

subsidy bill to the Food Corporation of India. The shortfall was met through a loan from the National Small Savings Fund. This allowed the Centre to halve its food subsidy bill from Rs 1,51,000 crore to Rs 77,892 crore in 2020-21.

Other public sector undertakings have also borrowed for the government. For instance, public sector oil marketing companies were asked to pay for subsidised gas cylinders for Pradhan Mantri Ujjwala Yojana beneficiaries in the past.

Public sector banks are also used to fund off-budget expenses. For example, loans from PSU banks were used to make up for the shortfall in the release of fertiliser subsidy.

Given the various sources of off-budget borrowing, the true debt is difficult to calculate. For instance, it was widely reported that in July 2019, just three days after the presentation of the Budget, the CAG pegged the actual fiscal deficit for 2017-18 at 5.85% of GDP instead of the government version of 3.46%.

Q.50) Which of the following is/are the effects of deficit financing on an economy?

1. Reduces inflation
2. Increases investment

Choose the correct answer from the codes given below:

- a) 1 only
- b) 2 only
- c) Both 1 and 2
- d) Neither 1 nor 2

Q.50) Solution (d)

Deficit financing means generating funds to finance the deficit which results from excess of expenditure over revenue. The gap being covered by borrowing from the public by the sale of bonds or by printing new money.

For developing countries like India, higher economic growth is a priority. A higher economic growth requires finances. With the private sector being shy of making huge expenditure, the responsibility of drawing financial resources rests on the government.

Often both the tax and non-tax revenues fail to mobilize enough resources just through taxes. The deficit is often funded through borrowings or printing new currency notes.

Effect of deficit financing:

- Printing new currency notes increases the flow of money in the economy. This leads to increase in inflationary pressures which lead to rise of prices of goods and services in the country. Deficit financing is inherently inflationary. Since deficit financing raises aggregate expenditure and, hence, increases aggregate demand, the danger of inflation looms large.