

# Effective Capital Expenditure



Total Capital Expenditure

Plus

Capital Grants to States



Grants to be given for the  
creation of assets.

# Types of Deficits

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I. Revenue Deficit →



Total Revenue Expenditures

(-)

Total Revenue Receipts

## 2. Effective Revenue Deficit



R. D. - Capital grants  
to be given to  
states

3. Fiscal Deficit -



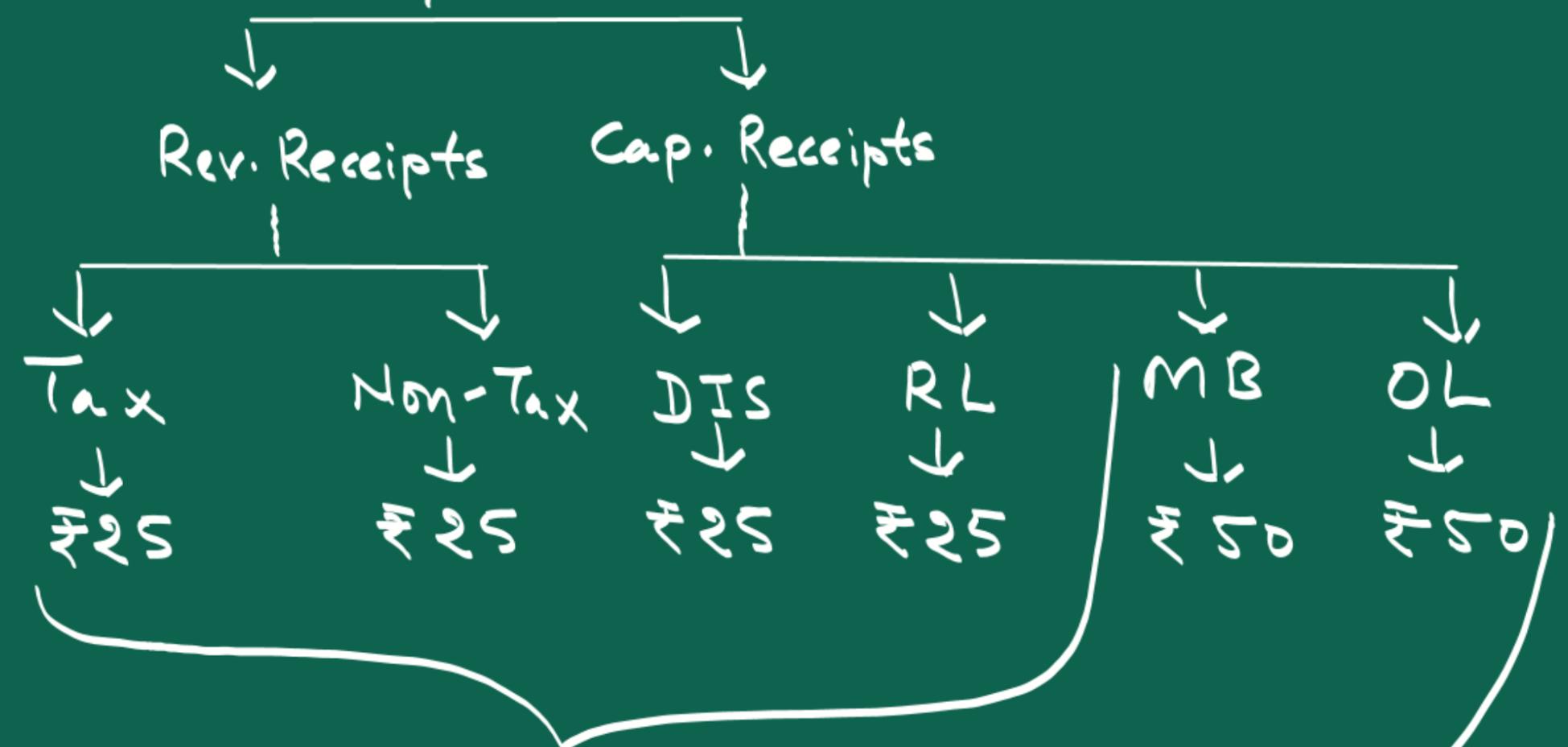
Total Expenditures  
(Revenue + Capital)

(-)

Revenue Receipts Plus NDCR  
Non Debt Capital  
Receipts



D. → ₹ 200      |  
 D. → ₹ 200      |



$₹ 100 = ₹ 100$

$₹ 200 = 0$

The concept of F.D.  
was implemented in India  
on the recommendations of →  
'Sukhmoy Chakravarti  
Committee'

The F.D. Shows →

Borrowing Requirements

of the govt.

It is a better concept as  
compared to the concept of the Budget Deficit.

4.

Budget Deficit →

$$\begin{array}{c} \downarrow \\ \text{Total Exp.} - \text{Total Receipts} \\ \text{(Debt \& Non Debt)} \end{array}$$

Note - It is also called as monetised deficit.

↓  
why?

If it is positive, then it gets converted into extra money circulation in

Some people argue that countries like India may plan to incur higher budget deficit to accelerate economic development.

This policy prescription is hugely risky because this may put a country into a situation in which -

'Too much money is chasing too few goods',  
implying a very higher inflation.

15. Primary Deficit -

F. D.  $\downarrow$  Interest  
Payments

# The FRBM Act

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Fiscal Responsibility  
&  
Budget Management

(i) Passed by Indian Parliament,  
↓  
2003

(ii)

Implemented in -



July, 2004

(iii)

Based on -

Graham Rudman Hollings Act  
of the USA which emphasises  
the theory of the balanced budget.

(iv) Important Targets -

(a) Removal of R.D.

↓

By 2008-09

(b) Reduction of F.D. to  
3% of GDP.

↓

By 2008-09

(v) Performance -

Targets couldn't be achieved.

Reason : Great Recession of USA.

↓  
Stimulus given to the economy.

# The FRBM Act Review Committee



Constituted under the  
Chairmanship of -

Mr. N.K. Singh

Two types of target -

- (a) Flow Target → F.D.
- (b) Stock Target → Debt-GDP Ratio

