

## Addapedia Editorial Analysis PDF 07 September 2024

### Stick to fiscal deficit as the norm for fiscal prudence

(The Hindu, 07-09-24)

#### What is the current fiscal situation of Indian government?

- Higher range of Fiscal Deficit:
  - The Centre's fiscal deficit is budgeted at 4.9% of GDP in 2024-25 and it is projected to reduce to 4.5% of GDP in 2025-26
  - Combined fiscal deficit of Centre and States could amount to 7.5% of GDP for several years
- Increasing Debt-GDP Ratio
  - The Centre's debt-GDP ratio is estimated at 54% in 2025-26.
  - This implies abandoning the FRBM 2018 debt-GDP target of 40% for the central government
- Reducing Household financial savings
  - Household financial savings have decreased to 5.3% of GDP in 2022-23, down from an average of 7.6% in the previous four years
  - With 5.3% household savings and about 2% net inflow of foreign capital, the available investible surplus of 7.3% would be fully pre-empted by government fiscal deficits
  - This leaves **little space for the private sector** to access available investible surplus. This can potentially slow down private sector expansion and economic growth.

#### What are the concerns with poor fiscal parameters of Union government?

- Higher debt levels typically lead to **higher interest rates**, increasing the cost of borrowing for both the government and private sector
- High fiscal deficits and debt can reduce investor confidence, potentially leading to **currency depreciation**.
- Over time, high debt servicing costs can **divert resources from productive** investments, potentially slowing economic growth.
- High debt levels **limit the government's ability to respond to economic shocks** or crises with fiscal stimulus measures. Ex: Sri Lanka post COVID crisis.
- Persistently high fiscal deficits and debt-GDP ratios can lead to **credit rating downgrades**, further increasing borrowing costs.
- As seen in the early 1900s, rising fiscal deficit and government debt led to "a difficult **balance of payments situation**."

## What is the situation with interest payments and its concerns?

- The ratio of Centre's interest payment to revenue receipts net of tax devolution increased from 35% in 2016-17 to an average of 38.4% during 2021-22 to 2023-24
- India's combined interest payment to revenue receipts ratio averaged 24% during 2015-16 to 2019-20
- Many countries have higher debt-GDP ratios than India but lower interest payment to revenue receipt ratios
- During 2015-19, the ratio of interest payment to revenue receipts averaged:
  - 5.5% for Japan
  - 6.6% for the UK
  - 8.5% for the US
- A high ratio means a large portion of the government's revenue is being used to pay interest on its debt.
- This limits the government's ability to spend on developmental activities, social welfare programs, and infrastructure.
- Such high levels of debt and interest payments make the economy more vulnerable to shocks.

*Can you answer the following question?*

*Analyze the implications of India's current fiscal deficit and debt-GDP ratio on economic growth and private sector investment. Suggest measures to achieve a sustainable balance between government borrowing and the availability of investible surplus for the private sector.*

## A tourism policy ill-suited for Jammu and Kashmir

(The Hindu, 07-09-24)

### How has increased tourism affected Kashmir's environment?

- Over 4 crore tourists have visited Kashmir since the announcement of a new tourism policy in 2020
- In the first half of 2024, 1.2 million tourists arrived in Kashmir
- This influx has caused ecological disturbances, including:
  - Deforestation
  - Waste accumulation
  - Unregulated construction
  - Strain on water and electricity resources
- Experts believe unchecked tourism was a key factor in the catastrophic floods of 2014

### What specific environmental challenges is Kashmir facing?

- Acute shortage of drinking water in many areas
- Faster depletion of glaciers due to climate change
- Imminent agricultural drought due to below-average rainfall and erratic weather patterns
- Less water in rivers and streams, affecting irrigation
- Threat to crop yields, potentially leading to economic distress for farmers and food shortages
- Increased vulnerability to natural disasters (earthquakes, floods, landslides, avalanches)

## What were the impacts of recent natural disasters in the region?

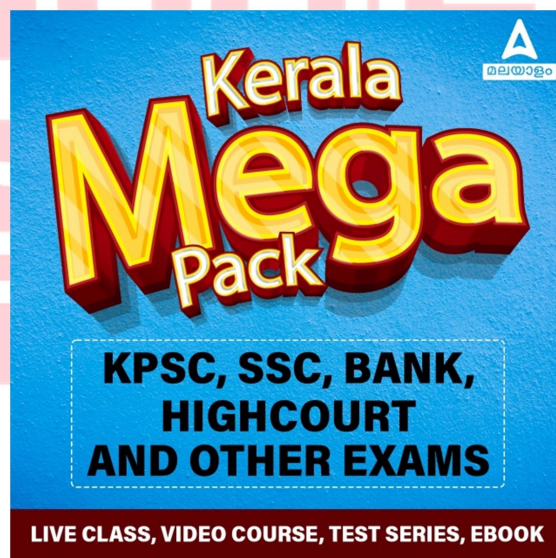
- 2014 floods:
  - Affected around 5 million people (4.5 million in Kashmir Valley, 0.5 million in Jammu)
  - Estimated economic loss of ₹5,400 crore-₹5,700 crore
- 2022 flash floods near Amarnath:
  - Killed 16 people
  - Left 40 missing

## What solutions are proposed to address these environmental challenges?

- Adoption of a resilient and sustainable tourism model
- Promoting eco-friendly practices:
  - Reducing waste
  - Conserving water
  - Protecting biodiversity
- Including local communities in tourism planning and decision-making
- Building infrastructure that can withstand extreme weather
- Diversifying tourism offerings beyond peak seasons
- Creating policies that protect interests of both tourists and locals

Can you answer the following question?

Evaluate the environmental impact of increased tourism in Kashmir and suggest sustainable measures to balance economic development with ecological conservation in the region.





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