Misleading Fiscal Deficit

What is the issue?

- The Comptroller and Auditor General (CAG) said that the numbers in the Union **Budget fail to include the growing off-budget liabilities** of the Union government.
- The CAG would like these numbers to be included in the Budget estimates.

What was Government's response?

- The government argues that it has already gone further than required in the Union Budget 2019-20 to account for these borrowings.
- It says that this accounting is done, as the repayment of principal and interest of off-Budget borrowings are made through the Budget.
- It also points out that there is no formal requirement to include off-Budget borrowing in the estimate of the fiscal deficit.
- The government is quite right about the above matter. But, appealing to formal requirements is a weak argument in this context.

What is CAG's point of view?

- It says that the fiscal deficit number is not an accurate reflection of the government's spending and borrowing behaviour over the financial year.
- It pegs the actual fiscal deficit close to 6%, as distinct from the 3.3% claimed by the government in the Budget 2019-20.

What method reflects the government's fiscal behaviour correctly?

- There is no credible claim that the fiscal deficit is the right number to look at to judge fiscal prudence.
- The correct way to resolve this would be to **examine a public-sector borrowing** requirement measure and a **flow variable for the public debt**.
- This debt should take into account budgetary spending and off-budget liabilities, and all the other contingent liabilities of the government.
- This method would provide a **transparent accounting** of the degree to which the **choices of the Union government** are adding to the debt burden of future generations.

What could be done further?

- The government borrows from the markets and help itself to finance its spending priorities.
- In this manner, the fiscal deficit covers up the government's real fiscal carelessness.
- The **Finance Commission** should **reconsider how government statistics** about its spending and borrowing **are presented**.
- Such a revaluation would **aid the government** in planning public investment and savings.
- This revaluation would also **aid the broader investment community**, which seeks a clearer understanding of state choices and the future condition of the public debt market.

Source: Business Standard

Quick Facts

Fiscal deficit

- It is the difference between total revenue and total expenditure of the government.
- It is an indication of the total borrowings needed by the government. While calculating the total revenue, borrowings are not included.

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