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The Government: Functions & Scope Revised Notes

Q25. Explain the concept of fiscal deficit in a government budget. What does it indicate?

Ans. A fiscal deficit occurs when a government's total expenditures exceed the revenue that it generates, excluding money from borrowings. Deficit differs from debt, which is an accumulation of yearly deficits. The difference between total revenue and total expenditure of the government is termed as fiscal deficit. It is an indication of the total borrowings needed by the government. While calculating the total revenue, borrowings are not included. India’s fiscal deficit in the year ended March 2018 came in at 3.53% of gross domestic product. India revised its fiscal deficit target in February to 3.5% of GDP from 3.2% of GDP for the 2017/18 fiscal year. For the current fiscal year, the government estimates to trim the deficit to 3.3% of GDP. Implication of fiscal deficit are as follows:

1. It indicates borrowing requirements of government

2. It also indicates high interest payment by government

3. It implies high level of inflation due to high government expenditure

4. It indicates increased foreign dependence of the economy.