India’s Fiscal Deficit

For Prelims: Fiscal Deficit, Union Budget, Gross Domestic Product (GDP), Inflation, Devaluation of the currency, Balance of Payments.

For Mains: Impact of Fiscal Deficit on Indian Economy.

Source: TH

Why in News?

- Recently, the **Centre's fiscal deficit** in the **first four months of 2023-24** touched **33.9%** of the **full-year target.**
    - In the **Union Budget**, the government projected to bring down the **fiscal deficit** to **5.9%** of the **gross domestic product (GDP)** in the **current FY.**
    - The **deficit** was **6.4%** of the **GDP** in **2022-23** against the earlier estimate of 6.71%.

What is Fiscal Deficit?

- **About:**
    - **Fiscal deficit** is the **difference** between the **government's total expenditure** and its **total revenue** (excluding borrowings).
    - It is an indicator of the extent to which the government must borrow in order to finance its operations and is expressed as a percentage of the country's GDP.
- **High and Low FD:**
    - A **high fiscal deficit** can lead to **inflation, devaluation of the currency** and an increase in the **debt burden.**
    - While a **lower fiscal deficit** is seen as a **positive sign** of **fiscal discipline** and a **healthy economy.**
- **Positive Aspects of Fiscal Deficit:**
    - **Increased Government Spending: Fiscal deficit** enables the government to increase spending on **public services,** infrastructure, and **other important areas** that can stimulate **economic growth.**
    - **Finances Public Investments:** The government can finance **long-term investments**, such as **infrastructure projects**, through **fiscal deficit.**
    - **Job Creation:** Increased government spending can lead to **job creation,** which can **help reduce unemployment** and **increase** the standard of living.
- **Negative Aspects of Fiscal Deficit:**
    - **Increased Debt Burden:** A persistent **high fiscal deficit** leads to an increase in government debt, which puts pressure on future generations to repay the debt.
    - **Inflationary Pressure: Large fiscal deficits** can lead to an increase in **money supply** and **higher inflation,** which reduces the **purchasing power** of the general public.
    - **Crowding out of Private Investment:** The government may have to borrow heavily to finance the **fiscal deficit,** which can lead to a **rise in interest rates,** and make it difficult for the private sector to access credit, thus crowding out private investment.

- **Balance of Payments Problems:** If a country is running large **fiscal deficits**, it may have to borrow from **foreign sources,** which can lead to a decrease in **foreign exchange reserves** and put pressure on the **balance of payments.**

UPSC Civil Services Examination, Previous Year Question (PYQ)

Mains:

Q. 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. **(2019)**