Budgetary Deficit & its Measures

1 Mark Questions

1. Define fiscal deficit. (All India 2014)

Ans. Fiscal deficit is the difference between the government's total expenditure and total receipts excluding borrowings.
Fiscal Deficit = Total Budget Expenditure – Total Budget Receipts (Excluding borrowings) or
Fiscal Deficit = Borrowings

2. What is 'primary deficit'? (Foreign2014)
or
How is primary deficit calculated? (Delhi 2010,2008C)

Ans. The difference between fiscal deficit and interest payment is known as primary deficit.
Primary Deficit = Fiscal Deficit – Interest Payments

3. What is 'revenue deficit? (All India 2013)
or
What is the meaning of revenue deficit? (All India 2010)

Ans. When the revenue receipts are less than the revenue expenditures in a government budget, this shortfall is termed as revenue deficit.
Revenue Deficit = Revenue Expenditure – Revenue Receipts

3 Mark Questions

4. Distinguish between fiscal deficit and revenue deficit. (Delhi 2013)

Ans. Difference between fiscal deficit and revenue deficit

Basis	Fiscal deficit	Revenue deficit
Meaning	It is the difference between total revenue and total expenditure of the government (excluding borrowings).	It results when revenue receipts are less than the revenue expenditure.
Indicator	It is an indicator of the total borowings needed by the government.	It indicates the dependency on loans in near future.
Arises	It arises due to hike in capital expenditure.	It arises when the government's actual net receipts are lower than the projected receipts.

5. Explain the meaning and implications of revenue deficit.
(All India 2011)

Ans. When the revenue receipts are less than the revenue expenditures in the government budget, this shortfall of receipts is known as revenue deficit.
Implications of revenue deficit are as follows:

(i) High revenue deficit shows accumulated and recurring expenses of government such as expenses on defence, payment of interest, etc.

(ii) The revenue deficit is managed by borrowing or disinvestment. Hence, high revenue deficit either increases government liability or reduction of government assets.

(iii) High revenue deficit leads to inflationary situation in the economy, as high government expenditure increases the aggregate demand of the economy.

(iv) High revenue deficit implies high future burden of loan and interest payments on the government.

6. Distinguish between fiscal deficit and primary deficit. (All India 2010; Delhi 2009)

Ans. Difference between fiscal deficit and primary deficit

Basis	Fiscal deficit	Primary deficit
Meaning	It is the excess of total budget expenditure over the total budget receipt excluding borrowing.	It is the difference between fiscal deficit and interest payments by the government.
Calculation	It is calculated as, Fiscal Deficit = Total Budget Expenditure – Total Budget Receipt (excluding borrowings)	It is calculated as, Primary Deficit = Fiscal Deficit – Interest Payments
Scope	It is broad or wide in scope.	Primary deficit is the part of fiscal deficit hence, narrow in scope.

7. Give the meaning of revenue deficit, fiscal deficit and primary deficit.
(All India 2009; Delhi 2009C)

Ans. (i) Revenue deficit When the revenue receipts are less than the revenue expenditures in the government budget, this short fall is known as revenue deficit. It is calculated as
Revenue Deficit = Revenue Expenditure – Revenue Receipts
(ii) Fiscal deficit It refers to the excess of total expenditure over the sum of revenue receipts and capital receipts excluding borrowings. It is calculated as

Fiscal Deficit = Total Budget Expenditure – Total Budget Receipts (excluding borrowing)
or
Fiscal Deficit = Borrowings

(iii) Primary deficit The difference between fiscal deficit and interest payments is termed as primary deficit. It is calculated as
Primary Deficit = Fiscal Deficit – Interest Payments

4 Mark Questions

7. Explain revenue deficit in a government budget. What does it indicate? (Delhi 2012; All India 2009C)
or
What is revenue deficit? Explain its implications. (Delhi 2012; All India 2008)

Ans. When the revenue receipts are less than the revenue expenditures in the government budget, this shortfall of receipts is known as revenue deficit.
Implications of revenue deficit are as follows:
(i) High revenue deficit shows accumulated and recurring expenses of government such as expenses on defence, payment of interest, etc.
(ii) The revenue deficit is managed by borrowing or disinvestment. Hence, high revenue deficit either increases government liability or reduction of government assets.
(iii) High revenue deficit leads to inflationary situation in the economy, as high government expenditure increases the aggregate demand of the economy.
(iv) High revenue deficit implies high future burden of loan and interest payments on the government.

9. Explain the concept of fiscal deficit in a government budget. What does it indicate? (All India 2012)
or
What is fiscal deficit? What are its implications? (Delhi 2008; All India 2008)

Ans. It refers to the excess of total expenditure over the sum of revenue receipts and capital receipts excluding borrowings. It is calculated as:
Fiscal Deficit = Total Budget Expenditure – Total Budget Receipts (excluding borrowing)
or
Fiscal Deficit = Borrowings

Implications of fiscal deficit are :
(i) Borrowings requirements of government.
(ii) High interest payments by government.
(iii) High level of inflation due to high government expenditure.
(iv) Increased foreign dependence of the economy.

10. From the following data about a government budget, find out the following:
(i) Revenue deficit
(ii) Fiscal deficit
(iii) Primary deficit

S.No.	Contents	₹ (in Arab)
(a)	Capital Receipts Net of Borrowings	95
(b)	Revenue Expenditure	100
(c)	Interest Payments	10
(d)	Revenue Receipts	80
(e)	Capital Expenditure	110

(i) Revenue Deficit = Revenue Expenditure – Revenue Receipts = 100 -80 =Rs. 20 Arab
(ii) Fiscal Deficit = [Revenue Expenditure + Capital Expenditure] – [Revenue Receipt + Capital Receipt Net of Borrowing]
= [100 + 110]- [80 + 95]
=210-175
= Rs. 35 Arab
(iii) Primary Deficit = Fiscal Deficit – Interest Payments = 35-10 =Rs. 25 Arab

11. From the following data about a government budget, find
(i) Revenue deficit
(ii) Fiscal deficit
(iii) Primary deficit

S.No.	Contents	₹ (in Arab)
(a)	Tax Revenue	47
(b)	Capital Receipts	34
(c)	Non-tax Revenue	10
(d)	Borrowings	32
(e)	Revenue Expenditures	80
(f)	Interest Payments	20

Ans. (a) Revenue Deficit = Revenue Expenditure – (Tax Revenue + Non-tax Revenue)
= 80-[47+ 10] = 80-57
= Rs. 23 Arab

(i) Fiscal Deficit = Borrowings = Rs. 32 Arab
So, Fiscal Deficit = Rs. 32 Arab

(iii) Primary Deficit = Fiscal Deficit – Interest Payments
= 32-20
= Rs. 12 Arab

12. Define a government budget. Give meanings of revenue deficit, fiscal deficit and primary deficit. (Delhi 2011)
or
What is a government budget. Explain the meanings of fiscal deficit and primary deficit. (All India 2010C)

Ans. Government budget is a statement of expected/estimated receipts and expenditure of the government over a period of one financial year, i.e. 1 st April to 31 st March.

Revenue deficit, fiscal deficit, primary deficit
When the revenue receipts are less than the revenue expenditures in the government budget, this shortfall of receipts is known as revenue deficit.
Implications of revenue deficit are as follows:
(i) High revenue deficit shows accumulated and recurring expenses of government such as expenses on defence, payment of interest, etc.
(ii) The revenue deficit is managed by borrowing or disinvestment. Hence, high revenue deficit either increases government liability or reduction of government assets.
(iii) High revenue deficit leads to inflationary situation in the economy, as high government expenditure increases the aggregate demand of the economy.
(iv) High revenue deficit implies high future burden of loan and interest payments on the government.

6 Mark Questions

13. Distinguish between the following
(i) Revenue receipts and capital receipts
(ii) Revenue deficit and fiscal deficit. (Compartment 2014)

Ans. (i) Difference between revenue receipts and capital receipts

Basis	Revenue receipts	Capital receipts
Meaning	The receipts which neither create any corresponding liability for the government nor it create any reduction in assets, are termed as revenue receipts.	The receipts which create corresponding liability for the government or which lead to reduction in assets of the government, are termed as capital receipts.
Nature	Revenue receipts are recurring in nature.	Capital receipts are non-recurring in nature.
Example	Tax receipts and non-tax receipts, i.e. fees, grants donations, etc.	Loans taken by the government and disinvestment of PSUs, etc.

(ii) Difference between revenue deficit and fiscal deficit

Basis	Fiscal deficit	Revenue deficit
Meaning	It is the difference between total revenue and total expenditure of the government (excluding borrowings).	It results when revenue receipts are less than the revenue expenditure.
Indicator	It is an indicator of the total borowings needed by the government.	It indicates the dependency on loans in near future.
Arises	It arises due to hike in capital expenditure.	It arises when the government's actual net receipts are lower than the projected receipts.