

Fiscal Deficit: Causes, Impact and Control Strategies

Fiscal deficit refers to the excess of government expenditure over its total receipts (excluding borrowings). In recent years, India has witnessed elevated fiscal deficits due to multiple structural and cyclical factors.

Factors behind High Fiscal Deficit:

- Economic slowdown reducing tax buoyancy and revenues.
- Increased government expenditure on welfare schemes and subsidies.
- Post-pandemic stimulus and relief packages.
- Rising interest payments on public debt.
- Lower disinvestment receipts and revenue shortfalls.

Impact of High Fiscal Deficit:

- Inflationary pressures due to excess demand.
- Crowding out of private investment.
- Higher public debt burden and interest obligations.
- External sector vulnerability and rating concerns.
- Intergenerational equity issues.

Strategies to Control Fiscal Deficit:

- Enhancing tax compliance and widening tax base.
- Rationalization of subsidies and better targeting via DBT.
- Boosting disinvestment and asset monetization.
- Promoting growth to increase revenue generation.
- Adhering to fiscal responsibility frameworks like FRBM.

A balanced approach focusing on fiscal prudence and growth-oriented policies is essential to ensure macroeconomic stability while meeting developmental needs.