Budget deficits: separate three balances

Formulas, economic meaning, numerical check and the FRBM Act, 2003

Government Budget Deficits & Fiscal Discipline

Revenue deficit

- Revenue Deficit = Revenue Expenditure − Revenue Receipts; shows dissaving on the government's current account.
- A positive revenue deficit means revenue expenditure exceeds revenue receipts.
- Revenue receipts include tax and non-tax revenue; borrowing is not revenue.

Fiscal deficit

- Fiscal Deficit = Total Expenditure − (Revenue Receipts + Non-Debt Capital Receipts).
- Non-debt capital receipts include loan recoveries and disinvestment proceeds, but exclude borrowings.
- Represents the total borrowing requirement of the Government of India from all sources in a fiscal year.

Primary deficit

- Primary Deficit = Fiscal Deficit − Interest Payments on past accumulated debt.
- Measures how much of current government borrowing is driven by current-year non-interest expenditure.
- At zero primary deficit, the fiscal deficit equals interest payments.

Example and fiscal responsibility

- Example: Expenditure = 100, Revenue Receipts = 70, Non-Debt Capital Receipts = 10 → Fiscal Deficit = 20.
- If Interest Payments = 6 in that budget, then Primary Deficit = 20 − 6 = 14.
- FRBM Act, 2003 supports fiscal responsibility and transparency; targets may change.

REMEMBER Fiscal deficit measures the financing gap; primary deficit removes interest payments from that gap.

Sources & practice · Union Budget — Explanatory notes on deficits · India Code — FRBM Act 2003
mindmapsforupsc.com/mindmaps/pet-budget-deficits-frbm/?lang=en