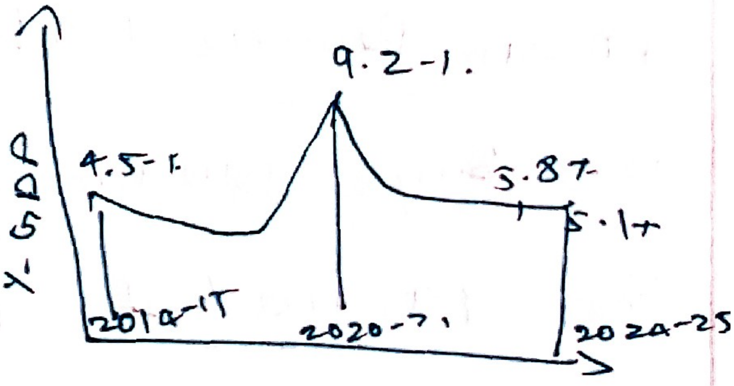
What is fiscal deficit? and how India fund its FD? Also discuss why it is imp. for an economy.

India revised its fiscal deficit target to 5.1% of GDP for the 2024-25 year improving from 5.8% in 2023-24.

Fiscal deficit

It is the excess of total expenditure to total revenue / receipts excluding the borrowing. It is usually measured in terms of gross domestic product.

A country with lesser fiscal deficit can attract more investments and see a positive credit rating and is in a track of fiscal discipline.



A higher fiscal deficit indicates a higher inflation and deterioration of government's resources.

Funding of fiscal deficit

Fiscal deficit can be funded by a number of ways both internally and externally.

① Bond market : The government target of ₹14.13 lakh crore to raise from the bond market for 2024-25. The government bonds are seen as a safe investment option for the overseas buyers.

② From Reserve Bank - The central bank also buys government securities through the open market operations and through the ~~securiti~~ secondary bond market.

Transfer of RBI surplus can also be used fund the deficit. RBI transfer ₹87,000 crores in 2022-23 is worth mentioning.

③ Increase tax base - Revenue from taxes are expected in the tune of ₹ 26 lakh crore in 2024-25 with GST collections averaging at ₹ 1.7 lakh crores.

Importance of targeting fiscal deficit

① Welfare schemes - Fiscal deficit takes a toll on spending on welfare schemes. In this budget, food subsidy has gone down by 7000 crores and fertiliser subsidy by 20,000 crores

② Lacked infrastructure - as the deficit expands, capital expenditure shrinks and the government adopts counter cyclical approach increasing taxes and reduce government expenditure.

Future Fiscal deficit along with increased allocation to welfare schemes and infrastructure is a viable option. Adopting fiscal prudent practises can take us of Fiscal responsibility Budget management act target of 3% of GDP