Indian Economy · GS - III

Examine the causes and consequences of rising fiscal deficits in developed economies. Suggest measures to ensure long-term fiscal sustainability.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 17/10/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Fiscal deficit, public debt, interest payments, welfare expenditure, defence spending, tax revenue, crowding out, fiscal flexibility, tax reforms, expenditure rationalisation, productive investment, debt sustainability.

Model Answer

Introduction

A fiscal deficit arises when government expenditure exceeds receipts excluding borrowings. The US deficit reached nearly $1.99 trillion in fiscal year 2026, reflecting rising expenditure and debt-servicing costs.

Main Body

Causes

1. Rising expenditure: Higher social-security, healthcare and defence spending increases government outlays.
2. Debt burden: Growing interest payments widen the deficit and limit funds available for development.
3. Revenue pressures: Slower revenue growth and reductions in certain tax receipts can increase borrowing requirements.

Consequences

1. Higher public debt: Persistent deficits increase future repayment and interest obligations.
2. Crowding out: Government borrowing may raise interest rates and discourage private investment.
3. Reduced fiscal flexibility: High debt-servicing costs can constrain welfare and infrastructure spending.

Measures

Governments should broaden the tax base, improve tax compliance, rationalise inefficient expenditure and prioritise productive investment. Medium-term fiscal frameworks can help stabilise debt while protecting essential public services.

Conclusion

Fiscal sustainability requires a balance between economic growth, welfare commitments and responsible borrowing. Credible fiscal reforms can strengthen economic resilience without undermining inclusive development.

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