Increased Fiscal Deficit

Why in News

The government's **fiscal deficit** has increased to Rs. 11.58 lakh crore or **145.5% of the Budget Estimate** (BE) at the end of December 2020 (accounting for the first nine months of the year 2020-21) mainly on account of **lower revenue realisation.**

Key Points

- **Fiscal Deficit Target Fixed for 2020-21:** The Centre had pegged the fiscal deficit at Rs. 7.96 lakh crore or **3.5% of the** Gross Domestic Product (GDP)**.**
- **Fiscal Deficit in 2019-2020:** According to the data released by the **Controller General of Accounts (CGA),** the fiscal deficit at the end of December in the previous fiscal year was **132.4% of the BE of 2019-20.**
- **Reasons for High Fiscal Deficit:**
    - **Lower Revenue Realisation:**
        - Because of disruptions in **normal business activity** following the **coronavirus pandemic** and lockdowns.
    - **Higher Expenditure:**
        - There has been a notable increase in revenue expenditure in **food and public distribution and rural development** which could be attributed to the government's pandemic relief programs.

Fiscal Deficit

- The government describes fiscal deficit of India as **"the excess of total disbursements from the** Consolidated Fund of India**, excluding repayment of the debt, over total receipts into the Fund (excluding the debt receipts) during a financial year".**
- In simple words, it is a **shortfall in a government's income** compared with its spending.
    - The government that has a fiscal deficit is **spending beyond its means.**
- It is calculated as a percentage of **Gross Domestic Product** (GDP), or simply as total money spent in excess of income.
    - In either case, the income figure includes only taxes and other revenues and excludes **money borrowed to make up the shortfall.**
- **Formula:**
    - Fiscal Deficit = Total **expenditure** of the government (capital and revenue expenditure) – Total **income** of the government (Revenue receipts + recovery of loans + other receipts).
        - **Expenditure component:** The government in its Budget allocates funds for several works, including payments of salaries, pensions, etc. **(revenue expenditure)** and creation of assets such as infrastructure, development, etc.

        (capital expenditure).
    - **Income component:** The income component is made of two variables, **revenue generated from taxes** levied by the Centre and the **income generated from non-tax variables.**
        - The taxable income consists of the amount generated from corporation tax, income tax, Customs duties, excise duties, GST, among others.
        - Meanwhile, the non-taxable income comes from external grants, interest receipts, dividends and profits, receipts from Union Territories, among others.
  - It is **different from revenue deficit** which is only related to revenue expenditure and revenue receipts of the government.
  - The government **meets the fiscal deficit by borrowing money**. In a way, the total borrowing requirements of the government in a financial year is equal to the fiscal deficit in that year.
  - A **high fiscal deficit can also be good** for the economy if the money spent goes into the creation of productive assets like highways, roads, ports and airports that boost economic growth and result in job creation.
  - The Fiscal Responsibility and Budget Management Act**, 2003** provides that the Centre should take appropriate measures to limit the **fiscal deficit upto 3% of the GDP by 31st March, 2021.**
  - The **NK Singh committee (set up in 2016)** recommended that the government should target a fiscal deficit of 3% of the GDP in years up to 31st March, 2020, cut it to 2.8% in 2020-21 and to 2.5% by 2023.

Controller General of Accounts

- It comes under the **Department of Expenditure, Ministry of Finance.**
- It is the **Principal Accounting Adviser** to the Government of India and is responsible for establishing and maintaining a technically sound Management Accounting System.
- The Office of CGA prepares **monthly and annual analysis of expenditure, revenues, borrowings and various fiscal indicators** for the Union Government.

Source: TH