on select Indian goods; Fully Accessible Route (FAR); FPI vs FDI (hot money vs durable capital); capital-gains and interest tax relief for FIIs.

When domestic strength and external fragility coexist, how should policymakers weigh protecting exporters' jobs against fiscal and monetary discipline?

UPSC has asked on external-sector vulnerability, the current account and the effect of global capital flows on the Indian economy. This editorial updates that theme to 2026.

external-sector vulnerability, balance of payments, ease of doing business, MSMEs, monetary policy (<https://ujjyari.com/terms/monetary-policy/>), US-India trade.

Sources: *Indian Express* (<https://indianexpress.com/section/opinion>), *PIB* (<https://pib.gov.in>), *RBI* (<https://www.rbi.org.in>)

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KEY ARGUMENTS AT A GLANCE

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High-frequency indicators, manufacturing PMI in expansion, rising GST collections and firm consumption, point to genuine underlying strength in the Indian economy, but US tariff exposure, rupee pressure and record foreign portfolio outflows are real downside risks, so vigilant, coordinated macroeconomic management is needed to sustain the recovery.


SUPPORTING

- Domestic demand is holding up: manufacturing PMI stayed in expansion territory, GST net revenue grew year on year, and consumer confidence and vehicle sales point to resilient private consumption.
- The external account is the soft spot: a 50 per cent US tariff on select Indian goods squeezes labour-intensive exporters like textiles, seafood and auto components, while the rupee has depreciated and FPIs pulled out record sums.
- Policy has begun to respond, RBI widening the Fully Accessible Route for G-secs and the removal of capital-gains and interest taxes for foreign institutional investors, but confidence, not just liquidity, is what brings durable flows back.


COUNTER

Optimists argue the domestic engine is strong enough to absorb the external shock: growth is still projected near 6.6 to 6.9 per cent for 2026-27, inflation is easing, foreign-exchange reserves are ample and portfolio outflows are volatile hot money that can reverse quickly, as partial FPI buying earlier in 2026 showed.


WAY FORWARD

Sustain the recovery with a calibrated policy mix: defend the rupee without burning reserves, diversify export markets away from US tariff exposure, court durable FDI over hot money, protect MSME exporters and hold fiscal and monetary discipline.


MAINS ANSWER FRAMEWORK

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QUESTION

"India's domestic momentum is strong, but its external account is exposed." Examine the downside risks from US tariffs, currency pressure and portfolio outflows, and the macroeconomic management needed to sustain the recovery. (250 words)

INTRODUCTION

India enters the second half of 2026 with a paradox. Its domestic indicators, PMI, GST, consumption, point to real strength, yet its external account is under strain from US tariffs, a softer rupee and heavy portfolio outflows.

The economy is resilient, but the risks need watching.

BODY

The strength is genuine. India's manufacturing PMI has stayed in expansion, reading above 53 through the first quarter, net GST revenue has grown around 8 per cent year on year, and consumer confidence and vehicle sales signal firm private consumption.

Growth is still projected near 6.6 to 6.9 per cent for 2026-27. But the external account is the vulnerability. A 50 per cent US tariff on select Indian goods hits labour-intensive exporters, textiles, apparel, seafood, auto components, exactly the sectors that carry jobs. The rupee has depreciated under a strong dollar and West Asia oil risk, and foreign portfolio investors pulled record sums from Indian equities through mid-2026, dropping FPI ownership of listed stocks to a multi-year low.

Policy has responded: the RBI widened the Fully Accessible Route to include long tenor G-secs, and the government removed capital-gains and interest taxes for foreign institutional investors. The optimist's counter, that reserves are ample, inflation is easing and hot money reverses quickly, is fair, but it understates the jobs risk in tariff-hit MSME clusters and the confidence dimension of capital flight.

CONCLUSION

The recovery is real but not risk-free. Sustaining it needs a calibrated macro mix: a steady rupee, diversified export markets, durable FDI over hot money, and protection for tariff-hit exporters.

Resilient, but watch the risks.


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