"Fiscal Deficit: What is Fiscal Deficit?"

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Introduction:-

A Country's fiscal balance is measured by its Govt's revenue vis-a-vis its expenditure in a given financial year.

Fiscal Deficit is a term used to refer to the difference between the total income of the Govt. (total taxes and non-debt Capital receipts) and its total expenditure. A fiscal deficit situation occurs when the Govt's expenditure exceeds its income. Since the Govt. borrows from the market to bridge this gap, it is an indicator of the total borrowings needed by the Government. While calculating the total revenue, borrowings are not included. The fiscal deficit is calculated both in absolute terms and also as a percentage of the Gross domestic Product (GDP) of the Country. A recurring high fiscal deficit means that the Govt. has been spending beyond its means.

Generally, fiscal deficit takes place either due to revenue deficit or a major hike in capital expenditure. Capital expenditure is incurred to create long-term assets such as factories, buildings and other development.

Question may arise, how does a Govt meet its fiscal deficit? The answer is, Govts typically finance their deficit by borrowings. There are many avenues from where a Govt. can borrow — that is from the Central bank of the Country or raising money from Capital markets by issuing different instruments like treasury bills and bonds.

Is high fiscal deficit bad?

We can say, not always bad. A high fiscal deficit can also be good for the economy if the money spent or the expenditure goes into the creation of productive assets like highways, roads, ports and airports that boost economic growth and result in generation of employment.

Conclusion:—

The Govt. sees a deficit situation as an opportunity to expand policies and schemes, including welfare programmes, without having to raise taxes or cut spending in the budget. But for a developing economy, while a nominal fiscal deficit is considered normal, it becomes a worry when it shoots up beyond a threshold which depends on different interpretations. One of the major problems with fiscal deficit is that the larger it is, the larger the market borrowings of the Govt.

Gita Gopinath, Chief economist at IMF (International Monetary Fund), recently said India needs to keep to its fiscal deficit target. "For India, macro stability is very important, which means stability on the fiscal front. That would require increasing revenue mobilisation and also rationalising expenditure."

In India, the FRBM Act, 2003 (Fiscal Responsibility and Budget Management Act) suggests bringing the fiscal deficit down to about 3% (Three percent) of the GDP is the ideal target.