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Page 01 : GS 2 : Social Justice

The Union Health Ministry on Friday approved the introduction of a new treatment regimen for multidrug-resistant tuberculosis in India.

- The BPaLM regimen has proven to be a safe, more effective and quicker treatment option than the previous multidrug-resistant tuberculosis (MDR-TB) treatment procedure, the Ministry said.
- It added that the country was working towards the elimination of TB by 2025, five years ahead of the global target for eliminating the disease under the sustainable development goals. As part of these efforts, the Ministry has introduced the BPaLM regimen, a novel treatment for MDR-TB, under its National TB Elimination Programme.

High success rate

- This regimen includes a new anti-TB drug, Pretomanid, in combination with Bedaquiline and Linezolid (with or without Moxifloxacin). Pretomanid had earlier been approved and licensed for use in India by the Central Drugs Standard Control Organisation.
- While traditional treatments can last up to 20 months with severe side effects, the BPaLM regimen can cure drug-resistant TB in just six months with a high success rate.
- India's 75,000 drug-resistant TB patients will now be able to benefit from this shorter regimen.

Trends in TB Cases and Deaths:

- The majority of the TB cases are still reported by the government health centres, even as there has been an uptick in notifications by the private sector.
- Nearly 33% or 8.4 lakh of the 25.5 lakh cases reported in 2023 came from the private sector.
- To compare, only 1.9 lakh cases were reported by the private sector in 2015, the year considered to be the baseline by the programme that is geared towards the elimination of the disease.
- The estimated incidence of TB in 2023 increased slightly to 27.8 lakh from the previous year's estimate of 27.4 lakh.
- The mortality due to the infection remained the same at 3.2 lakh.

Centre approves new treatment regimen for multidrug-resistant TB

The new era

What does the introduction of the new treatment regimen mean for India's 75,000 drug-resistant TB patients?

1. It has been proven to be safe, more effective and a quicker treatment option than the previous MDR-TB treatment procedure
2. It brings down treatment time to around six months from the earlier duration of 18 to 24 months
3. It has been found to be cheaper for both health systems and patients

The regimen consists of four drugs – Bedaquiline, Pretomanid, Linezolid and Moxifloxacin

The Hindu Bureau
NEW DELHI

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India's 75,000 drug-resistant TB patients will now be able to benefit from this shorter regimen.

- India's TB mortality dropped from 4.94 lakhs in 2021 to 3.31 lakhs in 2022.
- India reached its 2023 target of initiating treatment in 95% of patients diagnosed with the infection.

UPSC Prelims PYQ : 2017

Ques : Which of the following are the objectives of 'National Nutrition Mission'?

1. To create awareness relating to malnutrition among pregnant women and lactating mothers.
2. To reduce the incidence of anaemia among young children, adolescent girls and women.
3. To promote the consumption of millets, coarse cereals and unpolished rice.
4. To promote the consumption of poultry eggs.

Select the correct answer using the code given below:

(a) 1 and 2 only

(b) 1, 2 and 3 only

(c) 1, 2 and 4 only

(d) 3 and 4 only

Ans: (a)

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Page 03 : GS 2 – Polity Governance

Recent discussions before a parliamentary committee have highlighted significant tensions between the Archaeological Survey of India (ASI) and the Waqf Board concerning the management of historical monuments.

Shared ownership of protected monuments with Waqf Board causes conflict, says ASI

Sobhana K. Nair
NEW DELHI

Quoting the examples of Fatehpur Sikri in Agra and Atala Masjid in Jaunpur, the Archaeological Survey of India (ASI) told a Parliamentary panel that having protected monuments which are also notified as Waqf property gives rise to conflicts and administrative issues. The ASI made this argument during its submission to a joint committee holding consultations on the Waqf (Amendment) Bill, 2024.

Contesting this claim, Opposition members of the committee argued that no monument is arbitrarily appropriated by the Waqf Board without historical evidence supporting its ownership, noting that the ASI's own governing legislation – the Ancient Monuments and Archaeological Sites and Remains Act (AMASR Act) – equips the organisation to deal with such cases.

The ASI's list had 53 protected monuments, including Fatehpur Sikri, which have also been declared as Waqf property. FILE PHOTO

The ASI shared a list of 53 protected monuments, which have also been declared as Waqf property by the Waqf Board, using the Waqf Act, 1995. Such "dual authorities" create conflict, ASI officials said. They underlined that many of these properties have been categorised as Waqf only after they were declared as protected sites.

According to sources, the ASI complained that its staff have been restricted from carrying out "conservation" work in such monuments. They also accused the Board of carrying out "several additions and alterations" to the original structure of these protected monuments, hampering the "authenticity and integrity" of such structures. They listed the examples of the Atala Masjid in Jaunpur where shops were built into the enclosure, and Mecca Masjid in Ahmednagar, where fittings and fixtures were installed without the ASI's permission. They also cited the case of Fatehpur Sikri, where officials claimed that the Waqf is directly appointing tour guides, replacing the ASI-certified guides.

These ASI charges were contested by a number of Opposition members. All India Majlis-e-Ittehadul Muslimeen (AIMIM) MP Asadduddin Owaisi, it is learnt, pointed out that the ASI is deliberately ignoring the very framework of laws that it operates under. The AMASR Act, he argued, provides for balancing private property rights to protected monuments with the public purpose of preservation.

Other members countered that no property could be declared as a Waqf arbitrarily without historical evidence of "Waqf by user". The new law, they said, is trying to do away with this very clause of "Waqf by user" which will throw open all Waqf properties for multiple claims.

ASI officials were also cornered by the ruling BJP's MPs, who asked them why the organisation had failed to act in instances listed by them where the Waqf status allegedly threatened the integrity and authenticity of the protected structures.

- The ASI has raised concerns about the administrative conflicts and conservation issues arising from the dual designation of certain protected monuments as Waqf properties. This debate unfolds as the Waqf (Amendment) Bill, 2024, is under review.

Key Issues Raised by ASI

- The ASI manages and conserves monuments classified under the Ancient Monuments and Archaeological Sites and Remains Act (AMASR Act).
- Simultaneously, some of these monuments have been declared as Waqf properties under the Waqf Act, 1995.

Examples:

- The Fatehpur Sikri in Agra and Atala Masjid in Jaunpur are cited as examples where such dual authority has led to conflicts.

- The Atala Masjid in Jaunpur has reportedly seen shops constructed within its precincts, and fittings in Mecca Masjid, Ahmednagar, were installed without ASI approval.

About Waqf Board

- The Waqf Board is an organization that manages and oversees properties designated as Waqf under Islamic law.
    - These properties are considered charitable endowments and are often used for religious, educational, or social purposes.
- **Functions:** Waqf Boards are responsible for the upkeep and administration of Waqf properties, which may include mosques, graveyards, schools, and other charitable institutions.
    - The Waqf Act 1995 empowers the Waqf Board to declare any property or building as Waqf property in the name of charity.
- **Waqf (Amendment) Bill, 2024:** The bill seeks to amend existing Waqf laws and address various issues related to the management of Waqf properties. It is under review by a parliamentary committee.

Protected Monuments

- Protected monuments are historical and archaeological sites recognized by the government for their cultural, historical, or architectural significance.
- They are safeguarded under the Ancient Monuments and Archaeological Sites and Remains Act (AMASR Act), 1958.
- The Archaeological Survey of India (ASI) is responsible for the conservation and preservation of these sites. This includes preventing unauthorized alterations, conducting restorations, and ensuring that the historical integrity of the monuments is maintained.

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Page 05 : GS 3 : Enviroment

The National Tiger Conservation Authority (NTCA), the apex body responsible for tiger conservation, recently issued directives urging 19 States to prioritize the relocation of villagers residing in core tiger zones.

NTCA letter on relocation from tiger zones draws ire

Apex tiger conservation authority asks 19 States to 'prioritise' removal of residents from core tiger zones; senior Environment Ministry official says these letters are routine and periodic reminders

Jacob Koshy
NEW DELHI

A recent letter by the National Tiger Conservation Authority (NTCA) – the apex body tasked with tiger conservation – asking 19 States to "prioritise" the removal of villagers who are residents in the core tiger zones has drawn the ire of several organisations and activists, who have written to Union Environment Minister Bhupender Yadav protesting against these directions.

"It has been observed that 591 villages comprising 64,801 families are still residing in the core area (of the tiger zone). The progress of village relocation is very slow and it poses grave concern in the light of tiger conservation," said the letter written by G.S. Bharadwaj, Additional DGF (Project Tiger) and Member Secretary, NTCA to Subhash Malkede, Chief Wildlife Warden, Karnataka on June 19.

Though *The Hindu* has only viewed this letter, similar letters have been sent to other States too. Karnataka has 81 villages in the core zone, with 1,175 families having been relocated since the inception of Project Tiger in 1973.

The "core zone" is a tiger reserve area where tribals cannot live, while hunting and collecting forest produce is banned. FILE PHOTO

The "core zone" refers to the portion in a tiger reserve where tribals cannot live and activities such as hunting and collecting forest produce is banned. There is a concentric circle outside the "core zone" called the buffer zone where these restrictions are eased but regulated.

There are 53 tiger reserves in India across 19 States, with 848 villages comprising 89,808 families in the core zone. Since 1973, 257 of these villages comprising 25,007 families have been relocated. The Wildlife Act says that core zones are to be "inviolate" and these must be made so by coaxing residents to "voluntarily relocate" on "mutually agreed terms and conditions".

"We are appalled at the step taken by the NTCA directing the relocation of the forest dependent communities in flagrant violation of all the relevant laws," read the letter by the organisations dated September 5.

The letter alleges that the NTCA's relocation orders were in "complete violation" of the Wildlife (Protection) Act, the Forest Rights Act, the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act (LARR), and the Scheduled Castes and Scheduled Tribes (Prevention of Atrocities) Act.

"The NTCA action put pressure on the State governments to relocate communities... forcing the State governments to commit illegalities. This would lead to massive conflicts between State authorities and the Scheduled Tribes and other forest dwelling tribes living in the tiger reserves," the letter added.

A senior official in the Environment Ministry, who declined to be identified, told *The Hindu* that these letters were "routine" and periodic reminders to the States to make core zones inviolate. "The process of relocation is voluntary and cannot be done without settling the rights of forest dwellers. There are several success stories but it is a necessarily slow process as data will show."

NTCA's Directive:

- According to the NTCA, 591 villages, comprising 64,801 families, reside in the core tiger zone, posing a significant concern for tiger conservation.

- The core zone refers to the part of a tiger reserve where human activities such as hunting and forest produce collection are PROHIBITED, and tribals CANNOT reside.
- Outside the core zone is the buffer zone, where certain activities are allowed but regulated.
- About National Tiger Conservation Authority (NTCA):

	Details
Constitution	**Statutory body** under MoEFCC, constituted under **Wildlife (Protection) Act, 1972.**
Chairmanship	Chaired by the **Minister** for Environment and Forests.
Structure	• **8 experts** in wildlife conservation and tribal welfare. • **3 MPs**. • **Inspector General of Forests** as ex-officio Member **Secretary**.
Objectives	• Provide statutory authority to Project Tiger. • Enhance Centre-State accountability in managing Tiger Reserves. • Provide parliamentary oversight. • Address livelihood concerns of local communities.
Powers and Functions	• Approve state-prepared tiger conservation plans. • Prevent unsustainable land use in Tiger Reserves. • Set standards for tourism and tiger conservation guidelines. • Conduct tiger censuses (via M-STrIPES app). • Support biodiversity conservation through eco-development and people's participation.
Key Initiative	• **Project Tiger**, a Centrally Sponsored Scheme for in-situ conservation of tigers, launched on April 1, 1973.

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UPSC Prelims PYQ : 2014

Ques : Consider the following statements:

1. Animal Welfare Board of India is established under the Environment (Protection) Act, 1986.

2. National Tiger Conservation Authority is a statutory body.

3. National Ganga River Basin Authority is chaired by the Prime Minister.

Which of the statements given above is/ are correct?

(a) 1 only

(b) 2 and 3 only

(c) 2 only

(d)1, 2 and 3

Ans: b)

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Page 06 : GS 2 : Indian Polity

Kashmir's fragile environment faces severe damage from urbanization, commercialization, and climate change, underscoring the urgent need for a resilient and sustainable tourism model.

A tourism policy ill-suited for Jammu and Kashmir

Bilal Ahmad Wagay

an Assistant Professor of political science in Jammu and Kashmir higher education, and a researcher and literary critic

In the collective consciousness, Kashmir remains an Eden, but time has changed its environment. The relentless march of urbanisation and commercialisation has inflicted grievous wounds on this once pristine sanctuary. The manifestations of climate change are also evident.

Effects of new policy

The influx of tourists is causing great stress to the Valley's delicate ecological equilibrium. The Jammu and Kashmir government's recent tourism policy efforts, ostensibly to project an image of tranquillity and normalcy after the dilution of the region's special status, have had significant environmental repercussions. According to official data, over four 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.

The unbridled escalation in tourist activities, propelled by the administration's endeavours to showcase the Valley's newfound stability, is causing an array of ecological disturbances. Additionally, inadequate waste management systems are worsening pollution levels in waterbodies, further compounding the ecological degradation. The promotion of pilgrimage tourism in Jammu and Kashmir, particularly in areas such as Pahalgam and the Trikuta ranges where the Mata Vaishno Devi temple is located, has significantly strained the fragile ecosystem. The influx, often exceeding the region's carrying capacity, has led to deforestation, waste accumulation, and unregulated construction. Experts believe that it was unchecked tourism that was a key factor contributing to the catastrophic floods in 2014.

The influx of visitors necessitates the expansion of infrastructure from hotels, roads, and recreational facilities, that invariably encroach upon natural habitats. The construction boom not only disrupts wildlife corridors but also leads to deforestation, exacerbating soil erosion and affecting the landscape. Moreover, the heightened demand for water and electricity strains local resources.

The damage being caused to the region's fragile environment highlights the need for a resilient and sustainable tourism model

Unchecked withdrawal of groundwater is depleting aquifers at an alarming rate, while increased electricity consumption necessitates greater reliance on hydroelectric projects. These projects, though renewable in nature, can devastate local aquatic ecosystems and alter the hydrological balance.

There is an acute shortage of drinking water in many areas of Kashmir. The depletion of glaciers at a faster rate due to climate change has led to water scarcity. The Valley is facing an imminent agricultural drought, a situation exacerbated by below-average rainfall and erratic weather patterns. The region is witnessing less water in rivers and streams, in turn affecting irrigation. Drought also threatens crop yields, which could lead to economic distress for farmers and potential food shortages. Climate change poses long-term challenges to Kashmir's agricultural sustainability and food security.

A fragile region

Jammu and Kashmir is a region that is affected by natural disasters such as earthquakes, floods, landslides, and avalanches. The region also lies in a seismically active zone. The catastrophic floods of 2014 caused widespread destruction, submerging large parts of the Kashmir Valley, damaging infrastructure, and displacing thousands of people. Around five million people were affected – around 4.5 million in the Valley and half a million in the Jammu region. The State's economy suffered an estimated loss of ₹5,400 crore-₹5,700 crore. In 2022, flash floods caused by a cloudburst near Amarnath killed 16 people and left 40 missing. The construction of roads to unexplored tourist destinations, where the intent is to boost accessibility and economic growth, often ends up disrupting fragile ecosystems.

The landslide in Wayanad, Kerala, which claimed over 200 lives, is a stark reminder of the grave dangers posed by unchecked commercialisation in ecologically sensitive regions. It is a moment of caution in regions such as Kashmir, which have a delicate ecosystem.

Have a new model

The natural beauty of Kashmir is a significant draw for tourists, but the push for commercialisation through the construction of hotels, resorts and other infrastructure can have catastrophic consequences if not managed sustainably. The region's fragile environment necessitates the adoption of a resilient and sustainable tourism model. In Jammu and Kashmir, this would involve promoting eco-friendly practices that minimise environmental degradation such as reducing waste, conserving water, and protecting biodiversity. It also requires the inclusion of local communities in tourism planning and decision-making.

Building resilience requires infrastructure that can withstand extreme weather, diversifying tourism offerings beyond just the peak seasons, and creating policies that protect the interests of both tourists and locals. By adopting a resilient and sustainable tourism model, Jammu and Kashmir can safeguard its natural beauty, support local communities, and ensure that tourism remains a viable economic driver for generations to come. This shift is not only necessary but also urgent in order to balance economic development with environmental conservation and social equity in the region.

Aims and Objectives of J&K Tourism Policy

- **Promoting all forms of Tourism:** The policy aims to promote traditional recreational tourism as well as adventure, pilgrimage, spiritual, and health tourism. This diversification can attract a wider range of tourists.
- **Sustainable Practices:** The policy emphasizes the need for sustainable tourism practices that minimize environmental degradation, conserve water, and protect biodiversity.
- Infrastructure Development: It seeks to improve infrastructure, including hotels, roads, and recreational facilities, to accommodate the growing number of tourists.
- **Community Engagement:** The policy aims to include local communities in tourism planning and decision-making processes, promoting their involvement in conservation efforts and sustainable practices.

- **Diversification of Tourism:** By promoting various forms of tourism, such as eco-tourism, adventure tourism, and cultural tourism, the policy aims to reduce over-reliance on traditional tourist spots and distribute tourist footfall more evenly across the region.

What are the effects of the new Policy?

Positive Impacts	Negative Impacts:
• **Increased Tourist Influx:** Since the announcement of the New Tourism policy in 2020, over 40 million tourists have visited Kashmir. • **Increase in Employment:** The policy helps to generate employment of approximately 50,000 people per year, which can significantly boost the local economy. • **Promotes Culture and Festivals:** The policy promotes city-wise events and festivals with a pre-defined calendar to attract tourists. • **Boosting Exports and Collaborations**: The policy helps the handicraft industry, which was earlier limited to select destinations, to directly export and collaborate both nationally and internationally.	• **Environmental Stress:** The rapid increase in tourist activities has led to significant ecological disturbances, including deforestation, waste accumulation, and pollution of water bodies. • **Increase in Infra-strain:** It also resulted in encroachment on natural habitats and increased pressure on local resources, such as water and electricity. • **Climate Change Impact:** The region is experiencing accelerated effects of climate change, including glacial depletion and erratic weather patterns, which threaten agricultural sustainability and water availability

Major Challenge: Fragility of the Region

- **Natural Disasters:** Jammu and Kashmir is prone to natural disasters such as earthquakes, floods, and landslides, which can be exacerbated by unchecked commercialization and environmental degradation.
- **Ecological Sensitivity:** The region's delicate ecosystems are highly vulnerable to the impacts of tourism and urbanization, necessitating careful management to prevent irreversible damage.
- Resource Depletion: The increased demand for water and energy resources is leading to the depletion of aquifers and heightened reliance on hydroelectric projects, which disrupt local aquatic ecosystems.

Need for a Resilient Tourism Model (Way Forward)

- **Sustainable Tourism Practices:** There is an urgent need to adopt a resilient and sustainable tourism model that prioritizes eco-friendly practices, waste reduction, and conservation of natural resources.
- **Community Involvement:** Engaging local communities in tourism planning and decision-making is crucial for fostering sustainable practices and ensuring that the benefits of tourism are shared equitably.
- **Infrastructure Resilience:** Developing infrastructure that can withstand extreme weather events and diversifying tourism offerings beyond peak seasons will help mitigate the impacts of climate change.
- **Policy Integration:** A cohesive approach that integrates sustainable tourism policies with broader economic and environmental strategies is essential for preserving the region's natural beauty while supporting local economies.

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Term In News : Financialisation

Chief Economic Adviser (CEA) recently cautioned that financialisation might distort India's macroeconomic outcomes.

About Financialisation:

- It refers to the increase in size and importance of a country's financial sector relative to its overall economy.
- It is a process whereby financial markets, financial institutions and financial elites gain greater influence over economic policy and economic outcomes.
- It represents the shift from traditional industrial or productive activities (like manufacturing) to financial activities that involve the trading, management and speculation of financial assets.
- The term also describes the increasing diversity of transactions and market players as well as their intersection with all parts of the economy and society.
- It has occurred as countries shifted away from industrial capitalism.
- It impacts both the macroeconomy and the microeconomy by changing how financial markets are structured and operated, and by influencing corporate behavior and economic policy.
- Financialisation has also caused incomes to increase more in the financial sector than in other sectors of the economy.

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Stick to fiscal deficit as the norm for fiscal prudence

C. Rangarajan

Distinguished University Professor, Ahmedabad University and a former Governor, Reserve Bank of India

D.K. Srivastava

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With the current lower levels of household financial savings, having 3% of GDP as a limit to fiscal deficit should be the focus

Government expenditures exceeding revenue by a high margin can lead to a difficult situation. In the 1980s, rising fiscal deficit accompanied by rising government debt led to a difficult balance of payments situation and a high ratio of interest payment to revenue receipts. This forced the government to borrow progressively more to meet developmental expenditures.

Budget pointer

In the final 2024-25 Union Budget, the Finance Minister said, "From 2026-27 onwards, our endeavour will be to keep the fiscal deficit each year such that the Central government debt will be on a declining path as percentage of GDP." The Budget speech also says that the Centre's fiscal deficit would be reduced to 4.5% of GDP in 2025-26 from its budgeted level of 4.9% in 2024-25.

With these levels of fiscal deficit in two consecutive years, the Centre's debt-GDP ratio is estimated at 54% in 2025-26, assuming a nominal GDP growth of 10.5% in these two years. After this, the central government aims to have only a reducing path of debt-GDP ratio without stating a debt-GDP target and specifying a path to reach that. This implies effective abandoning of the Centre's Fiscal Responsibility and Budget Management (FRBM) 2018 debt-GDP target of 40% for the central government and 60% for the combined government for an indefinite period. It can be shown that with a nominal GDP growth in the range of 10%-11%, a falling path of the debt-GDP ratio can be ensured year after year while maintaining a fiscal deficit-GDP ratio for the Centre at 4.5%. In fact, at this level of fiscal deficit, the debt-GDP ratio would reach a level of 48% by 2048-49 while showing a falling debt-GDP ratio all along. State governments, in their respective Fiscal Responsibility Legislations (FRLs), have adopted a fiscal deficit-Gross State Domestic Product (GSDP) target of 3%. They may also be tempted to abandon their targets and only show a falling path of their respective debt-GSDP ratios. If the two levels of government maintain, on average, fiscal deficit to GDP ratios of 4.5% and 3% net of intergovernmental lending, the average combined fiscal deficit would amount to 7.5% of GDP for several years.

Such a profile of debt and fiscal deficit, while consistent with a falling debt-GDP/GSDP profiles, would leave little space for the private sector to access available investible surplus unless current account deficit is increased beyond sustainable levels.

The Twelfth Finance Commission had argued that the investible surplus for the private corporate sector and the non-government public sector can be derived as the excess of household financial savings and net inflow of foreign capital over the draft of this surplus by the central and State governments through their borrowing. In this context, the Twelfth Finance Commission had observed (paragraph 4.41 of their report), "The transferable savings of the household sector of 10 per cent of GDP combined with an acceptable level of current account deficit of 1.5 per cent would be adequate to provide for a government fiscal deficit of 6 per cent, an absorption by the private corporate sector of 4 per cent, and by non-departmental public enterprises of 1.5 per cent of GDP."

The recent tendency is for household financial savings to come down. In 2022-23, it was 5.3% of GDP as against 7.6% in the previous four years excluding the COVID-19 year of 2020-21. With 5.3% of household savings and about 2% of net inflow of foreign capital, available investible surplus of 7.3% will be fully pre-empted by the fiscal deficits of the central and State governments at about 7.5% of GDP. We can look at a higher level of fiscal deficit only if household financial savings rise.

Sustainable debt and fiscal deficit

There is a simple arithmetic relationship between fiscal deficit and debt-GDP ratio. To reduce the debt-GDP ratio, one has to act on fiscal deficit-GDP ratio, which essentially means change in the debt-GDP ratio between two consecutive years. The fiscal responsibility framework, which has been built in India after 2003, with States coming on board with their respective FRLs, has considered suitable combinations of debt-GDP/GSDP levels along with fiscal deficit-GDP/GSDP levels.

In India's context, if the debt-GDP ratio remains relatively high compared to the norms given in the FRLs of the Centre and States, the ratio of interest payment to revenue receipts would also remain high, pre-empting government's revenue receipts while leaving progressively lower shares for financing non-interest expenditures. The ratio of Centre's interest payment to revenue receipts net of tax devolution, which had fallen to 35% in 2016-17, has increased to an average of 38.4% during 2021-22 to 2023-24. This ratio averaged 51.6% if we consider the Centre's revenue receipts after taking into account all transfers including tax devolution and grants.

An international comparison

There are many countries which have a far higher level of government debt-GDP ratio as compared to India. Their interest payments to revenue receipts, however, are much lower. For example, during 2015-19, the ratio of interest payment to revenue receipts averaged only 5.5%, 6.6% and 8.5% for Japan, the United Kingdom and the United States, respectively (International Monetary Fund). In contrast, during 2015-16 to 2019-20, India's combined interest payment to revenue receipts ratio was 24% on average with the Centre's post transfer ratio averaging 49%.

While recent pronouncements talk of the debt-GDP ratio as the policy variable, they do not, however, specify what that target is for India and what the path would be to reach that target from the current levels of debt-GDP ratio. The problem in the context of macro-stabilisation is that when a major disturbance occurs, such as the COVID-19 pandemic in our recent past, it took just one year for the central debt-GDP ratio to shoot up from 50.7% in 2019-20 to 60.7% in 2020-21.

However, returning to the pre-COVID-19 level of debt-GDP ratio has taken much longer and we are still nowhere close to reaching that. The paths of adjustment of upward and downward movements of debt-GDP ratio due to a macroeconomic shock often tends to be asymmetric. Governments find it convenient to keep postponing the downward adjustment in the debt-GDP ratio while continuing to nurse high levels of interest payment relative to revenue receipts. There is no point in urging private investment to grow if the available investible surplus is limited. With the current lower levels of household financial savings, it is better for the central government to stick to 3% of GDP as a limit to fiscal deficit. We need to draw up a road map to achieve that level. Any relaxation of this rule will only lead to fiscal imprudence.

The views expressed are personal

GS Paper 03 : **Indian Economy**

(UPSC CSE (M) GS-3 : 2019) **Do you agree with the view that steady GDP growth and low inflation have left the Indian economy in good shape? Give reasons in support of your arguments. (150 w/10m)**

UPSC Mains Practice Question **What is the significance of fiscal consolidation in managing government debt and its impact on the broader economy? (150 w /10 m)**

Context :

- Government expenditures exceeding revenue by a high margin can lead to a difficult situation.
- In the 1980s, rising fiscal deficit accompanied by rising government debt led to a difficult balance of payments situation and a high ratio of interest payment to revenue receipts.
- This forced the government to borrow progressively more to meet developmental expenditures.

What are the key budget pointers?

- **Final Budget 2024-25 targets:** According to Finance Minister, from 2026-27, the aim is to reduce the fiscal deficit annually to lower Central government debt as a percentage of GDP. The Budget speech also plans to cut the fiscal deficit to 4.5% of GDP in 2025-26, down from 4.9% in 2024-25.
- **The Centre's debt-GDP ratio**: Is estimated at 54% in 2025-26, assuming a nominal GDP growth of 10.5% in these two years.
- **Declining debt-GDP ratio:** After this, the central government aims to have only a reducing path of debt-GDP ratio without stating a debt-GDP target and specifying a path to reach that.
  - This implies effective abandoning of the Centre's Fiscal Responsibility and Budget Management (FRBM) 2018 debt-GDP target of 40% for the central government and 60% for the combined government for an indefinite period.
  - With a nominal GDP growth of 10%-11%, a consistent decline in the debt-GDP ratio can be achieved annually, while keeping the fiscal deficit-GDP ratio for the Centre at 4.5%. At this fiscal deficit level, the debt GDP ratio is projected to fall to 48% by 2048-49, with a continuous decrease throughout the period
- **Targets of state governments:** In their respective Fiscal Responsibility Legislations (FRLs), have adopted a fiscal deficit-Gross State Domestic Product (GSDP) target of 3%.
  - They might ignore their targets and focus only on reducing debt-GSDP ratios. If both levels of government maintain average fiscal deficits of 4.5% and 3% of GDP (excluding intergovernmental lending), the combined deficit could average 7.5% of GDP for several years

- **Limited Private space:** Such a profile of debt and fiscal deficit, while consistent with a falling debt-GDP/GSDP profiles, would leave little space for the private sector to access available investible surplus unless current account deficit is increased beyond sustainable levels.

What is the scope of Private Sector investment?

- **Arguments of The Twelfth Finance Commission:** Had argued that the investible surplus for the private corporate sector and the non-government public sector can be derived as the excess of household financial savings and net inflow of foreign capital over the draft of this surplus by the central and State governments through their borrowing.
- **Key Observations:** "Household sector transferable savings of 10% of GDP, along with a current account deficit of 1.5%, would support a government fiscal deficit of 6%, private corporate sector absorption of 4%, and non-departmental public enterprises' absorption of 1.5% of GDP.
- **Declining Household Savings and Its Impact on Fiscal Deficits:** Household savings have recently dropped to 5.3% of GDP in 2022-23, down from 7.6% in the years before, excluding 2020-21. With 5.3% in savings and 2% from foreign capital, the total investible surplus of 7.3% will be used up by the central and state governments' fiscal deficits of about 7.5% of GDP. We can only increase fiscal deficits if household savings go up.

What is the link between Fiscal Deficit and Debt-GDP ratio?

- **The arithmetic relationship between fiscal deficit and debt-GDP ratio:** To reduce the debt-GDP ratio, one has to act on fiscal deficit-GDP ratio, which essentially means change in the debt-GDP ratio between two consecutive years.
- **The fiscal responsibility framework:** Has been built in India after 2003, with States coming on board with their respective FRLs, has considered suitable combinations of debt-GDP/GSDP levels along with fiscal deficitGDP/GSDP levels.

The Indian scenario

- **Significance of High debt-GDP ratio:** if remains relatively high compared to the norms given in the FRLs of the Centre and States, the ratio of interest payment to revenue receipts would also remain high, pre-empting government's revenue receipts while leaving progressively lower shares for financing non-interest expenditures.
- **The ratio of Centre's interest payment to revenue receipts net of tax devolution:** The Centre's interest payments as a percentage of revenue receipts net of tax devolution rose from 35% in 2016-17 to an average of 38.4% between 2021-22 and 2023-24. Including all transfers, such as tax devolution and grants, this ratio averaged 51.6%.

Comparing the Indian and the International scenarios

- **Debt-GDP and Low interest payment:** Many countries have higher government debt-GDP ratios than India but lower interest payments relative to their revenue receipts. For example, from 2015-19, Japan, the UK, and the US had average interest payment ratios of 5.5%, 6.6%, and 8.5%, respectively.

In contrast, India's average interest payment to revenue receipts ratio was 24% from 2015-16 to 2019-20, with the Centre's post-transfer ratio averaging 49%.

- **Policy initiatives:** Recent statements highlight the debt-GDP ratio as a key policy variable but lack specific targets and pathways for India to achieve them. For example, the central debt-GDP ratio surged from 50.7% in 2019-20 to 60.7% in 2020-21 within a year due to the COVID-19 pandemic.
- **The Macroeconomic shock:** However, returning to the pre-COVID-19 level of debt-GDP ratio has taken much longer and we are still nowhere close to reaching that. The paths of adjustment of upward and downward movements of debt-GDP ratio due to a macroeconomic shock often tends to be asymmetric.

Conclusion

- Governments find it convenient to keep postponing the downward adjustment in the debt-GDP ratio while continuing to nurse high levels of interest payment relative to revenue receipts. There is no point in urging private investment to grow if the available investible surplus is limited.
- With the current lower levels of household financial savings, it is better for the central government to stick to 3% of GDP as a limit to fiscal deficit.
- We need to draw up a road map to achieve that level. Any relaxation of this rule will only lead to fiscal imprudence. Thus, focus should be more fiscally comprehensive along with policy support.

What is Fiscal Deficit?

- Fiscal deficit refers to the shortfall in a government's revenue when compared to its expenditure.
- When a government's expenditure exceeds its revenues, the government will have to borrow money or sell assets to fund the deficit.
- Taxes are the most important source of revenue for any government. In 2024-25, the government's tax receipts are expected to be Rs 26.02 lakh crore while its total revenue is estimated to be Rs 30.8 lakh crore.
- When a government runs a fiscal surplus, on the other hand, its revenues exceed expenditure.
- It is, however, quite rare for governments to run a surplus. Most governments today focus on keeping the fiscal deficit under control rather than on generating a fiscal surplus or on balancing the budget.

Fiscal Deficit and National Debt:

- The National Debt is the total amount of money that the government of a country owes its lenders at a particular point in time.
- Government debt encompasses various liabilities, including domestic and external loans, alongside obligations to schemes such as small savings, provident funds, and special securities.
- These liabilities entail both interest payments and repayment of principal amounts, imposing a considerable financial burden on the government's finances.
- It is usually the amount of debt that a government has accumulated over many years of running fiscal deficits and borrowing to bridge the deficits.

- The higher a government's fiscal deficit as a share of GDP, the less likely its lenders will be paid back without trouble.

Key Formulas

- **Fiscal Deficit=** Total Expenditure- Total Receipts (excluding borrowings).
- **Revenue Deficit:** This deficit of a government or business can be determined by subtracting the total revenue receipts from the total income expenditure.
- **Revenue deficit=** Total revenue receipts – Total revenue expenditure.
- **Debt to GDP Ratio:** It It measures how much a nation owes in relation to its GDP
- **Debt to GDP=** Total Debt of Country/Total GDP of Country

What is the Legislation Related to Fiscal Management in India?

- **Fiscal Responsibility and Budget Management (FRBM) Framework:**
  - The FRBM Act, instituted in 2003, set ambitious targets for debt reduction, aiming to limit the general government debt to 60% of GDP by 2024-25.
  - However, subsequent fiscal trajectories deviated from these targets, with the Centre's outstanding debt surpassing the originally envisioned thresholds.
  - FRBM Review Committee Report has recommended a debt to GDP ratio of 60% for the general (combined) government by 2023, comprising 40% for the Central Government and 20% for the State Governments.

What can be Done to Manage Fiscal Deficit and National Debt in India?

- **Fiscal Discipline and Consolidation:**
  - Adhering to fiscal consolidation targets, as outlined in the FRBM Act is crucial.
  - The government should aim to gradually reduce the fiscal deficit-to-GDP ratio to ensure sustainable public finances.
  - Implementing prudent fiscal policies, including expenditure rationalisation, revenue enhancement measures, and subsidy reforms, can help in reducing the reliance on borrowing and mitigating fiscal imbalances.
- **Enhancing Revenue Mobilisation:**
  - Strengthening tax administration and compliance to broaden the tax base and improve revenue collection.
  - Exploring avenues for diversifying revenue sources, such as introducing new taxes or levies on luxury goods, wealth, or environmental taxes.
- **Rationalising Expenditures:**
  - Conducting a comprehensive review of government expenditures to identify inefficiencies and prioritise spending in key areas such as healthcare, education, and infrastructure.
  - Implementing measures to curb non-essential spending and subsidies, while ensuring targeted support for vulnerable populations.
- **Debt Management Strategies:**

- Developing a prudent debt management strategy to optimise borrowing costs and minimise refinancing risks.
- Diversifying the investor base and sources of financing, including domestic and international markets, to mitigate exposure to market volatility.

Long-Term Structural Reforms:

- Undertaking structural reforms aimed at improving the efficiency and competitiveness of the economy, including labour market reforms, ease of doing business initiatives, and governance reforms.
- Addressing structural bottlenecks and challenges in sectors such as agriculture, manufacturing, and services to unleash growth potential and enhance fiscal sustainability.

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