Deficit: Fiscal Deficit, Revenue Deficit and Primary Deficit

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Types of deficits & how they are calculated

Fiscal Deficit:

- The excess of total expenditure over total receipts excluding borrowings is called Fiscal Deficit. In other words, the Fiscal Deficit gives the amount needed by the government to meet its expenses. Thus a large Fiscal Deficit means a large number of borrowings.
- Simply put a Fiscal Deficit is a measure of how much the government needs to borrow from the market to meet its expenditure when its resources are inadequate.
- Various measures might be taken to reduce the Fiscal Deficit, some of them can be reducing public expenditure in the form of subsidies, reduction in expenditure on bonuses, LTC, Leaves encashment, etc.
- Alternatively, measures to increase the revenue are also taken in form of

broadening tax base restructuring and sale of shares in public sector units, etc.

Revenue Deficit:

- Revenue Deficit is the excess of the government's total revenue expenditure to its total revenue receipts. Revenue Deficit is only related to revenue expenditure and revenue receipts of the government.
- The difference between total revenue expenditure the total revenue receipts is Revenue Deficit.
- A revenue deficit indicates that the government doesn't have sufficient revenue for the normal functioning of the government departments. In other words, when the government starts spending more than it earns, it results in a Revenue Deficit. Revenue Deficit forces the government to disinvest or cover the shortage by borrowing.
- In the case of Revenue Deficit government usually tries to curtail its expenses or increase its tax and non-tax receipts. This can be done by introducing new taxes or increasing the tax on people in higher-earning slabs.

Primary Deficit:

- Primary Deficit is the Fiscal Deficit of the current year minus interest payments on previous borrowings. While Fiscal Deficit represents the government's total borrowing including interest payments, Primary Deficit shows the amount of borrowing excluding interest payments.
- Primary Deficit shows the amount of government borrowings specifically to meet the expenses by removing the interest payments. Therefore, a zero Primary Deficit means the need for borrowing to meet interest payments.
- A higher Primary Deficit reflects the amount of new borrowings in the current year. Since this is the amount on top of already existing borrowings (Fiscal Deficit) similar measures can be taken to reduce the amount of borrowings.