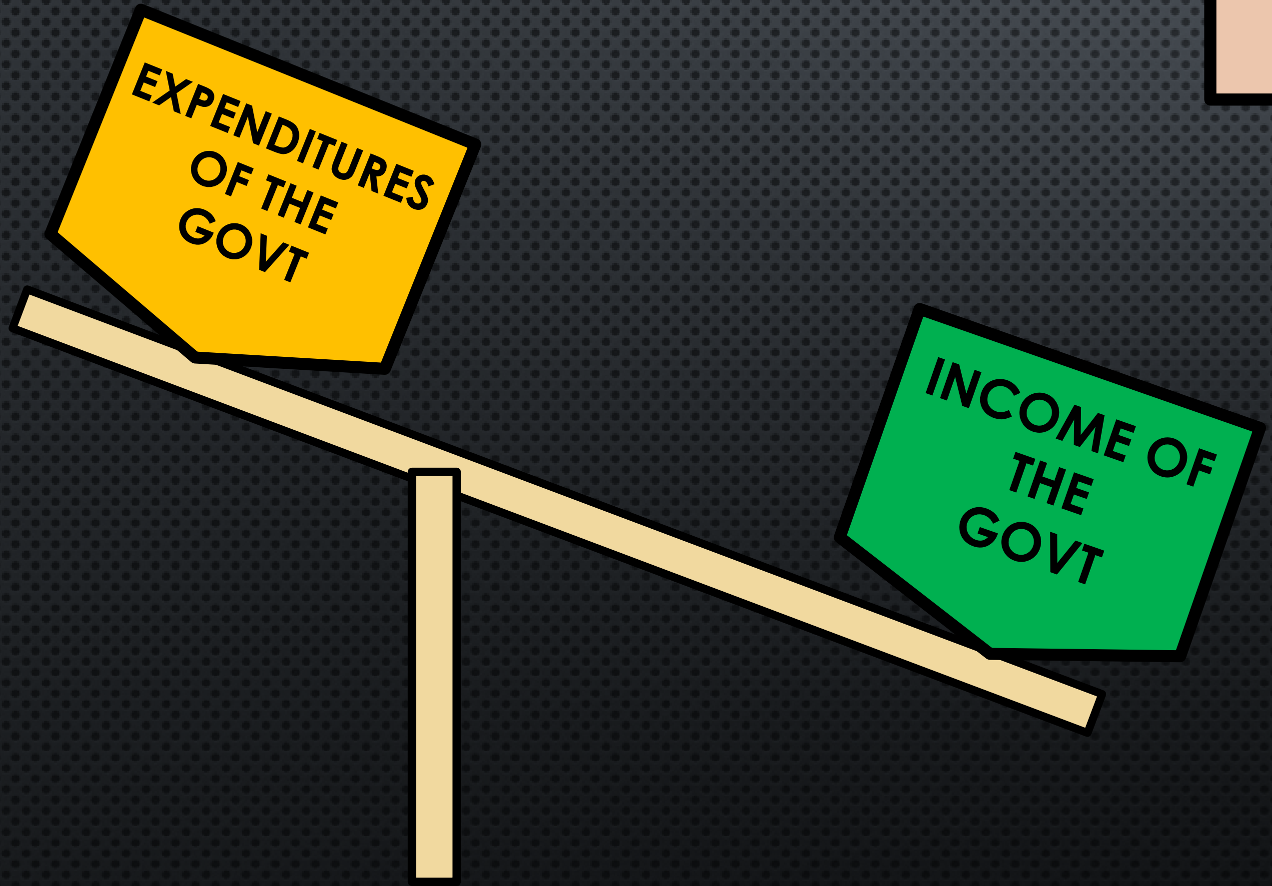
# MACRO ECONOMICS (CLASS 12TH )
# CHAPTER-GOVERNMENT BUDGET

## TOPICS

❖ **DEFICITS IN BUDGET**

# DEFICITS IN GOVERNMENT BUDGET

- A Government Deficit is the amount of money in the set budget by which <u>the government expenditure exceeds the government income amount</u>.
- This deficit provides an indication of the financial health of the economy.

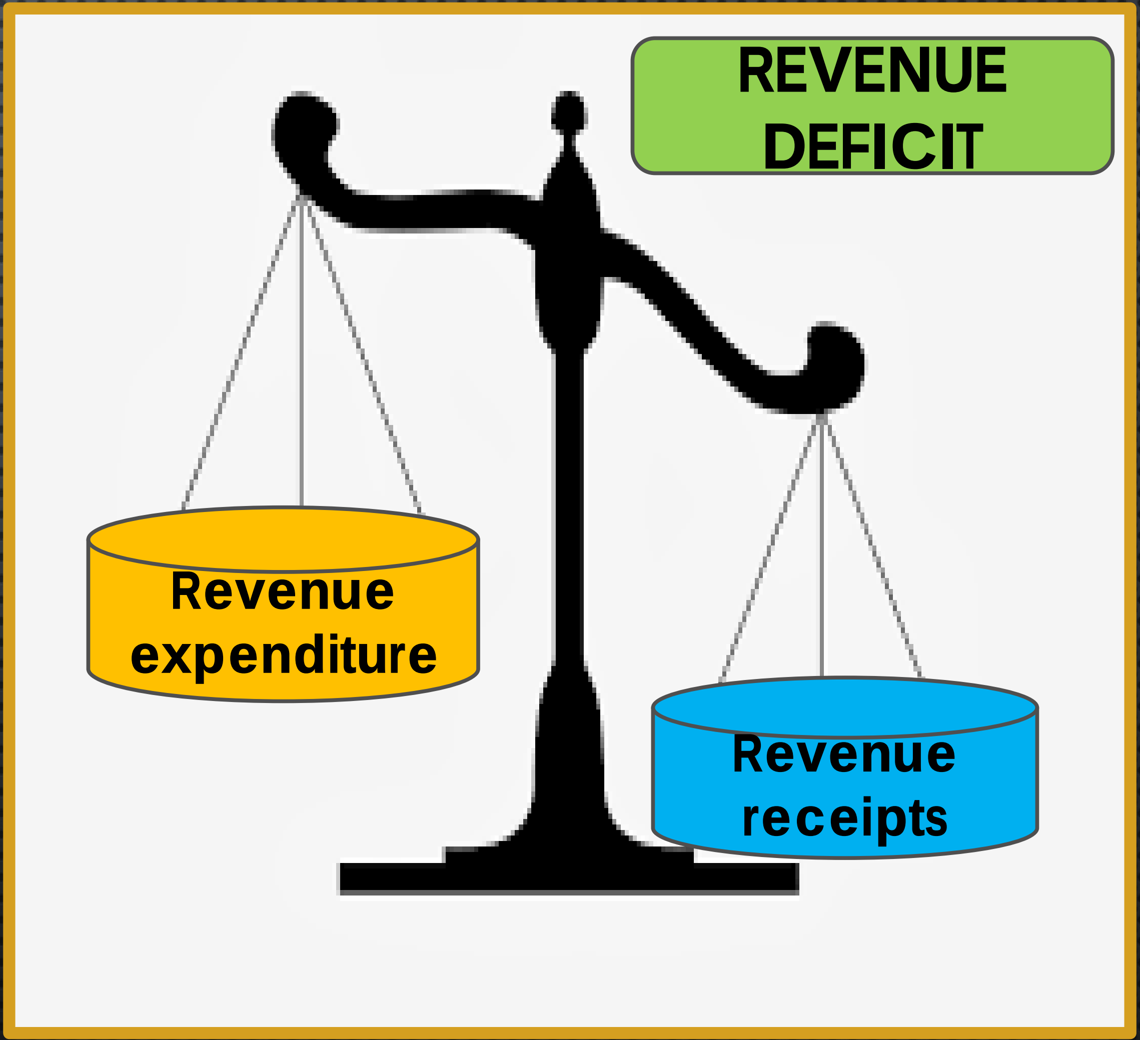



**THERE ARE THREE TYPES OF DEFICITS IN GOVERNEMNT BUDGET**

- **REVENUE DEFICIT**
- **FISCAL DEFICIT**
- **PRIMARY DEFICIT**

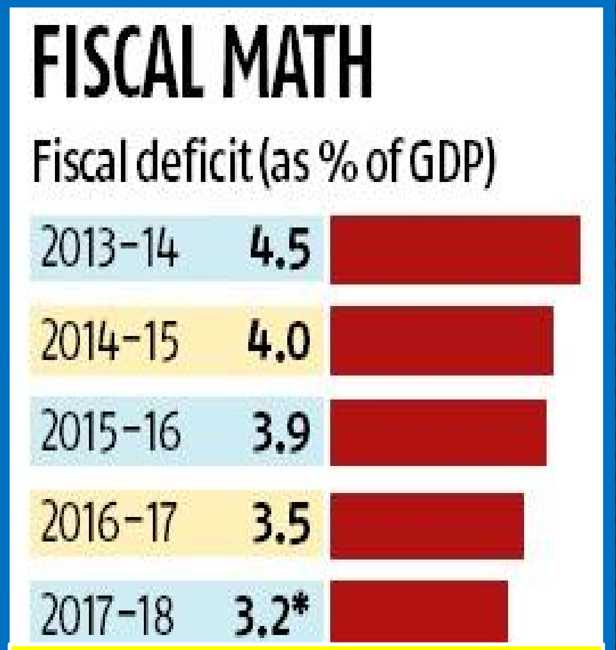
# 1. WHAT IS REVENUE DEFICIT

- A Revenue deficit indicates that the government doesn't have sufficient revenue for the normal functioning of the government departments.
- **REVENUE DEFICIT = REVENUE EXPENDITURE – REVENUE RECEIPTS**
- Revenue deficit is only related to revenue expenditure and revenue receipts of the government.
- Revenue deficit indicates dissaving on the government account because the government has to make up the uncovered gap by drawing upon capital receipts, either through borrowing or through the sale of its assets.



# 2. WHAT IS FISCAL DEFICIT

- Fiscal deficit refers to the difference between total expenditures of the government and the total receipts excluding borrowings.
  or
- FISCAL DEFICIT = TOTAL EXPENDITURES – (REVENUE RECEIPTS + NON DEBT CAPITAL RECEIPTS)
- Generally **fiscal deficit** occurs either due to revenue **deficit** or a major hike in capital expenditure.
- A high **fiscal deficit** can also be **good** for the **economy** if the money spent goes into the creation of productive assets like highways, roads, ports and airports that boost **economic** growth and result in job creation
- Fiscal deficit shows borrowing requirements of the government. greater fiscal deficit Implies greater borrowings by the govt. it may lead the govt into debt trap.




**Safe limit of fiscal deficit is considered 3% and 5% of GDB**

# 3. WHAT IS PRIMARY DEFICIT

- **Primary deficit** is the difference between **fiscal deficit** and interest payments.
- The total borrowing requirement of the government includes the interest commitments on accumulated debts. Primary deficit reflects the extent to which such interest commitments have compelled the government to borrow in the current period.
- **PRIMARY DEFICIT = FISCAL DEFICIT – INTEREST PAYMENTS**
- A shrinking primary deficit indicates progress towards fiscal health
- **<u>Primary Deficit is the root Cause of Fiscal Deficit:</u>**

In India, interest payments have considerably increased in the recent years. High interest payments on past borrowings have greatly increased the fiscal deficit. To reduce the fiscal deficit, interest payments should be reduced through repayment of loans as early as possible

# BUDGET HIGHLIGHTS 2020-21

- **EXPENDITURE:** The government proposes to spend Rs 30,42,230 crore in 2020-21, which is 12.7% higher than the revised estimate of 2019-20.
- **RECEIPTS:** The receipts (other than net borrowings) are expected to increase by 16.3% to Rs 22,45,893 crore, owing to higher estimated revenue from disinvestments.
- **GDP GROWTH:** The government has assumed a nominal GDP growth rate of 10% (i.e., real growth plus inflation) in 2020-21. The nominal growth estimate for 2019-20 was 12%.
- **DEFICITS:** Revenue deficit is targeted at 2.7% of GDP, which is higher than the revised estimate of 2.4% in 2019-20. Fiscal deficit is targeted at 3.5% of GDP, lower than the revised estimate of 3.8% in 2019-20. Note that the government is estimated to breach its budgeted target for fiscal deficit (3.3%) in 2019-20 and the medium term fiscal target of 3% in 2020-21. This does not include off-budget borrowings (0.9% of GDP in 2020-21).

Not to be evaluated in class 12th

# UNION BUDGET 2021 ( FIGURES IN LAKH CRORE)

| RECEIPTS | | EXPENDITURES | |
|---|---|---|---|
| **22.45+ 7.96 ( BORROWINGS) =30.42** | | **30.42** | |
| REVENUE RECEIPTS = 20.2<br><br>TAX REVENUE = 16.36<br><br>NON TAX REVENUE= 3.85 | CAPITAL RECEIPTS = 2.25<br><br>DISINVESTMENT= 2.1 | REVENUE EXPENDITURE=26.3 | CAPITAL EXPENDITURE= 4.12 |

**NOT TO BE EVALUATED**

# HOW TO CALCULATE DEFICITS USING FORMULAS

**1. REVENUE DEFICIT = REVENUE EXPENDITURE – REVENUE RECEIPTS**

20.2 - 26.1= 6.09 LAC CRORE (2.7 % OF GDP)

**2 . FISCAL DEFICIT = TOTAL EXPENDITURE – TOTAL RECEIPTS EXCLUDING BORROWINGS**

**30.42 – 22.45 = 7.97 LAC CRORES (3.5% OF GDP)**

**3 . PRIMARY DEFICIT = FISCAL DEFICIT– INTEREST PAYMENTS**

**7.97- 7.09 = 0.88 lac crore (0.4% OF GDP)**