**Public Finance Unit: - 6**

**Structure of the Public Budget**

**Class: - 2nd**

Semester: - V (H) Date- 12-09-22

Time- 12:00 PM

**Budget Deficits**

A budgetary deficit is referred to as the situation in which the spending is more than the 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 business budgets have more spending than the income that they can generate as revenue.

**Types of Budget Deficits**

There are three types of budget deficit. They are explained follows:

1. Fiscal deficit
2. Revenue deficit
3. Primary deficit

**Fiscal Deficit**

[Fiscal deficit](https://byjus.com/commerce/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, the more will be the amount borrowed. Fiscal deficit helps in understanding the shortfall that the government faces while paying for the expenditures in the 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 should be kept in mind.

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 known as deficit financing, leads to the availability of more money in the market, leading to inflation.
3. Borrowing more will hinder the future growth of the economy, as most of the revenue will be utilized 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 encasements, and subsidies
3. Increase tax to generate revenue
4. Disinvestment of public sector units

**Revenue Deficit**

Revenue deficit 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 that of the revenue expenditure is known as [revenue deficit](https://byjus.com/questions/what-are-revenue-deficits-and-their-implications/).

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 follows:

**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 the conditions of inflation in the economy.
3. A large amount of borrowing leads to a greater debt burden on the economy.

**Remedial Measures for Revenue Deficit**

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

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

**Primary Deficit**

[Primary deficit](https://byjus.com/commerce/primary-deficit/) is said to be the fiscal deficit of the current year subtracted by the interest payments that are pending on previous borrowings. In other words, the primary deficit is the requirement of borrowing without the interest payment.

Primary deficit, therefore, shows the expenses that government borrowings are going to fulfil 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 the 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.

This concludes the topic of budget deficit, which is one of the metrics of measuring the economic growth of a nation along with GDP. To read more of such interesting concepts on economics for class 12, stay tuned to our website.