



1 Impact of Inflation (Source: The Indian Express)

Impact on the Domestic Economy

- **Debtors (Borrowers) Gain:** They repay their loans with money that has less purchasing power than the money they borrowed.
- **Creditors (Lenders) Lose:** The real value of the money they receive back falls.
- **Fixed Income (Salaried/Pensioners) Lose:** Their purchasing power falls directly because their income does not automatically rise with the price index.
- **Business/Variable Income Groups Gain:** Business owners and equity holders often see profits rise as the selling price of goods increases faster than production costs (wages/raw materials).
- **Purchasing Power:** Reduction of the purchasing power of currency.
- **Shift to Physical Assets:** High inflation diverts capital away from productive financial savings (like banks or mutual funds) into physical assets like gold and real estate, which act as inflation hedges but do not generate productive employment.

Impact on the External Sector

- **Export Competitiveness:** High domestic inflation makes domestic goods more expensive in the international market, leading to a decrease in exports.
- **Import Dynamics:** Foreign goods become relatively cheaper compared to expensive domestic products, leading to an increase in imports. This widening gap worsens the Current Account Deficit (CAD).
- **Exchange Rate Depreciation:** Due to declining export competitiveness and a widening CAD, the demand for domestic currency falls, leading to the depreciation of the Indian Rupee (INR) against major foreign currencies.

Impact on Government Finances & Policy

- **Fiscal Deficit:** Government expenditure on public projects, salaries, and subsidies increases due to rising costs. If revenue collection does not keep pace, the fiscal deficit widens.
- **Monetary Policy Tightening:** The Reserve Bank of India (RBI) adopts a dear money policy. It raises key policy rates (like the Repo Rate) to suck liquidity out of the market. While this controls inflation, it increases the cost of borrowing for businesses, potentially slowing down GDP growth.
- **Tax Revenues:** In the short run, the government might see a nominal increase in indirect tax collections (like GST) because taxes are levied on the increased nominal value of goods

2 Abraham Accords (Source: The Indian Express)

The Abraham Accords is a series of diplomatic agreements signed in September 2020 that normalized relations between Israel and several Arab states which were brokered by USA.

- Named after Abraham, the patriarch revered in Judaism, Christianity, and Islam — symbolizing shared heritage

Countries Part of the Accord

- Israel, United Arab Emirates, Bahrain, Morocco, Sudan, Kazakhstan

Key Pillars of the Accords

- **Diplomatic Exchanges:** Establishment of embassies and ambassadorial ties
- **Cooperation Sectors:** Tourism, trade, healthcare, security, technology, investment
- **Religious Access:** Muslims worldwide can visit Al-Aqsa Mosque in Jerusalem (the 3rd-holiest site in Islam).

Significance

- Counter Axis of Resistance by Iran in the region and the U.S. reasserting influence in West Asia.
- Promotes peace, interfaith dialogue, and ends radicalization.
- India can maintain balanced ties with both Israel and the Arab states.

Challenges

- Palestinian question remains unresolved.
- Current conflicts in the region – USA – Israel Alliance vs. Iran-backed Axis of Resistance.



The Abraham Accords

A Historic Peace Agreement