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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?