BHARAT SCHOOL OF BANKING

REVENUE, FISCAL AND PRIMARY DEFICITS

Revenue Deficit

For every financial year, government plans a **budget**. Government needs to **predict** how much it hopes to earn as **revenue** and how much to spend as **expenditure**.
Suppose, for a **financial year**, government **predicts** to earn **revenue** of **Rs. 525 crore** (just a figure to understand) and expects to spend **Rs. 400 crore**. Then the **predicted Net Revenue** will be predicted revenue **minus** predicted expenditure, i.e., **Rs. (525 - 400) crore = Rs. 125 crore**.

Note that this is just a **prediction** or **expectation**. After that **financial year**, the government calculates that it earned **Rs. 500 crore** as **revenue** and spent **Rs. 420 crore** (**expenditure**). Therefore, the **actual Net Revenue** is calculated as **Rs. (500 - 420) crore = Rs. 80 crore**.

You can see, that the government **expected** to earn a **Net revenue** of **Rs. 125 crore**, but **actually** it earned **Rs. 80 crore**. This **mismatch** is known as **Revenue Deficit**. The reverse case is **Revenue Surplus** (when predicted Net revenue is greater than the actual one)

You **must notice** that the government **may not** have an **actual loss** of **revenue** (in this case actual **revenue** is greater than actual **expenditure**, that means **profit,** not loss).

*Same concept goes for **business** too.*

Fiscal Deficit

In the **Revenue Deficit/Surplus**, **deficit** or **surplus** was calculated on the **predicted** and **actual Net Revenue**. But, if the government **actually** makes the deficit, then we are talking about **Fiscal Deficit**. That means, if the government **spends** more than it **earns** in a **financial year**, then (obviously) the **expenditure** is **greater** than the **revenue**, leading to the **Fiscal Deficit**.

Note **Fiscal Deficit** means **actual loss** of **revenue,** while **Revenue Deficit** can mean actual loss, or actual profit, for the **financial year**.

Also note that, while calculating **Fiscal Deficit,** we need to **exclude** the **borrowings** of the government (because it certainly is not actual revenue, its a **debt**, that the government needs to **pay back** to the **lender/investor**)

Primary Deficit

After **borrowing** from the investors, government needs to **pay interest** on the borrowings. If these **interests** are deducted from the **Fiscal Deficit**, then we get the **Primary Deficit**.

Fiscal Responsibility and Budget Management Act (FRBM), 2003

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FRBM Act was legislated to institutionalize **financial discipline** and improve **macroeconomic** and **public fund management**, reduce **fiscal deficit**, by making a **balanced budget**. It was introduced by former finance minister **Shri Yashwant Sinha**.

The goal was to -

1. Eliminate **Revenue Deficit** of the country
2. Build **Revenue Surplus** thereafter
3. Then **bring down** the **Fiscal Deficit** to a manageable **3 %** of **GDP,** by **March 2008**.

But it was **suspended** due to the **international financial crisis (recession)** of **2007**.

Current scenario and targets

Finance Minister **Shri ArunJaitley** promised in **Union Budget 2014**, to lower the **fiscal deficit** to **3.6 %** of **GDP** by **2015-16**, and **3 %** by **2016-17** to meet the original **target** of **3 %** of **GDP** set by **FRBM Act**.

For current **fiscal year (2014-15)**, the **government** may be able to meet the **fiscal deficit** target of **4.1 %** of **GDP**.

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