

## Fiscal Deficit Target in Budget 2023-24

### Why in news?

In Union Budget (2023-24), Finance Minister chose the path of relative fiscal prudence and projected a decline in fiscal deficit to 5.9% of gross domestic product (GDP) in FY24, compared with 6.4% in FY23.

To know about the summary of Budget, click [here](#)

### How much deficit is pegged in the Budget?

- The difference between total revenue and total expenditure of the government is termed as fiscal deficit.
- It indicates the total borrowings needed by the government.
- **The fiscal deficit** to GDP is pegged at 5.9% in FY24.
- The medium-term fiscal consolidation framework stated that there is a need to reduce fiscal deficit-GDP ratio to 4.5% by 2025-26 from the current 6.4%.
- **The revenue deficit** is 2.9% of GDP.
- If interest payments are deducted from fiscal deficit, which is referred to as primary deficit, it stood at 3% of GDP in 2022-23 (RE).
- **The primary deficit** which reflects the current fiscal stance devoid of past interest payment liabilities, is pegged at 2.3% of GDP in Union Budget 2023-24.

### Where does the Budget stand?

- **Inflation control** - The interest rate management by the RBI through inflation targeting alone cannot effectively control inflation
- **Fiscal policy measures** - Fiscal policy needs to remain accommodative with focus on gross capital formation with enhanced capital spending, especially infrastructure investment.
- **On infrastructure** - The Government plans to substantially increase spending on infrastructure as it has a larger multiplier effect on economic growth and employment.
- **Capital expenditure** - The government should focus on economic growth recovery through Capital expenditure.
- **Private investment** - Infrastructure investments will boost private investment.
- **GDP strengthening** - In order to strengthen GDP, the economic growth recovery should be focused.

### Can the government stick to fiscal consolidation?

- The major allocations that have been cut down are food, fertilizer and petroleum subsidies.
- The **rationalisation of subsidies** is important for the government to move towards

reaching a fiscal deficit target of 4.5% by 2025-26.

- While continued gradual fiscal consolidation contributes to the stabilisation of the government's debt burden, authorities remain unlikely to achieve their ambitious target to narrow the deficit.
- The slow fiscal consolidation process in the wake of the pandemic could leave public finances exposed in the event of further major economic shocks.

### What can be inferred from the Budget?

- The Finance Minister is focusing on economic growth recovery through capex contending that infrastructure investment will boost private investment.
- In the fiscal deficit-GDP ratio, if the denominator GDP expands, it will reduce the overall fiscal deficit-GDP ratio.
- Hence the Budget focuses on economic growth recovery to strengthen GDP.

#### Quick facts

- **Revenue deficit** - It is excess of total revenue expenditure of the government over its total revenue receipts.
- *Revenue deficit = Total revenue expenditure - Total revenue receipts*
- **Fiscal deficit** - It is defined as excess of total budget expenditure over total budget receipts excluding borrowings during a fiscal year.
- *Fiscal deficit = Total expenditure - Total receipts excluding borrowings*
- **Primary Deficit** - It is defined as fiscal deficit of current year minus interest payments on previous borrowings.
- *Primary deficit = Fiscal deficit - Interest payments*

#### Reference

1. [The Hindu | Is the government on track on fiscal deficit targets?](#)