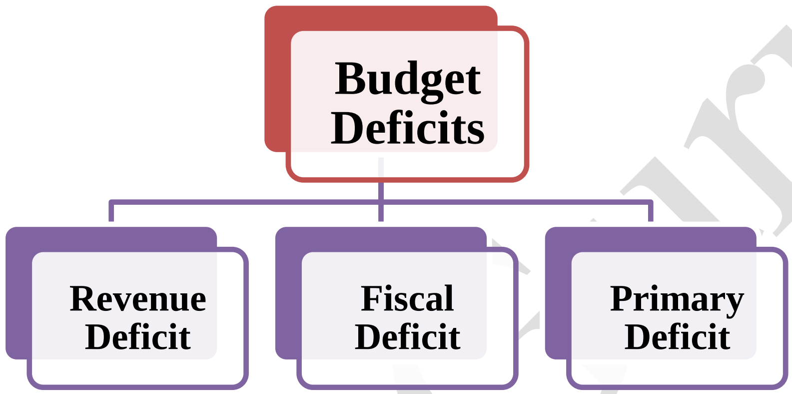
Budget Deficits

A budget deficit occurs when expenses exceed revenue and indicate the financial health of a country. The government generally uses the term budget deficit when referring to spending rather than businesses or individuals. Accrued deficits form national debt.

There can be different types of deficit in a budget depending upon the types of receipts and expenditure we take into consideration. Accordingly, there are three concepts of deficit, namely



1. **Revenue Deficit** is related to revenue expenditure and revenue receipts of the government. This does not include items of capital receipts and capital expenditure. Thus, revenue is deficit is the excess of revenue expenditure over revenue receipts.

   Revenue Deficit = Total Revenue Expenditure – Total Revenue Receipts, when *RE > RR*

   RD = RE – RR, when *RE > RR*

   (Here, RD = Revenue Deficit; RE = Revenue Expenditure; RR = Revenue Receipts)

Implications of Revenue Deficit:

- Government cuts its expenditure even when it impacts welfare of the people.
- Government resorts to borrowing from the general public, from the RBI and from the rest of the world.
- Government undertakes disinvestment by selling its ownership of public enterprises. This causes a reduction in the assets.

2. **Fiscal Deficit** is estimated, accounting for all receipts and expenditures of the government. Fiscal Deficit is the excess of total expenditure (revenue + capital) over total receipts (revenue + capital other than borrowings). It is estimated as under:

Fiscal Deficit = Total Expenditure (Revenue Expenditure + Capital Expenditure) – Total Receipts other than borrowings (Revenue Receipts + Capital Receipts other than borrowings)

FD = BE – BR other than borrowings, when *BE > BR other than borrowings*

(Here, FD = Fiscal Deficit; BE = Budget Expenditure; BR = Budget Receipts)

Implications of Fiscal Deficit:

- Government may be compelled to borrow to finance even interest payment leading to emergence of a vicious circle and debt trap.

- High fiscal deficit generally leads to wasteful and unnecessary expenditure by the government.

- As government borrows from RBI which meets this demand by printing of more currency notes (called deficit financing), it results in circulation of more money. This may cause inflationary pressure in the economy.

- Borrowing is in fact financial burden on future generation to pay loan and interest amount which retards growth of economy.

3. **Primary Deficit:** Primary deficit is defined as fiscal deficit of current year minus interest payments on previous borrowings. In other words whereas fiscal deficit indicates borrowing requirement inclusive of interest payment, primary deficit indicates borrowing requirement exclusive of interest payment (i.e., amount of loan).

   Primary Deficit = Fiscal Deficit - Interest Payment

   PD = FD – IP

   (Here, PD = Primary Deficit; FD = Fiscal Deficit; IP = Interest Payment)

Here, the distinction between fiscal deficit and primary deficit becomes essential. It is like this: fiscal deficit shows borrowing by the government for purpose of (i) funding the current year deficit: the excess of current year expenditure over current year revenue, and (ii) payment of interest on the accumulated national debt. Primary deficit, on the other hand, shows government borrowing exclusively for purpose of funding the current year deficit. It does not include borrowing for the payment interest on the accumulated national debt.

Implications of primary deficit are similar to those of fiscal deficit. The only difference is that primary deficit does not carry the load of interest payments on account of the past loans.