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Government Budget

Meaning, Components

And

Types of Deficit

MEANING OF GOVERNMENT BUDGET

A Government budget is an annual statement showing item wise estimates of receipts and expenditures during a fiscal year. The financial year generally taken from April to 31st March.

OBJECTIVES OF GOVERNMENT BUDGET

The important objectives of Government budget are as follows:

1. Economic Growth: - Budgetary policy has been, and is, used to achieve this goal. The growth rate of a country depend on the rate of saving and investment. Therefore, the roles that are to in this assigned budgetary policy regards are to create Conditions for increase in savings and investments.

2. Proper Allocation of Resources - Government tries to reallocate resources in accordance with economic and social priorities of the country through its budgetary policy.

3. Generation of Employment: - In this regard government needs to promote huge Labour absorbing technology, public works programmes like construction of roads, dams, canals and bridges, and to undertake Employment - specific projects.

4. Economic Stability: Economic Stability is one of the important objectives of the budgetary policy of the government. The policy of surplus and deficit budgeting is required adopted as and when government is required to control inflation and deflation. Thus, government tries to business fluctuations and maintain stability through budgetary techniques.

5. Economic Disparity: Economic disparity is inherent in any economic system. In an economy, fiscal policy is a powerful instrument of reducing economic disparities. Both taxation and

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expenditure measures are used to reduce income and wealth gaps between the rich and the poor.

6. Transparency and Efficiency in Government's Economic Dealings: - Absence of such exercise may leads to corruption, inefficiency and even bankruptcy of government.

PUBLIC GOODS AND PRIVATE GOODS

The Public goods are those goods which cannot be provided through market mechanism and must be provided by the government are called public goods. Examples of public goods are: roads, lighting, water supply, defense, law and order, government administration, public health etc.

The Private goods are those goods which can be provided through market mechanism. For example, food items, clothes, Shoes, radio, TV, Car, houses etc.

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COMPONENTS OF GOVERNMENT BUDGET

The budget is presented in two parts: revenue budget and capital budget. These are called components of budget.

Revenue Budget

Revenue budget shows current revenue receipts of the government and the expenditure met from these revenues. It consists of (i) Revenue Receipts and (ii) Revenue expenditures.

Capital Budget

Capital budget comprises capital receipts and capital expenditure of the government.

Classification of Receipts and Expenditures in the Government budget

Revenue Receipts

Receipts which neither create a liability nor lead to reduction in assets are called revenue receipts. These are non- redeemable receipts of the government.

Revenue receipts are further divided under two heads: (A) Receipts from tax revenue the government and (B) Receipts from non- tax revenue.

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(A) Receipts from tax Revenue

Tax revenue comprise proceeds of taxes and duties levied by the government.

Meaning of tax

A tax is a compulsary payment to government without expectation of direct benefits to the taxpayer. For example, taxes on income, wealth, property, manufacturing, sales, imports, exports etc.

TYPES OF TAXES

There are two types of taxes (i) Direct tax and (ii) Indirect tax.

DIRECT TAX

If the liability of to pay a tax and its burden falls on the same person, it is termed as direct tax.

INDIRECT TAX

If the liability to pay a tax and its burden can be on different persons it is called indirect tax. Thus, the burden of an indirect tax can be shifted on other persons. Examples are: Sales tax, excise duties (duties levied on goods produced in the country, Custom duties (duties imposed on the import and export of goods), entertainment tax etc.

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(B) RECEIPTS FROM NON - TAX REVENUE

Revenue receipts of the Government from sources other than taxes are known as non - tax revenue. The main non - tax revenue of the Central Government are:

(i) Interest receipts from the loans given by the Government.

(ii) Dividends and profits from RBI, LIC, IDBI and other financial institutions and public enterprises;

(iii) Receipts from fiscal services, social services and economic services.

CAPITAL RECEIPTS

Capital receipts cover those receipts of the government which creates liability or reduce financial assets are called Capital receipts.

Examples of Capital receipts are market loans, external assistance, recoveries of loans and advances, disinvestment etc. These receipts are classified under the following heads

(i) Market Borrowings: - These includes open market borrowings raised through auctions and other instruments from public.

(ii) Other Borrowings and loans: - It includes government borrowings from RBI, Commercial bank and other financial institutions, Loans received from friendly foreign countries and international organisation.

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(iii) Disinvestment of Equity holdings in Public sector Enterprises: Disinvestment means selling of the shares of the public sector enterprises held by the government.

(iv) Small Savings - These comprise post office savings account, post office time deposits, post office recurring deposits, national saving scheme, post office monthly income account , National savings certificate and kisan vikas patras.

(V) Provident Funds and other deposits : These includes deposits under the provident fund scheme, deposit scheme for retiring govt. employees and public sector companies, state provident funds and Other special deposits scheme.

BUDGET / GOVERNMENT EXPENDITURE

Budget expenditure refer to the estimated government expenditures under different heads. The government expenditures is classified under two main categories: (i) Revenue expenditure and (ii) Capital expenditure

REVENUE EXPENDITURE

Revenue Expenditure refers to the expenditures that does not result in the creation of assets or reduction of liabilities. Examples are: Salaries of government employees, pensions, interest payment on government loans, subsidies, grants given to state government and expenditure on social and economic services of the government:

CAPITAL EXPENDITURES

Capital Expenditures refers to the expenditure which leads to creation of assets or reduction in liabilities. Examples are: defense capital, purchasing land, building, machinery, equipment's etc. and investment in shares, loans to states, Union territories, foreign government and Public enterprises etc.

DEFICIT BUDGET AND ITS VARIOUS MEASURES

If Government Expenditure exceeds the Government receipts. It is called deficit budget.

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(i) Revenue deficit

(ii) Fiscal deficit and

(iii) Primary deficit

1. REVENUE DEFICIT

Revenue Deficit refers to the excess of revenue Expenditure over revenue receipts.

Revenue Deficit= Revenue Expenditure - Revenue Receipts
= (Plan Revenue Expenditure & Non- Plan Revenue Expenditure) - (Tax Revenue + Non tax)

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Implication

Revenue deficit measures government negative contribution to domestic savings and dissaving's on government account. It signifies that government has to make up for this short fall from capital receipts.

2. FISCAL DEFICIT

Fiscal deficit refers to the excess of total expenditure over the sum of revenue receipt and capital receipts excluding borrowings.

Fiscal Deficit = Total Expenditure (Revenue Expenditure + Capital Expenditure) - (Revenue receipts + Capital Receipts - borrowings)

Capital Receipts excluding borrowings are also termed as non - debt creating capital receipts. These capital receipts are not borrowings and therefore do not create give rise to debt.

Implications

The fiscal deficit will have to be financed through borrowings. A large fiscal deficit, means large amount of borrowings. This creates a large burden of interest payment and repayment of loans in the future. Payment of interest increases revenue expenditure. This may leads to higher revenue deficit. This may further add to more borrowings more interest payment, thus creating a vicious cycle of fiscal deficit and revenue deficit.

(III) PRIMARY DEFICIT

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Primary deficit is defined as fiscal deficit less interest payments.

Primary deficit = Fiscal deficit - Net Interest payment

Net interest payment are equal to the interest payment minus lending's interest receipts by the Implications government on domestic lending's.

Implications

Primary deficit indicates borrowing requirement of the government to meet fiscal deficit less net of interest payment.

FINANCING OF BUDGET DEFICIT

There are two way to finance the deficit of the budget.

(1) Expansion of money supply: - Whenever deficit arises the Central government borrow money from the central bank by giving its own securities or treasury bills.
The Reserve bank of India issues new currency against govt. securities which leads to the expansion of money supply. In old terminology, it was known as deficit financing and in the new terminology it is called monetization of fiscal deficit.

(ii) Borrowings from public: - The second method to finance the budget deficit is to borrow money from the public through issue of market loans by issuing bonds. This is known as debt- financed budget deficit.

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MEASURES TO REDUCE FISCAL DEFICIT

1. Measures to reduce Public expenditure: - A number of measures can be adopted to reduce public expenditure for reducing public expenditure for reducing fiscal deficit and thereby check inflation.

2. Increasing revenue from taxation and other measures: Apart from reducing public expenditure, measures to raise government revenue should also be adopted.