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## 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.*

