Budget Deficit

Budget deficit is referred to as the situation in which the spending is more than income. Although it is mostly used for governments, this can also be broadly applied to individuals and businesses.

In other words, a budgetary deficit is said to have taken place when the individual, government or the business budgets have more spending than the income that they can generate as revenue.

Types of Budget Deficit

There are three types of budget deficit, which are explained below

1. Fiscal Deficit
2. Revenue Deficit
3. Primary Deficit

Fiscal Deficit

Fiscal deficit is defined as the excess of total expenditures over the total receipts excluding the borrowings in a year. In other words, this can be defined as the amount that the government needs to borrow in order to meet all expenses.

The more the fiscal deficit, more will be the amount borrowed. Fiscal deficit helps in understanding the shortfall that the government faces while paying for the expenditures in absence of lack of funds.

The formula for calculating fiscal deficit is as follows

Fiscal deficit = Total expenditures – Total Receipts excluding borrowings.

Impact of Fiscal Deficit

The following impacts of fiscal deficit deficit can be seen

1. Unnecessary expenditure : A high fiscal deficit leads to unnecessary expenditure done by the government that leads to potential inflationary pressure on the economy.
2. Printing more currency by RBI for meeting the deficit also called deficit financing leads to availability of more money in the market, leading to inflation.
3. Borrowing more will hinder future growth of the economy as most of the revenue will be utilised towards meeting debt payments.

Remedial measures for Fiscal Deficit

Fiscal deficit can be reduced by the following ways

1. Reduced public expenditure
2. Reduction in bonus, leave encashments and subsidies
3. Increase tax to generate revenue
4. Disinvestment of public sector units

Revenue Deficit

Revenue expenditure is defined as the excess of total revenue expenditure over the total revenue receipts. In other words, the shortfall of revenue receipts as compared to the revenue expenditure is known as revenue deficit

Revenue deficit signals to the economists that the revenue earned by the government is insufficient to meet the requirements of the expenditures required for the essential government functions.

The formula for revenue deficit can be expressed as

Revenue Deficit = Total Revenue expenditure – Total Revenue receipts

Impact of Revenue Deficit

Revenue deficit has the following impacts on the economy

1. Reduction in assets : For meeting the shortfall in the form of revenue deficit, the government has to sell some assets.
2. It leads to conditions of inflation in the economy
3. Large amounts of borrowing leads to a greater debt burden on the economy.

Remedial measures for Fiscal Deficit

The following remedial measures can be taken by the government in reducing the deficit

1. By reducing unnecessary spending.
2. By raising the rate of taxes and applying new taxes, wherever possible.

Primary Deficit

Primary deficit is said to be the fiscal deficit of the current year minus the interest payments that are pending on previous borrowings or it can be said that primary deficit is the requirement of borrowing without the interest payment.

Primary deficit therefore shows the expenses that government borrowings are going to fulfill while not paying for the income interest payment.

A zero deficit shows that there is a requirement for availing credit or borrowing for clearing the interest payments pending.

The formula for primary deficit is expressed as follows

Primary Deficit = Fiscal Deficit – Interest Payments

Measures to reduce the primary deficit can be similar to the steps taken to reduce the fiscal deficit as the primary deficit is any borrowings that are above the existing deficit or borrowings.