Since revenue deficit represents negative savings of the Government, it lowers investment by the government and, therefore, slows down economic growth of the country, every effort should be taken to reduce revenue deficit. In 2003 Fiscal Responsibility Budget Management Act (FRBMA) was passed according to which revenue deficit was to be eliminated by 2008-09. It will be seen that after 2002-03 revenue deficit as per cent of GDP has come down to 1.4 in 2007-08 (RE).

Capital budget is expected to cover those receipts and disbursements, which are in the nature of acquisition, creation and disposal of assets including investment loans and advances. Of this capital receipts include market loans, borrowings from the RBI through treasury bills, loans from foreign governments etc. Capital expenditure consists of expenditure on gross capital formed through the acquisition of assets such as land, buildings, machinery, equipments etc. Advances given to state governments, loans and advances to states and union territories, debt servicing and repayment of public debt all these come under capital expenditure. **The deficit on capital account** is the difference between capital expenditure and capital receipts.

When we take account of the budget as a whole including both current and capital budget we arrive at the concept of the ***budget deficit***. **Budget deficit** measures the difference between total receipts and expenditure of the government. A budget deficit arises if there is a difference between all the receipts and expenditures on current and capital account. Of this the part of the deficit financed by net increase in the holdings of treasury bills of RBI and RBIs contribution to market borrowings of the government is called the ***monetised deficit***.

However these concepts are restrictive and can indicate only the extent of monetary deficit. The real deficit of the fiscal operations should include market borrowings and other liabilities. Accordingly there is another concept of deficit called Gross fiscal deficit (GFD). In simple terms GFD is the sum of the amount that the central government borrows in the overall budget deficit it incurs to meet the excess expenditure over the revenue i.e. Total expenditure - (Revenue Receipts + Capital receipts excluding borrowings and other liabilities. It indicates the total borrowing requirements of the government.

Fiscal Deficit

Fiscal deficit is the excess of expenditure (both on revenue and capital accounts) over revenue receipts and only non-debt type capital receipts such as recoveries of loans. Thus,

Fiscal Deficit = (Total Expenditure both on Revenue Account and Capital Account) - {Revenue Receipts + Non-debt Capital Receipts)

Fiscal deficit is a more comprehensive measure of budgetary imbalances. Thus, when the government's total expenditure, both revenue and capital expenditure, exceeds its revenue from taxes and other normal receipts, fiscal deficit is created. Now, this fiscal deficit can be financed in two ways. Firstly, through borrowing by the government from the market, both inside and outside the country. On this borrowing, the government has to pay rate of interest annually. Apart from that it has to pay back the internal and external debt taken. Secondly, the government can finance the fiscal deficit by borrowing from the Reserve Bank of India which issue new notes against government securities. Thus, borrowing from the Reserve Bank results in expansion of high powered money in the economy and is popularly called deficit financing. It is in fact monetisation of fiscal deficit which, if undertaken to an excessive extent, leads to