



Current Affairs of the Day

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Core sector output shrinks 15% in June, fertilizers buck trend

- The output of eight core sector industries shrank for the fourth straight month in June 2020, although the contraction eased to 15%, showing some recovery from the 22% fall in May, according to data released by the Commerce Ministry on Friday. Economists expect the negative trend to continue for at least two more months.

Details:

- Of the eight core sectors, the fertilizer industry was the only one which saw actual growth in June, with output rising 4.2% in comparison to June 2019. This, however, is lower than the May 2020 growth of 7.5%, but reflects the positive outlook in the agriculture sector where a normal monsoon is leading to expectations of a bumper kharif crop.
- The remaining industries showed contraction, with the steel sector continuing to remain the worst performer, with a 33% drop in production in comparison to the previous year. Cement production fell almost 7%, albeit an improvement from the 22% contraction seen in May.
- The energy sectors also showed negative growth, with coal production falling 15.5% and crude oil and natural gas production dropping 6% and 12% respectively.
- **Refinery squeeze:** Petroleum refinery production, which carries the greatest weight in the core sector index, saw a contraction of almost 9% while electricity generation dropped 11%.

Fiscal deficit touches 83% of full-year target

- The Centre's fiscal deficit for the first three months of fiscal 2020-21 was ₹6.62 lakh crore, which is 83% of the budgeted target for the year, official data show.
- Given the government's additional borrowing plans, both to meet stimulus spending and bridge the revenue shortfall as a result of the pandemic, the fiscal deficit may end up as high as 8% of GDP, far exceeding the budget's goal of 3.5%.



- The Union government has received ₹1.53 lakh crore (in terms of tax, non-tax revenue and loan recoveries) from April to June. This is less than 7% of budget estimates for the full year.
- The Centre's total expenditure for the quarter was ₹8.15 crore, almost 27% of budget estimates for the year, according to the report published by the Controller General of Accounts on Friday.

Value Added Information

What is fiscal deficit?

- It is the difference between the Revenue Receipts plus Non-debt Capital Receipts (NDCR) and the total expenditure.

In other words, fiscal deficit is “reflective of the total borrowing requirements of Government”.

What is the significance of fiscal deficit?

- In the economy, there is a limited pool of investible savings. These savings are used by financial institutions like banks to lend to private businesses (both big and small) and the governments (Centre and state).
- If the fiscal deficit ratio is too high, it implies that there is a lesser amount of money left in the market for private entrepreneurs and businesses to borrow.
- Lesser amount of this money, in turn, leads to higher rates of interest charged on such lending.
- So, simply put, a higher fiscal deficit means higher borrowing by the government, which, in turn, mean higher interest rates in the economy.
- A high fiscal deficit and higher interest rates would also mean that the efforts of the Reserve Bank of India to reduce interest rates are undone.

What is the acceptable level of fiscal deficit?

- There is no set universal level of fiscal deficit that is considered good.
- Typically, for a developing economy, where private enterprises may be weak and governments may be in a better state to invest, fiscal deficit could be higher than in a developed economy.



- Here, governments also have to invest in both social and physical infrastructure upfront without having adequate avenues for raising revenues.

What should the ideal fiscal deficit look like?

- In India, the FRBM Act suggests bringing the fiscal deficit down to about 3 percent of the GDP is the ideal target. Unfortunately, successive governments have not been able to achieve this target.

What is off- budget financing?

- This refers to expenditure that's not funded through the budget.
- For example;
- The government sets up a special purpose vehicle (SPV) to construct a bridge.
- The SPV will likely borrow money to build the bridge on the strength of a government guarantee. If it's not a toll bridge, the SPV will need government support to meet interest obligations.
- So, even though the borrowing and spending is outside the budget, it has implications for the budget and for all practical reasons should be included in that document.
- Since it's not, this doesn't reflect on the fiscal deficit number as well.

Concerns and implications:

- Governments across the world use this to escape budget controls.
- Off-budget financing by its nature isn't taken into account when calculating fiscal indicators.
- But the cost is borne by the budget through some mechanism or the other. Such financing tends to hide the actual extent of government spending, borrowings and debt and increase the interest burden.

A.P. Governor clears three capital, CRDA repeal Bills

- In a major turning point in the history of Andhra Pradesh, Governor Biswa Bhusan Harichandan on Friday gave his assent to the **A.P. Decentralisation and Inclusive Development of All Regions and A.P. Capital Region Development Authority Repeal Bills - 2020.**



Key features:

- The decentralisation Bill facilitates the development of Amaravati, Kurnool and Visakhapatnam as the Legislative, Judicial and Executive Capitals respectively.
- The repeal of the CRDA paves the way for the formation of the Amaravati Metropolitan Region Development Authority. The government is free now to give the 'three capitals' proposal a tangible shape while a batch of petitions that challenged the two Bills is pending adjudication by the High Court.
- As per the Decentralisation Bill, Visakhapatnam will have the Raj Bhavan, the Secretariat and offices of the Heads of Departments, and Amaravati will be the seat of the Legislature. Regarding the judicial capital, the Bill says: "The seat of all State judicial institutions established under the State legislation, shall, as far as practicable, be located in Kurnool."
- Accordingly, the principal seat of the High Court will be located in Kurnool and Benches constituted as per the procedure laid down in the A.P. Reorganisation Act, 2014. The Bills were considered as 'deemed to be passed' as one month has elapsed after their introduction in the Legislative Council for the second time, as per Clause 2 of Article 197 of the Constitution notwithstanding the fact that they were not cleared by the Upper House.

NGT conveys discontent to Environment Ministry

- The National Green Tribunal (NGT) on Friday rapped the Environment Ministry for failing to strengthen the monitoring mechanisms pertaining to the compliance of conditions mentioned in clearances granted for various projects. Stating that the lack of effective enforcement reflected the Centre's "insensitivity" to the issue, the green panel directed the Ministry to take appropriate steps.

Value Added Information

About National Green Tribunal:

- The NGT has been established in 2010 under the National Green Tribunal Act 2010.



- It draws inspiration from India's constitutional provision of Article 21, which assures the citizens of India the right to a healthy environment.
- It aims for effective and expeditious disposal of cases relating to environmental protection and conservation of forests and other natural resources including enforcement of any legal right relating to the environment and giving relief and compensation for damages to persons and property and for matters connected therewith or incidental thereto.
- It has Original Jurisdiction on matters of "substantial question relating to environment" and & "damage to the environment due to specific activity" (such as pollution).
- It follows principles of Natural Justice.

1947 pact on Gurkha soldiers redundant: Nepal Minister

- The **1947 agreement** among India, Nepal and the United Kingdom that deals with the military service of Gurkha soldiers has become "redundant," Foreign Minister of Nepal Pradeep Kumar Gyawali said on Friday.
- In an online interaction organised by the Nepal Institute of International Relations, the Minister also said India should respond to Nepal's request for talks on the Kalapani dispute to prevent the issue from impacting people-to-people relations.
- "Gurkha recruitment was on the one hand the first window that was opened to Nepali youth to go abroad... In the changed context, some of those provisions have become questionable. Tripartite agreement of 1947 has become redundant," said Mr. Gyawali. He spoke of a possible "bilateral" arrangement with India regarding the Gurkha soldiers.
- The 1947 agreement divided the Gurkha regiments of the British empire between India and the United Kingdom. However, Gurkha veterans have been alleging that the U.K. has been discriminating against them. Mr. Gyawali did not spell out the specific terms that Nepal wishes to discuss with India on the Gurkha soldiers in the Indian military.