Date
31/Aug/2020

Economy

Topics - Fiscal System

2) Capital Receipts

Any Receipts of the Government that related to assets or liabilities of the Government, is a part of Capital receipts. It includes the following, recovery of loans.

1. Recovery of loans
2. Borrowings - Amount borrowed by the Govt from domestic economy and international market.
3. Disinvestment Proceeds etc.

Capital Receipts may be Debt or may be Non-debt.

Types of Deficits (also known as Fiscal Parameters)

1. Fiscal Deficit (FD)
2. Revenue Deficit (RD)
3. Effective Revenue Deficit (ERD)
4. Primary Deficit. (PD)

(2)

fiscal Deficit

fiscal Deficit = Total Expenditure of the Government − Total Receipts of the Govt excluding borrowings

= (RE + CE) − (RR + CR excluding borrowings)

2019-20	
TE >	TR
200	100

fiscal Deficit is the difference between total expenditure and total receipts excluding borrowings in a particular fiscal year. Since the short fall in receipts over expenditure must be financed through borrowings therefore fiscal Deficit represents overall borrowing requirements of the government over a given fiscal year. It also represent net addition to the level of Public Debt. During that particular physical year.

Revenue Deficit (RD)

RD = Revenue Expenditure − Revenue Receipts.

Revenue Expenditure ⇓ Consumption & Maintenance

FRBM ACT 2003
FD = 3% , RD = 0

$$FD = (RE + CE) - (RR + CR \text{ excluding Borrowings})$$

$$FD = \underbrace{(RE - RR)}_{RD=0} + (CE - CR \text{ excluding Borrowings})$$

3%

Revenue Deficit is the Difference between Revenue Expenditure and Revenue Receipts. It represents the extent to which the government has borrowed to finance the current consumption and maintenance expenditure.

ERD (Effective Revenue Deficit)

ERD = Revenue Deficit − Grants given for Creation of Capital Assets.

↓

Revenue Exp − Revenue Receipts

Grants

RD → Zero − 1000

ERD → 4000

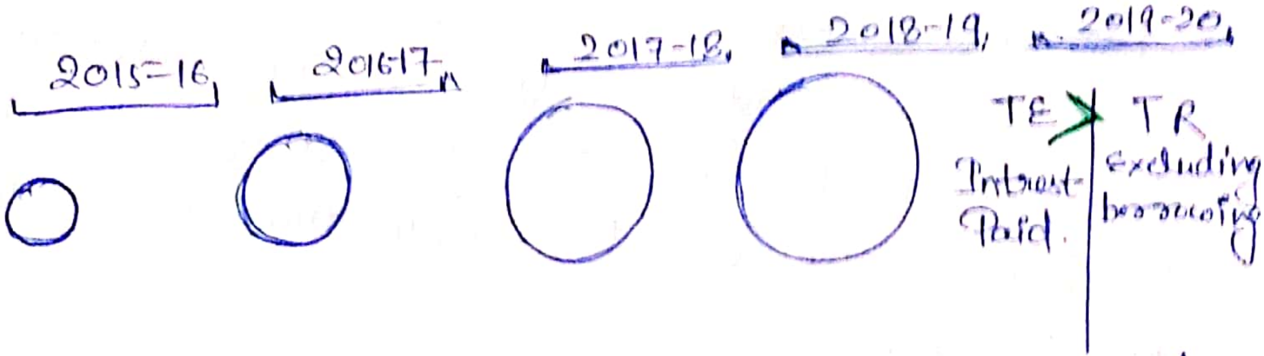
4

Primary Deficit

Primary Deficit = Fiscal Deficit − Interest Payments

⇓

deficits due to Current fiscal Policy



It is the difference between the fiscal deficit and interest payments. It excludes the burden of the past date and represents the net increase in the government indebtness or public date due to the current year fiscal Policy. A Reduction in primary deficits is reflective of Govt efforts at bridging the fiscal Gap during a particular fiscal year.

	Actual 2018-19	BE 2019-20	RA 2019-20	BE 2020-21
fiscal Deficit	3.4	3.3	3.8	3.5
Revenue Deficit	2.4	2.3	2.4	2.7
ERD	1.4	1.3	1.5	1.8
Primary Deficit	0.4	0.2	0.7	0.4

fiscal Policy

$\{AD = C(Y-T) + G + I + X - M\}$

1) Expansionary Fiscal Policy

G ↑ OR/AND T ↓ ⇒ AD ↑ ⇒ Y ↑ ⇒ employement ↑

⇒ Low AD

→ Recessionary impact etc.

2) Contractionary fiscal Policy

G ↓ OR/AND T ↑ = AD ↓ ⇒ Excess demand ↓ = Control Inflation

Composition of Taxes in Gross Tax Revenue in (2019-20)(BE)

GTR

G → X — Y

Direct Taxes

54 %

> CIT → 31 %

> Income Tax → 23 %

Indirect Taxes

> 46 %

> Custom duties → 6 %

> UED → 12 %

> GST → 27 %

UED – Union Excise duty

⑥

2019-20 BE

Taxes as a Percent of GDP

CIT → 3.6 % of GDP

Income Tax → 2.7 % " "

Total Direct Tax = 6.3%

Total GTR ⇒ 11.7% of GDP

Custome → 0.7% of GDP

UED → 1.4% of GDP

GST → 3.1 % of GDP

Total Indirect Tax = 5.2% of GDP

Fiscal Deficit

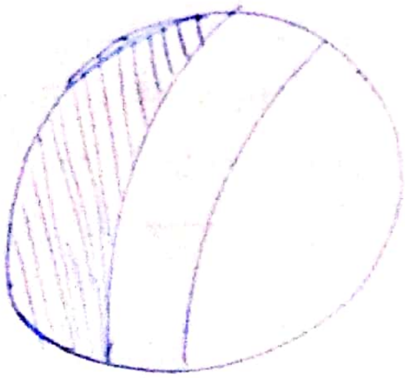
FD ⇒ Govt ⇄ RBI G-sec ⇄ Bank OR FIs

Bank OR FIs ⇓ G-sec Public

① Borrowing from RBI (OR) Primary Borrowings

② Market Borrowings

Market Borrowings



1) Government

2) Private Sector

⇒ Investors

→ Households

"Crowding out effect"

Higher Fiscal Deficit

⇓

More amount borrowed from Market by the Govt.

⇓

Less fund left for Private Sector Particularly investors.

⇓

Excess demand for fund

⇓

Lending Rate ↑

⇓

Private Investment ↓