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EDITORIAL ANALYSIS

The Case for Keeping UPI Free Outweighs the Costs of Its Infrastructure

BUSINESS STANDARD

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The Case for Keeping UPI Free Outweighs the Costs of Its Infrastructure

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INTERVIEW ANGLE

"Jagannathan argues the state should continue subsidising UPI rather than shifting costs to merchants. If UPI's infrastructure cost keeps rising as transaction volumes grow, is indefinite state subsidy fiscally sustainable, or does the argument only work at current volumes?"

Every fact web-verified against primary sources

THE LIFT LINE

UPI's success was built on being free. Whether it can stay both free and financially sustainable at its current scale is the harder question hiding behind the MDR debate.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

This editorial connects a live legislative development (the Taxation and Other Laws Amendment Bill, 2026's implications for UPI) to India's Digital Public Infrastructure strategy, giving a GS2/GS3 answer both a current legislative hook and a broader digital-economy policy framework to draw on.

GS Paper 2: Government policies and interventions for development; Digital Public Infrastructure policy.

GS Paper 3: Indian economy, digital payments, financial inclusion, banking.

CONCEPT	MEANING	WHY IT IS TESTABLE
Merchant Discount Rate (MDR)	A fee charged to merchants for processing digital payment transactions	The specific policy instrument under debate
UPI's zero-MDR structure	UPI transactions currently carry no merchant fee, subsidised by the state/banking system	The status quo the editorial defends
Digital Public Infrastructure (DPI)	State-supported digital systems (UPI, Aadhaar, DigiLocker) treated as public goods	The broader strategic framework UPI fits within

BACKGROUND AND CONTEXT

UPI (Unified Payments Interface), developed and operated by the **National Payments Corporation of India (NPCI)**, has become India's dominant digital-payments rail since its 2016 launch, processing a large and growing share of the country's retail transactions with no merchant discount rate charged on person-to-merchant transactions, a policy choice credited with driving its rapid, broad-based adoption. The **Taxation and Other Laws (Amendment) Bill, 2026** raised questions about UPI's continued zero-MDR status, prompting the debate this editorial engages.

THE ANALYSIS

1. UPI's zero-MDR structure and its adoption success are causally linked, not coincidental. Free-to-use status specifically benefits price-sensitive small merchants and low-income users, the population most likely to be deterred by even small transaction fees, meaning any MDR introduction risks disproportionately affecting exactly the users UPI's financial-inclusion mission is meant to serve.

2. The traceability and tax-compliance benefits are genuine positive externalities beyond the payments ecosystem itself. Digital transaction records support tax compliance and reduce reliance on the informal cash economy, benefits that accrue to the broader economy and state revenue, not merely to UPI users and merchants directly.

3. The sovereign payments-technology argument treats UPI as a strategic asset, not merely a service. Continued free-to-use status supports India's broader Digital Public Infrastructure export strategy, since other countries have shown interest in adopting UPI-like systems, making UPI's domestic success a form of soft-power and technology-diplomacy asset.

4. The fiscal-sustainability counter-argument is a genuine, not dismissible, concern given growing transaction volumes. An infrastructure cost of Rs 10,000-20,000 crore annually, currently absorbed by the state and banking system, will likely grow as UPI transaction volumes continue expanding, raising a legitimate question about indefinite subsidy sustainability.

5. The underlying policy question, whether to keep subsidising a widely adopted public good indefinitely, recurs across digital-infrastructure policy generally. Similar debates arise around subsidised broadband access, public Wi-Fi, and other digital-public-infrastructure components, making UPI's MDR debate a specific instance of a broader, recurring policy tension.

DATA AND INSTITUTIONS VAULT

PRELIMS-GRADE FACTS:

UPI: operated by National Payments Corporation of India (NPCI); zero merchant discount rate on person-to-merchant transactions

Estimated annual infrastructure cost: Rs 10,000-20,000 crore

Relevant legislation: Taxation and Other Laws (Amendment) Bill, 2026

Author: R Jagannathan

WATCH THE TRAP: DO NOT DESCRIBE UPI AS COSTLESS. THE SYSTEM CARRIES REAL, SUBSTANTIAL INFRASTRUCTURE COSTS CURRENTLY ABSORBED BY THE STATE AND BANKING SYSTEM RATHER THAN CHARGED TO TRANSACTION PARTICIPANTS; THE DEBATE IS ABOUT WHO SHOULD BEAR THAT COST, NOT WHETHER THE COST EXISTS.

THE DEBATE

Argument FOR keeping UPI free (Jagannathan's position). The broader economic and social benefits, financial inclusion, traceability, tax compliance, sovereign payments-technology advantage, outweigh the infrastructure cost, and introducing an MDR risks disproportionately harming price-sensitive small merchants and users.

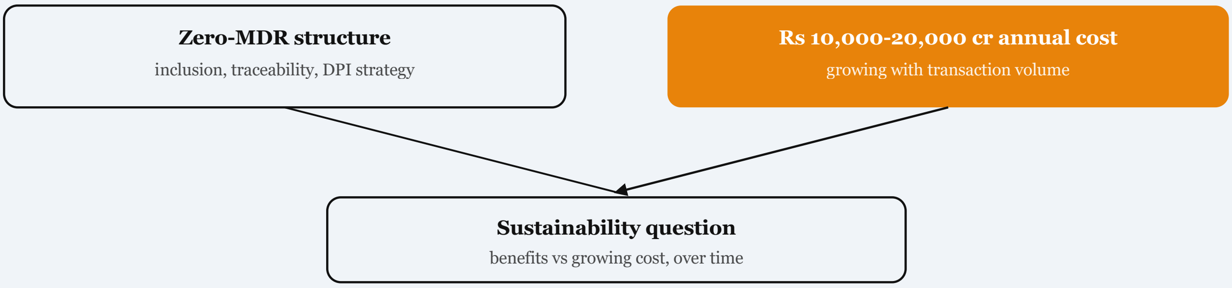
Argument AGAINST indefinite subsidy. The Rs 10,000-20,000 crore annual cost is substantial and likely to grow with transaction volumes, raising genuine fiscal-sustainability concerns about whether the state or banking system can indefinitely absorb this cost without crowding out other priorities.

Balanced verdict. UPI's financial-inclusion and traceability benefits are genuine and significant, supporting continued state investment in the near term, but the fiscal-sustainability question deserves serious, ongoing scrutiny as transaction volumes grow, rather than treating the current subsidy arrangement as permanently settled regardless of scale.

HOW TO THINK ABOUT THIS

The transferable pattern: **when evaluating whether to keep a widely adopted digital public good free or introduce user fees, weigh the specific positive externalities (financial inclusion, traceability, strategic value) against the specific fiscal cost and its growth trajectory, rather than treating either "keep it free" or "introduce fees" as self-evidently correct.** This tension recurs across digital-public-infrastructure policy generally.

DIAGRAM-IN-WORDS



UPI's zero-MDR structure delivers real inclusion and strategic benefits, weighed against a substantial and growing infrastructure cost that raises a genuine sustainability question.

TAKEAWAY BOX

UPI's success was built on being free. Whether it can stay both free and financially sustainable at its current scale is the harder question hiding behind the MDR debate.

UPI, *operated by* **NPCI**; *zero merchant discount rate; estimated infrastructure cost* **Rs 10,000-20,000 crore/year**; **Taxation and Other Laws (Amendment) Bill, 2026**.

should the state prioritise keeping a widely used digital service free for equity reasons even as its fiscal cost grows, or does fiscal responsibility eventually require some cost-sharing regardless of the equity trade-off?

UPSC has tested UPI, Digital Public Infrastructure and financial inclusion (GS3); this editorial's cost-benefit framing strengthens any such answer.

"The case for keeping essential digital public infrastructure free must be weighed against its long-term fiscal sustainability." Examine this claim with reference to UPI's merchant discount rate debate.

Sources: Business Standard, National Payments Corporation of India

Source: The Case for Keeping UPI Free Outweighs the Costs of Its Infrastructure — Ujiyari.com | Free UPSC & State PCS Editorial Analysis

KEY ARGUMENTS AT A GLANCE

R Jagannathan argues, in Business Standard, against imposing a merchant discount rate (MDR) on UPI transactions following the Taxation and Other Laws (Amendment) Bill, 2026, contending the broader economic and social benefits of free digital payments, transaction traceability, reduced cash-handling costs, sovereign payments-technology advantage, outweigh the estimated Rs 10,000-20,000 crore annual infrastructure cost, and that the state should continue subsidising UPI rather than shifting costs to merchants or consumers.

✓ SUPPORTING

- UPI's zero-MDR structure has been central to its explosive adoption across India, including among small merchants and low-income users who would be more price-sensitive to even small transaction fees.
- Free digital payments improve transaction traceability, supporting tax compliance and reducing the informal cash economy, benefits that extend well beyond the payments ecosystem itself.
- UPI represents a genuine sovereign payments-technology achievement, and its continued free-to-use status supports India's broader digital public infrastructure strategy and its export potential to other countries.

⚠ COUNTER

UPI's infrastructure, banks, payment service providers, the National Payments Corporation of India, incurs real, substantial costs, estimated at Rs 10,000-20,000 crore annually, and indefinitely subsidising this from the exchequer or absorbing it within the banking system may not be sustainable as transaction volumes continue to grow, particularly if it crowds out other public investment priorities.

→ WAY FORWARD

Jagannathan's position is that the state should continue bearing UPI's infrastructure cost as a strategic investment in digital financial inclusion and payments sovereignty, rather than introducing an MDR that could reduce adoption among price-sensitive small merchants and users, treating the cost as a justified public expenditure rather than a burden to be shifted to transaction participants.

✍️ MAINS ANSWER FRAMEWORK

QUESTION

Examine the case for and against imposing a merchant discount rate on UPI transactions, weighing the fiscal cost of subsidising free digital payments against their broader economic and financial-inclusion benefits. (250 words)

INTRODUCTION

R Jagannathan, writing in Business Standard, argues against imposing a merchant discount rate on UPI transactions, contending that the broader economic and social benefits of free digital payments outweigh their substantial infrastructure cost, and that the state should continue subsidising the system rather than shifting costs onto merchants or consumers.

BODY

UPI's zero-MDR structure has been central to its rapid, broad-based adoption across India, including among small merchants and low-income users who are particularly price-sensitive to even nominal transaction fees. Jagannathan argues this free-to-use status delivers benefits extending well beyond the payments ecosystem itself: improved transaction traceability supports tax compliance and reduces reliance on the informal cash economy, while UPI's success represents a genuine sovereign payments-technology achievement with export potential to other countries adopting similar digital public infrastructure models. Against this, the infrastructure supporting UPI, banks, payment service providers, and the National Payments Corporation of India, incurs real, substantial costs, estimated at Rs 10,000-20,000 crore annually, currently borne by the state and banking system rather than by transaction participants. The core tension is whether this subsidy remains fiscally sustainable as transaction volumes continue to grow, or whether continuing to treat it as a strategic investment in financial inclusion and payments sovereignty justifies the ongoing cost regardless of scale.

CONCLUSION

A complete Mains answer should engage both the fiscal-sustainability concern and the financial-inclusion and traceability benefits as genuine, competing considerations, rather than treating either the case for an MDR or the case against it as self-evidently correct, since the underlying question, whether a public good's continued free provision remains justified as its scale and cost grow, recurs across many digital-public-infrastructure policy debates.

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