



MAD- 2020 ECONOMY Day – 58

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Question:

Fiscal deficit is one of the biggest indicators of fiscal health of the Government and the recent corona crisis has brought out the importance of the same, in the light of the above statement elaborate the concept of the fiscal deficit and how the Government should move ahead with this.

Answer:

Fiscal Deficit is the difference between Governments expenditure and earnings in a financial year, F.D is the indicative of government's borrowings, High F.D negatively impacts fiscal health in following ways –

1. **Crowding out effects** – High Government borrowings can hamper fulfilment of credit requirements of private sector, thus creating crowding out effect.
2. **Inflation** – High F.D implicates more money with people, thus pushing inflation.
3. **Current Account Deficit** – High FD can result in adverse currency change rates movement, which can also trigger current account deficit.
4. **Credit Rating affect** – Deterrent to foreign investment, as high FD is reflected in adverse credit ratings of nations.
5. **Generational inequality** - Huge FD also implicates generational inequality, shifting debt burden to future generations.

Thus, low FD is desirable, but during COVID crisis there is widespread demand for relaxation in FD targets because of the following reasons –

1. **To restart economy** – as Relaxed FD will lead to spending increment which in turn will lead to increased investment, leading to growth and demand in the economy.
2. Increased government investment will also generate confidence among private players to invest.
3. With more money in hands of people, animal spirits in economies will kick up.
4. Relaxed fiscal targets are necessary to fulfill increased health and food security needs, in times of crisis.
5. Fiscal policy relaxation will complement monetary policy rate cuts.

As suggested by experts and World Bank, Government through its “Atam Nirbhar Bharat Package” has indicated relaxed short-term fiscal deficit targets. In such scenario the adequate channelization of increased money supply becomes significant, some of the primary sectors include –

1. Infrastructure improvement and capital investment to ensure short term and long-term growth.
2. Schemes like MNREGA and Ayushman Bharat should be allocated more money so that investment could reach in rural areas.
3. Reforms in banking sector, agriculture sector should accompany such package.

Corona crisis, thus can act as an opportunity to reshape our developmental models in line with wellbeing of people and more resilient economies.