FACULTY OF JURIDICAL SCIENCES

Lecture-26

DEFICIT

In financial terms, a deficit occurs when expenses exceed revenues, imports exceed exports, or liabilities exceed assets. A deficit is synonymous with a shortfall or loss and is the opposite of a surplus. A deficit can occur when a government, company, or person spends more than it receives in a given period, usually a year.

- A deficit occurs when expenses exceed revenues, imports exceed exports, or liabilities exceed assets in a particular year.
- Governments and businesses sometimes run deficits deliberately, to stimulate an economy during a recession or to foster future growth.
- The two major types of deficits incurred by nations are budget deficits and trade deficits.

There are a number of different types of deficits. The main ones include:

- **Budget Deficits:** These occur when expenses exceed revenue. Budget deficits are generally used to describe the health and well-being of a country. Governments normally run a budget deficit when the amount they spend (on social programs and other obligations) exceeds the amount of tax revenue they collect. The projected deficit for the U.S. was $3 trillion in 2021.

- **Trade Deficits:** These deficits occur when a country's exports are less than its imports. Trade deficits are also called negative balances of trade.

- **Revenue Deficits:** These happen when projected net income is more than realized net income.

DEBT

The term debt basically means money that you owe money someone else. As such, it is negative by definition, which means it can never be positive. Entities borrow money from others to finance large purchases, make investments, and choose to grow when they don't have enough capital themselves. Doing so puts them into and increases their debt. Despite the negative connotation, it doesn't necessarily indicate a weak economy or situation.

Individuals incur debt when they borrow from banks, lenders, and other individuals to finance large purchases, such as cars and homes. Types of consumer debt include credit cards, loans, and mortgages. Without these types of debt, people wouldn't be able to afford basic necessities like housing.

Companies and countries incur debt by borrowing from investors when they issue bonds. These are obligations that need to be paid back to bondholders by some date. That date, which is called the maturity date, is usually fixed. Government debt, for instance, depends on whether the money is in the form of:

- Treasury bills (less than a year)
- Treasury notes (1 to 10 years)
- Treasury bonds
- One of the many other securities the federal government issue

Debt and deficit are two of the most common terms in all of macro-finance, and they're also one of the most politically relevant, inspiring legislation and executive decisions that affect many people. Although people often use these words interchangeably, they are inherently different. And the magnitude of each doesn't necessarily have anything to do with the other but has plenty to do with the size of people's personal situations, the health of corporations, and the underlying economy. Debt is any money that is owed to someone else while the term deficit refers to a situation where expenses exceed revenues or liabilities exceed assets. Put simply, debt is the accumulation of years of deficit (and the occasional surplus).

- Debt is an amount of money owed,
- A deficit refers to negative net money taken in over the course of some period.
- Both the national debt and budget deficit are watched by investors and economists.
- Debt is not necessarily an indicator of a weak economy.