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Revision Notes

Deficits And Implications Of These Deficits

1. Budget deficit:
(a) Meaning:
(i) Budgetary deficit refers to the excess of total budgeted expenditure (both revenue expenditure and capital expenditure) over total budgetary receipts (both revenue receipt and capital receipt).
(ii) In other words, when sum of revenue receipts and capital receipts fall short of the sum of revenue expenditure and capital expenditure, budgetary deficit is said to occur. Symbolically,
Budgetary Deficit = Total Expenditure – Total Receipts
(b) Types:
(i) Revenue deficit, (ii) Fiscal deficit and (iii) Primary deficit

2. Revenue deficit:
(a) Meaning:
(i) Revenue deficit refers to the excess of revenue expenditure of the government over its revenue receipts. Symbolically,
Revenue Deficit = Total Revenue Expenditure – Total Revenue Receipts
(ii) The government of India budget for the year 2012-2013, total expenditure is Rs. 12,42,263 crore against total revenue receipts of Rs. 8,78,804 crore. As a result there is revenue deficit of Rs. 3,63,459 (12,42,263-8,78,804) crore, which is 3.6% of GDP.
(b) Implications of revenue deficit:
(i) Revenue deficit indicates dis-savings on government account because the government has to make up uncovered gap.
(ii) Revenue deficit implies that the government has to cover this uncovered gap by drawing upon capital receipts either through borrowing or through sale of its assets.
(iii) Since government is using capital receipts to generally meet consumption expenditure of the government, it leads to an inflationary situation in the economy.
(c) Measures to reduce revenue deficit are:
(i) Government should reduce its unproductive or unnecessary expenditure.
(ii) Government should increase its receipts from various sources of tax and non-tax revenue.

3. Fiscal deficit:
(a) Meaning:
(i) Fiscal deficit is defined as excess of total expenditure over total receipts (revenue and capital receipts) excluding borrowing. In the form of an equation:

Fiscal Deficit = **Total Budget Expenditure – Total Budget Receipts (Net of borrowing)**
= **Total Expenditure (Revenue Expenditure + Capital Expenditure) – Revenue Receipts (Tax Revenue + Non-Tax Revenue) – Non-Debt Capital Receipts (Recovery of Loans + Dis-Investment Proceeds)**
= **Revenue Deficit + Capital Deficit (excluding Borrowing)**
= **Borrowing**
= **Net borrowing at home (includes that directly borrowed from the public through debt instruments (for example, the various small savings schemes) + Borrowing from RBI + Borrowing from abroad**

(ii) Fiscal deficit is a measure of total borrowings required by the government.
(iii) Fiscal deficit indicates capacity of a country to borrow in relation to what it produces. In other words, it shows the extent of government dependence on borrowing to meet its budget expenditure.
(iv) Another point to be noted here is that as the government borrowing increases, its liability in future to repay loan with interest also increases leading to a higher revenue deficit. Therefore, fiscal deficit should be as low as possible.
(v) Fiscal deficit for the year 2012-2013 is 4,89,890 crore which is 4.9% of GDP.
(b) Implications of fiscal deficit:
(i) Causes Inflation: An important component of government borrowing includes borrowing from the Reserve Bank of India. This invariably implies deficit financing or meeting deficit requirements of the government by way of printing more currency. This is a dangerous practice, though very convenient for the government. It increases circulation of money and causes inflation.
(ii) Increase in Foreign Dependence: Government also borrows from rest of the world. It increases our dependence on other countries. Foreign borrowing is often associated with economic and political interference by the lender countries. It increases our economic slavery.
(iii) Financial Burden for Future Generation: Borrowing implies accumulation of financial burdens for the future generations. It is for future generations to repay loans as well as the mounting interest thereon.
(iv) Deficits Multiply Borrowings: Payment of interest increases revenue expenditure of the government, causing an increase in its revenue deficit. Thus, a vicious circle is set wherein the government takes more loans to repay earlier loans, which is called Debt Trap.

4. Primary deficit:
(a) Meaning:
(i) Primary deficit is defined as fiscal deficit minus interest payments.
Primary Deficit = Fiscal Deficit – Interest Payments
(ii) The government of India budget for the year 2012-2013, fiscal deficit is 4,89,890 crore and Interest Payment is 3,11,996 crore. As a result, primary deficit is 1,77,894 crore, which is 1.8% of GDP.
(b) Implications of primary deficit: While fiscal deficit shows borrowing requirement of the government for financing the expenditure inclusive of interest payments, primary deficit reflects the borrowing requirements of the government for meeting expenditures other than interest payments on earlier loans.