

DEFICIT FINANCING



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WHAT IS FISCAL POLICY?

- Fiscal policy is the economic policy of government. It is that which is related to the income and expenditure of the government with the objective of economic growth and control to inflation



TOOLS OF FISCAL POLICY



TAXATION POLICY

PUBLIC DEBT POLICY

GOVERNMENT
EXPENDITURE
POLICY

DEFICIT FINANCING

MEANING OF DEFICIT FINANCING

- ❖ DEFICIT FINANCING REFERS TO FINANCING THE BUDGETARY DEFICIT
- ❧ BUDGETARY DEFICIT MEANS EXCESS OF GOVERNMENT EXPENDITURE OVER GOVERNMENT INCOME
- ❧ (GOVERNMENT EXPENDITURE - GOVERNMENT INCOME = BUDGETARY DEFICIT)
- ❧ IN OTHER WORDS DEFICIT FINANCING IS PLANNED POLICY OF EXCESS OF EXPENDITURE OVER INCOME DICTATED BY GOVT CREATING A SHORTFALL WHICH IS MET BY BORROWING
- ❧ GOVERNMENT EXPENDITURE = MEANS OF IRRIGATION, HEALTH AND EDUCATIONAL FACILITY ETC
- ❧ GOVERNMENT INCOMES = DIRECT AND INDIRECT TAXES



FINANCING IN INDIA

- “TAKING LOAN FROM RESERVE BANK OF INDIA BY GOVERNMENT TO MEET THE BUDGETARY DEFICIT” FOR

EXAMPLE=

- RBI GIVES LOAN BY ISSUING THE NEW NOTES
- BY RUNNING DOWN ITS ACCUMULATED CASH RESERVE FROM RBI



IMPORTANT TERMS OF DEFICIT IN INDIA

BUDGET DEFICIT



TOTAL
EXPENDITURE(REVENUE+CAPITAL)-
TOTAL RECEIPT(REVENUE+ CAPITAL)

REVENUE
DEFICIT



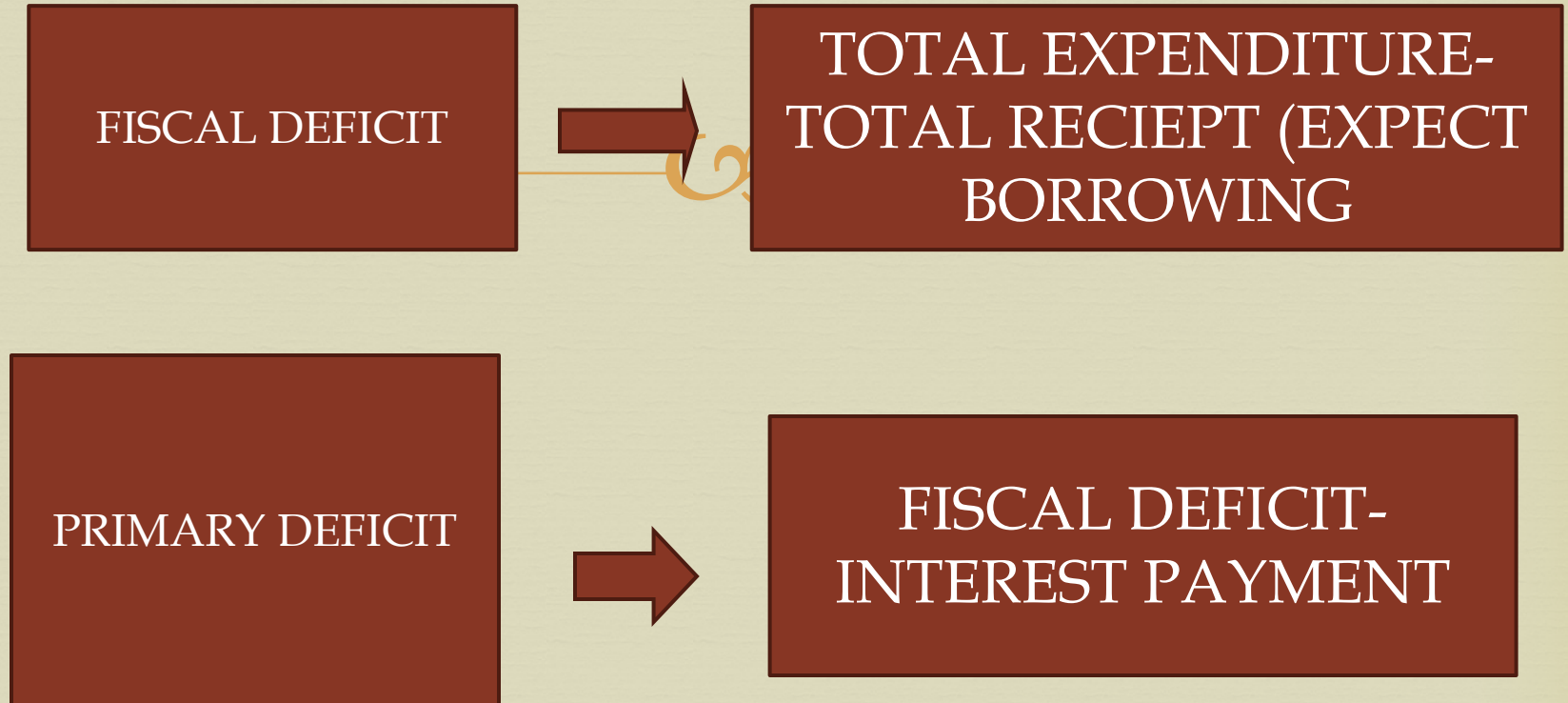
REVENUE EXPENDITURE-REVENUE
RECIPT

MONETISED
DEFICIT



GOVERNMENT DEFICIT FINANCE-INCREASE
TO NET RBI CREDIT TO CENTRAL ENT

CONTINU ED:-



CENTRAL GOVERNMENT DEFICIT DATA(% OF GDP AT CURRENT PRICE)

YEAR	REVENUE DEFICIT	FISCAL DEFICIT	PRIMARY DEFICIT
2010-2011	3.3	4.9	1.8
2011-2012	4.4	5.7	2.7
2012-2013	3.9	5.2	2.0
2013-2014	3.3	4.8	1.5

OBJECTIVE OF DEFICIT FINANCING

- ❧ TO FINANCE WAR: DF is a method used for financing war expenditure in such circumstances govt need excess money & have to use the tool of deficit financing
- ❧ REMEDY FOR DEPRESSION: in develop countries deficit financing is used as instrument to remove depression condition. prof keynes has also advocated for deficit financing as remedy for depression

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❧ **ECONOMIC DEVELOPMENT:** the main objective of DF in an underdeveloped country like india is to promote economic development.the use of DF is essential for financing the development plan.

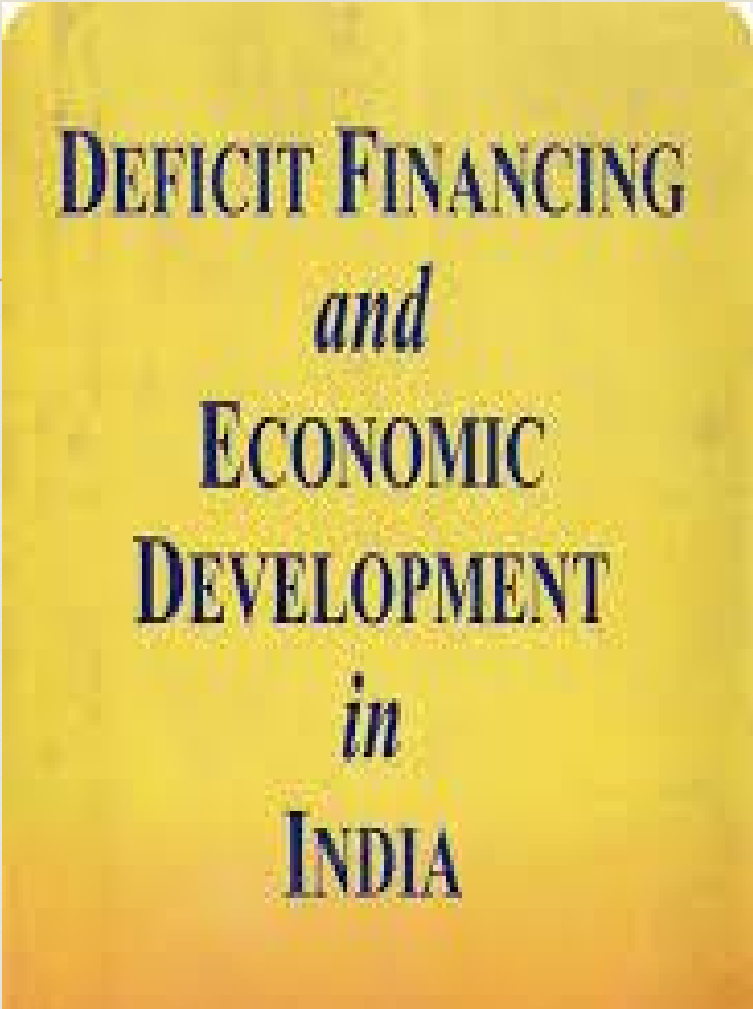
❧ **MOBILISATION OF RESOURCES:**resources are utilised in proper way with the help of DF.underutilised resources can be build up with the help of this policy



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- ❧ To overcome low tax receipts
- ❧ To pay interest on debt
- ❧ To overcome losses of public sector enterprises
- ❧ For implementing anti poverty programme
- ❧ For granting subsidies



The image shows the front cover of a book. The cover is yellow with a gradient from light yellow at the top to a darker yellow at the bottom. The title is printed in a dark blue, serif font. The words 'DEFICIT FINANCING' and 'ECONOMIC DEVELOPMENT' are in all caps, while 'and' and 'in' are in italics. The word 'INDIA' is in all caps at the bottom. The author's name 'C. B. GUPTA' is at the top in a smaller, all-caps serif font.

DEFICIT FINANCING
and
ECONOMIC
DEVELOPMENT
in
INDIA

ADVANTAGES OF DEFICIT FINANCING

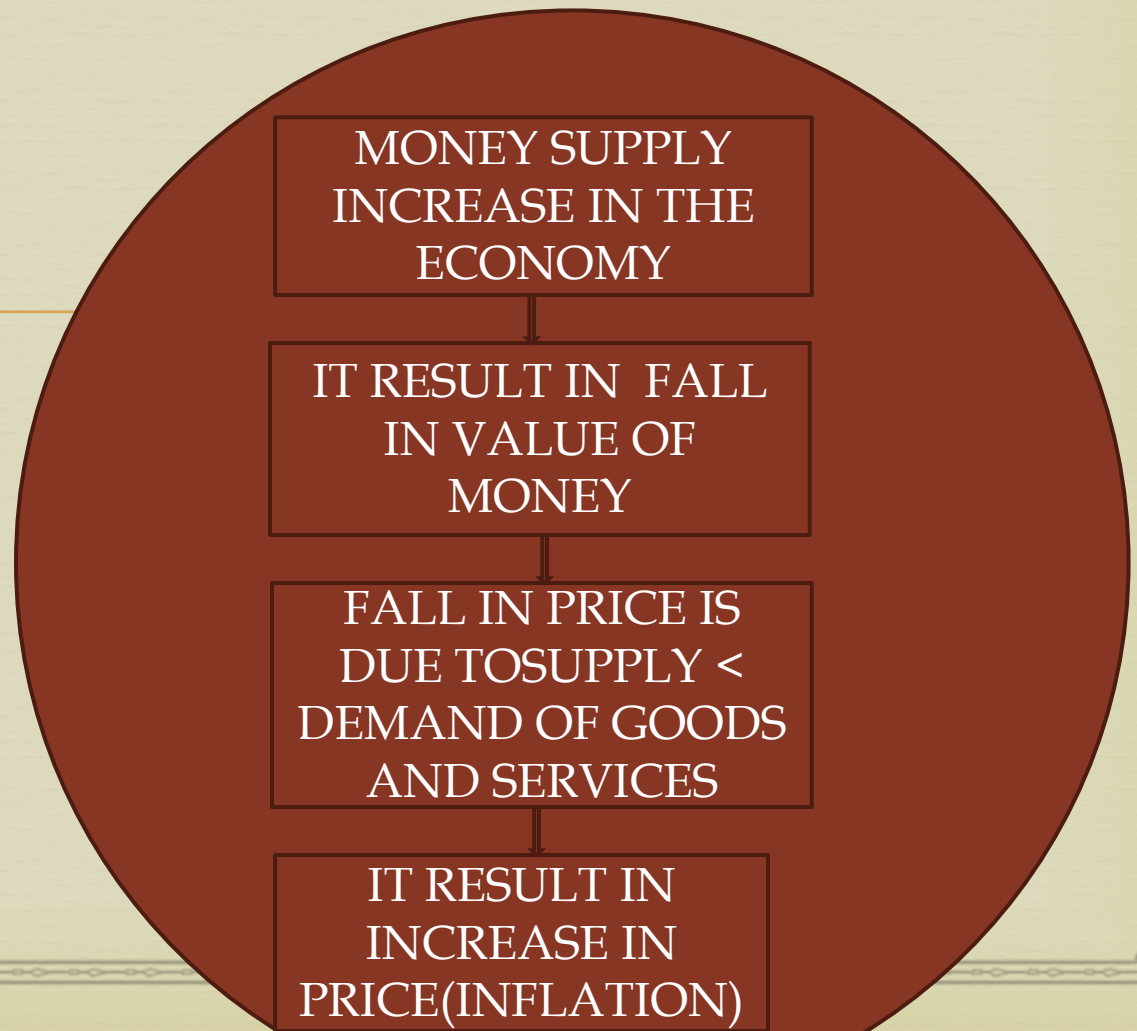
- ❧ HIGH LEVEL OF EMPLOYMENT CAN BE GENERATED WITH THE HELP OF IT
- ❧ DEFICIT FINANCING GIVES RISE TO CREDIT CREATION BY COMMERCIAL BANKS BECAUSE THEIR LIQUIDITY IS INCREASED BY CREATION OF NEW MONEY
- ❧ DEFICIT FINANCING RESULT IN AN INCREASE IN PRODUCTION, EMPLOYMENT AND INCOME BUT IN SHORT RUN
- ❧ PROPER UTILISATION OF RESOURCES CAN BE DONE WITH THE HELP OF DEFICIT FINANCING
- ❧ SOCIAL AND ECONOMIC OVERHEADS CAN BE BUILD UP WITH THE HELP OF DEFICIT FINANCING

DEFICIT FINANCING IS THE TOOL USED FOR ECONOMIC DEVELOPMENT



IS DEFICIT FINANCING INFLATIONARY?

YES, IT IS RIGHT
TO SAY DEFICIT
FINANCING IS
INFLATIONARY.
ON ONE SIDE
NECESSARY
FUNDS ARE
AVAILABLE FOR
GROWTH BY IT
BUT ON THE
ANOTHER SIDE
INFLATION IN
THE COUNTRY
INCREASES



ADVERSE EFFECT OF DEFICIT FINANCING EXPECT INFLATION



❧ ADVERSE EFFECT ON SAVING:- it is not possible for people to maintain previous rate of saving in the country of rising prices

Inflation increases
saving decreases

❧ ADVERSE EFFECT ON INVESTMENT:- trade union demands for higher wages when there is inflation in the economy. It results into strikes and lock outs which decreases efficiency of labours thus investment in the economy decreases

continued....

- ❧ INEQUALITY:- In case of deficit financing income distribution become unequal so richer become richer and poor become poorer
- ❧ PROBLEM OF BOP:-deficit financing cause inflation.due to it export will be decreases but import increases
- ❧ COST OF PRODUCTION INCREASES due to deficit financing because prices level increases
- ❧ CHANGE IN PATTERN OF INVESTMENT because people start doing speculative activities with increase in price



CAUSES OF INCREASE IN FISCAL DEFICIT IN INDIA

INCREASE IN INTEREST ON DEBT

AMOUNT ROSE TO 319759 CRORE IN 2012-2013

INCREASE IN SUBSIDIES

AMOUNT ROSE TO 190015 CRORE IN 2012-2013

INCREASE IN DEFENCE EXPENDITURE

EXPENDITURE IS 193409 CRORE

POOR PERFORMANCE OF PUBLIC SECTOR UNITS

HUGE AMT IS INVESTED IN SUCH SECTORS BUT RETURN IS VERY LOW

POOR TAX COLLECTION

TAX EVASION IS COMMON PRACTICE

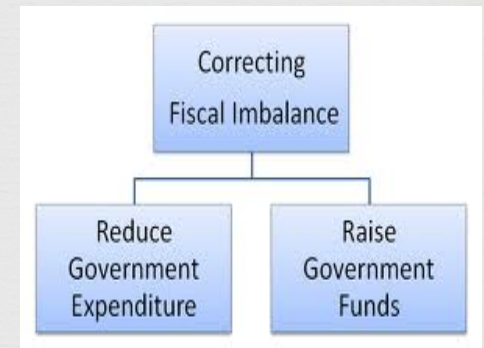
SUGGESTIONS TO REDUCE INFLATIONARY PRESSURE OF DEFICIT FINANCING

- ❧ PROPER ALLOCATION OF RESOURCES:-
The rise in price due to Deficit financing can be controlled by proper allocation of resources. Developing countries should prepare effective plans and resources of the country may not be wasted in unproductive projects.
- ❧ MONETARY POLICY:- An effective monetary policy can be adopted to reduce the inflationary pressure.
- ❧ SUPPLY OF COMMODITIES:- inflationary pressure can be controlled by providing the basic goods to the consumer at fixed rates through the utility stores.



CONTINUED.....

- ❧ FORMULATION OF EXPORT AND IMPORT POLICY:- a country should frame its import and export policy in such a manner that supply of an essential good may not fall.
- ❧ FISCAL POLICY:- The inflationary pressure can be controlled if government increases the rate of taxes on luxuries and introduces the compulsory saving schemes



WHAT MEASURES SHOULD BE TAKEN BY GOVERNMENT TO REDUCE FISCAL DEFICIT ?

SIMPLIFICATION OF
TAXATION SYSTEM

REDUCTION IN SUBSIDIES

IMPROVING TAX TO GDP
RATIO

IMPROVEMENT IN TAX
COLLECTION

REDUCTION IN RATE OF
DIRECT TAXES

CLOSURE OF SICK PUBLIC
UNITS

REDUCTION IN NON PLAN
GOVERNMENT
EXPENDITURE

conclusion



✧ In the end we can say that indian government is facing a pressure situation in the terms of fiscal deficit . It is not suggested deficit financing is bad but it is coupled with inflation so, it is high time that the India should reduce fiscal deficit

bibliography



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- ❧ INDIAN ECONOMY(T.R jain)(mukesh&ranju trehan)
- ❧ www.google.com
- ❧ www.ask.com
- ❧ Collage library

A close-up photograph of a bouquet of flowers. The bouquet includes several bright pink daisies, a yellow daisy, and a red daisy. A white card with the words "Thank You" written in a black cursive font is tucked into the flowers. The background is a soft-focus green, suggesting foliage.

Thank You