DIFFERENT TYPES OF DEFICITS

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Types of Deficit

- (A) Budget Deficit (or Government Deficit)
- (B) Revenue Deficit
- (C) Effective Revenue Deficit
- (D) Fiscal Deficit
- (E) Primary Deficit
- (F) Monetised Deficit

Budget Deficit (or Government Deficit)

- It refers to situation when the total budgeted expenditure of the Government is larger than budgeted receipts.
- Budget Deficit = Budgeted expenditure (Revenue+Capital) – Budgeted Receipts (Revenue+ Capital).
- Use of this concept as a major policy parameter was discontinued in 1997 as it reflects the Government borrowings only from RBI.

Revenue Deficit

- It is the excess of revenue expenditure over revenue receipts.
- Revenue Deficit= Revenue Expenditure- Revenue Receipts.
- This revenue deficit is funded either through borrowings from the public or through disinvestment or by cutting revenue expenditure (mainly subsidies).

Implications

- Higher revenue deficit forces Governments to cut its expenditure on social welfare programmes, thereby impacting socio-economic development.
- Raising money through borrowings to fund the deficit raises liabilities and unproductive interest payments and also lowers the credit-worthiness of the Government.

Effective Revenue Deficit

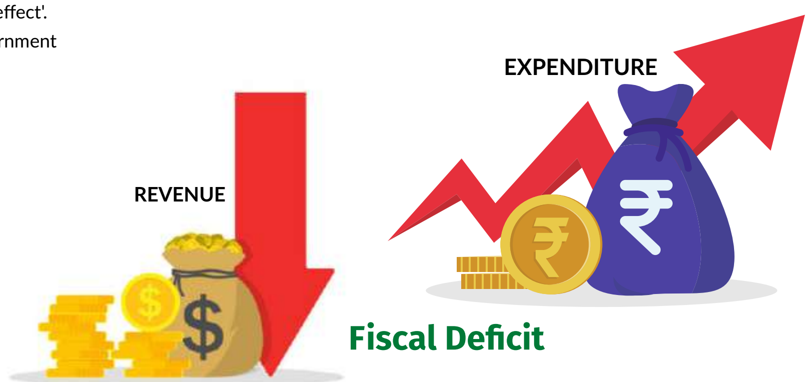
- This term was introduced in the Union Budget 2012-13. It is the difference between revenue deficit and grants-in-aid provided by the Capital Government to States, constitutional and statutory bodies, etc. for creation of capital assets.
- Effective Revenue Deficit = Revenue Deficit – Grants for creation of Capital assets.
- It signifies that amount of revenue receipts that are actually used for consumption expenditure of the Central Government.

Fiscal Deficit

- It is the difference between what the Government earns and its total expenditure.
- It indicates the total borrowing requirements of the Government from all sources.
- This tool is used to determine the actual liability of the Government at a certain point of time.
- Fiscal Deficit= Budget Deficit (i.e., Borrowing from RBI) + Market Borrowings and liabilities.

Implications

- Implies greater borrowings by the central government. Borrowings from RBI raise the money supply in the economy, results in rise in the general price level.
- It affects GDP growth.
- High fiscal deficit also leads to the 'crowding out effect'.
- Credit worthiness or credit rating of the Government also gets lowered due to high fiscal deficit.



Measures to Check Fiscal Deficit

By reducing public expenditure through:

- Rationalisation of subsidies
- Reduction in revenue expenditure
- Curtailing other avoidable revenue expenditure

By increasing revenue through:

- Increasing the tax base in the economy
- Checking tax evasion
- Restructuring the Public Sector Enterprises through disinvestment and utilizing the received fund in strategic sectors like health and education

Primary Deficit

- While fiscal deficit shows borrowing requirement of the Government inclusive of interest payment on past loans, primary deficit indicates borrowing requirement excluding interest payment.
- It is the difference between fiscal deficit and interest payments by Government.
- Primary Deficit = Fiscal Deficit- Interest Payments by Government

Implications

It does not carry the load of interest payments on past loans.

It simply indicates total borrowings (and not total liabilities)

Monetised Deficit

- It refers to the borrowings made by the Central Governments from RBI through printing fresh currency.It is resorted to when Government cannot borrow from the market to fund fiscal deficit.
- That fresh currency is provided by RBI against special securities of the Central Government.
- It increases the level of Inflation in the economy due to increased money supply in the economy (because of issue of fresh currency).