# GOVERNMENT BUDGET

**Q1. Explain the meaning of government budget and its objective.**

**Ans.** government budget is an annual statement showing item wise estimate of receipts expenditure during a fiscal year.

- **OBJECTIVES OF GOVERNMENT BUDEGT;-**

1. **REALLOCATION OF RESOURCES:-** Through the budgetary policy government aims to reallocate resources in an accordance with the economic and social priorities of the country. Government can influence allocation of resources through.

2. **TAX CONCESSION AND SUBSIDIES;-** To encourage investment government can give tax concession, subsidies etc. to the producers.
   **EXAMPLE:-** Government discourages the production of harmful consumption goods like cigarettes, liquor etc. through heavy taxes and encourages the use of Khadi products by providing subsidies.

3. **DIRECTLY PRODUCING GOODS AND SERVICES;-** If private sector doesnot take interest government should directly undertake the production.

4. **REDUCING INEQUALITIES IN INCOME AND WEALTH;-** Economic inequality is an internet part of every economic system government aims to reduce such inequalities of income and wealth through its budgetary policy. Government aims to influence distribution of income by imposing taxes on the rich and spending more on the welfare of poor. It will reduce the income of the rich and raise standard of living of the poor. Thus reducing inequalities in the distribution of income.

5. **ECONOMIC STABILITY;-** Government budget is used to prevent business fluctuations of inflation or deflation to achieve the objective of economic stability. Government expenditure and taxes can help in fighting price fluctuation.

a) **INFLATIONARY TENDENCY;-** Emerge when AD is higher than AS government can being down AD by reducing its own expenditure.
b) During deflation government can increase its expenditure and give tax concession and subsidy.

6. **MANAGEMENT OF PUBLIC ENTERPRISES:-** There are marge number of public sector industries which are established and managed for social welfare of the public. Budget is prepared with the objective of making various provisions for managing such enterprises and providing then financial help.

7. **ECONOMIC GROWTH:-** The growth rate of a country depends on rate of saving and investment. For thus purpose budgetary policy aims to mobilise sufficient resources for investment in the public sector. Therefore the government makes various provisions in the budget to raise overall rate of savings and investment in the economy.

8. **REDUCING REGIONAL DISPARITIES;-** Government budget aims to reduce regional disparities through its taxation and expenditure policy for encouraging setting up of production units in economically backward regions.

**Q2. What are the components of budget.**

Ans.

1. **REVENUE BUDGET;-** It deals with the revenue aspect of the budget. It explain how revenue is generated or collected by the government and how it is allocated among various expenditure the heads. Revenue budget has two parts.

- Revenue Receipt
- Revenue Expenditure

2. **CAPITAL BUDGET;-** It deals with the capital aspect of government budget and it consist of capital receipt.

- Capital Expenditure

**Q3. What are the budget receipt and its component?**

**Ans.** Budget receipt refers to the estimated money receipt of government from all sources during fiscal year. It is further classified as:-

- Revenue receipt
- Capital receipt

➢ **REVENUE RECEIPT;-** It refers to those receipts which neither create any liability nor cause any reduction in the asset of the government. They are regular and reoccurring in nature and government receives them in its normal course of activities. A receipt is a revenue receipt if it satisfy the following two essential conditions:-

✓ The receipt must not create a liability for the government.
**EXAMPLE:-** Taxes levied by the government are revenue receipts as they donot create any liability. However any amount borrowed by the government is not a revenue receipt as it cause an increase in liability in terms of repayment of borrowings.

✓ The receipt must not cause decrease in the asset.
**EXAMPLE**:- Receipt from sale of share of public enterprise is not a revenue receipt as it leads to reduction in asset of government.

❖ **TWO SOURCES OF REVENUE RECEIPT ARE:-**

- Tax revenue
- Non tax revenue

**a. TAX REVENUE;-** It refers to sum total of receipt from taxes and other duties imposed by the government. Tax revenue can be further classified as
**Direct tax**
**Indirect tax**

▪ **DIRECT TAX;-** It refers to the tax that are imposed on property and income of individual and companies and are paid by directly by them to the government.

▪ **INDIRECT TAX;-** It refers to those tax which effect the income and property of individual and companies through their consumption expenditure of sales tax.

**b. NON TAX;-** It refers to the receives of the government from all sources other then those of tax receipts. The main sources are:-

▪ **INTEREST;-** Government receives interest on loan given by it to state government, union territories, private enterprises and general public. Interest receive from these loan is an important source of an non tax revenue.

- **PROFITS AND DIVIDEND;-** Government earn profits through public sector undertakings like Indian railway, LIC etc.

- **LICENCE FEE;-** It is the payment charged by the government to grant permission for something.

- **FINES AND PENALITIES;-** They refers to those payments which are imposed on law breakers.

- **GIFTS AND GRANTS;-** Government receives gifts and grants from foreign government and international organisation. Such gifts are not fixed source of revenue.

- **FETAURES;-** They are in the form of penalties which are imposed by the courts for non compensation of orders or non fulfilment of contracts.

- **CAPITAL RECEIPT:-** It refers to those receipts which either create liability or caused reduction in the asset of the government.
- ✓ The recipt must create a liability for the government.
  **EXAMPLE:-** Borrowings are a capital receipts as they lead to an increase in the liability of the government. However tax receipt is non a capital receipt as they doesnot create a liability.
- ✓ The receipt must cause a decrease in the asset.
- ✓ **EXAMPLE:-** Receipt from the sale of shares of public enterprise is a capital receipt as it leads to reduction in the asset of the government.

**Q4. What are the sources of capital receipt?**
**Ans.**

- **BORROWING;-** Borrowings are the funds raised by government to meet excess expenditure. Government borrow funds from open market operation, RBI. Borrowings are capital receipts as they create a liability for the government.

- **RECOVERY OF LOANS:-** Government grant various loan to state government or union territories. Recovery of such loan is a capital receipt as it reduces the asset of the government.

**OTHER RECEIPTS:-**

- **DISINVESTMENT;-** Disinvestment refers to the act of selling a part on the whole of shares of selected PSU (Public Sector Undertaking) held by the government. They are termed as capital receipt as they reduces the asset of the government.

- **SMALL SAVING;-** It refers to the funds raised the public in the form of post office deposit Kissan Vikas Pater. They are treated as capital receipt as they can increase in liability.

**Q5. What is budget expenditure?**
**Ans.** It refers to the estimated expenditure of the government during a given fiscal year. It can be broadly categories as:-

- Revenue expenditure
- Capital expenditure

a) **REVENUE EXPENDITURE:-** It refers to the expenditure which neither create any asset nor causes reduction in any liability of the government. They are of reoccurring in nature.
**EXAMPLE:-** Payment of salaries, pension, interest etc.

- ✓ The expenditure must not create an asset of the government.
  **EXAMPLE:-** Payment of salaries or pension is a revenue expenditure. As it does not create any asset.
- ✓ The expenditure must not cause decrease in any liability.
  **EXAMPLE:-** Repayment of borrowings to not revenue expenditure as it leads to reduction in liability of the government.

b) **CAPITAL EXPENDITURE:-** It refers to the expenditure which either creates an asset or causea reduction in the liability of the government. It is non reoccurring in the nature.
**EXAMPLE:-** Repayment of borrowing, expenditure on building roads, flyovers etc.

- ✓ The expenditure must create an asset for the government.
  **EXAMPLE:-** Construction of metro is a capital expenditure as it leads to creation of an asset.
- ✓ The expenditure must cause a decrease in the liabilities.
  **EXAMPLE:-** Repayment of borrowing is a capital expenditure as it leads to reduction the liabilities of the government.

❖ **PLAN AND NON PLAN EXPENDITURE;-**

- ✓ **PLAN EXPENDITURE:-** It refers to the expenditure that is incurred on the programmes detailed in the current five years plan.
  **EXAMPLE:-** Expenditure on agriculture allied activities irrigation etc.

- ✓ **NON PLAN EXPENDITURE:-** It refers to the expenditure other than the expenditure related to the current five year plan, payment of interest, expenditure on defence etc.

❖ **DEVELOPMENT AND NON DEVELOPMENT EXPENDITURE:-**

- ✓ **DEVELOPMENT EXPENDITURE:-** It refers to the expenditure which is directly related to economic and social development of the country.
  **EXAMPLE:-** Expenditure on agriculture, industry, education etc. It adds to the flow of goods and services in the economy.

- ✓ **NON DEVELOPMENT EXPENDITURE:-** It refers to the expenditure which is incurred on the essential general service of the government.
  **EXAMPLE:-** Expenditure on defence, police, justice etc.

**Q6. Explain the measures of government deficit? or What is budgetary deficit and its types?**
**Ans.** Budgetary deficit refers to the excess of total estimated expenditure over total estimated revenue. Budgetary deficit can be 3 types.

- Revenue deficit
- Fiscal deficit
- Primary deficit

1) **REVENUE DEFICIT:-** It refers to the excess of revenue expenditure over revenue receipt during the given fiscal year.
Revenue deficit = Revenue expenditure – Revenue receipt
It signifies the government own revenue is insufficient to meet day to day expenditure.

**IMPLICATIONS OF REVENUE DEFICIT**

- It indicates the inability of the government to meets its regular and reoccurring expenditure in the prepost budget.
- It implies that government is dissaving i.e. government is using up saving of other sectors of the economy to finance its consumption expenditure.
- It also implies that the government has to make the deficit from capital receipt i.e. through borrowing or disinvestment. It means revenue deficit either leads to an increase in liability in the form of borrowings or reduces the assets through disinvestment.
- Use of capital receipt for meeting the extra consumption expenditure leads to an inflationary situation in the economy. Higher borrowings increase the future burden in terms of loan amount and interest payment.
- A high revenue deficit gives the warning signal to the government to either reduce its expenditure or increase its revenue.

❖ **MEASURES TO REDUCE REVENUE DEFICIT;-**

- **REDUCE EXPENDITURE:-** Government should like serious steps to reduce their expenditure and avoid unnecessary expenditure.

- **INCREASE REVENUE:-** Government should increase its receives from various sources of tax and non tax revenue.

2) **FISCAL DEFICIT:-** It refers to the excess of total expenditure over total receipts excluding borrowings during the given fiscal year.
Fiscal deficit = Total expenditure – Total receipts excluding borrowings
**IMPLICATIONS OF FISCAL DEFICIT:-**

- **DEPT TRAP:-** Fiscal deficit indicates the total borrowings requirement of the government. Borrowing not only involve repayment of principal amount but also require payment of interest. Interest payment increase the revenue expenditure which leads to revenue deficit. It creates a various circle of the fiscal deficit and revenue deficit where in government takes more loan to repay earlier loan as a result country is caught in a debt trap.
- **INFLATION:-** Government mainly borrows from RBI to meet its fiscal deficit. RBI prints new currency to meet the deficit requirement. It increases the money supply in the economy and creates inflationary pressure.

- **FOREIGN DEPENDENCE:-** Government also borrows from rest of the world which raises its dependence on other countries.

- **HAMPER THE FUTURE GROWTH:-** Borrowings increase the financial burden for future generation. It adversely affect the future growth and development prospect of the countries.

❖ **SOURCES OF FINANCIAL FISCAL DEFICIT:-**

- **BORROWING:-** Fiscal deficit can be meet by borrowing from the internal sources on the external sources.

- **DEFICIT FINANCING:-** Government may borrow from RBI against its securities to meet the fiscal deficit. RBI issue new currency for this purpose. This process is known as deficit financing.

3) **PRIMARY DEFICIT:-** It refers to difference between deficit of current year and interest payment on the previous year borrowing.
Primary deficit = Fiscal deficit – Interest payments.
**IMPLICATIONS OF PRIMARY DEFICIT**

- It indicates how much of the government borrowings are going to meet expenses other than those of interest payment. The difference between fiscal and primary deficit show the amount of interest payment on the borrowing made in past. So a low or zero primary deficit indicate that interest commitment have forced the government to borrow.

❖ **COMPARISON BETWEEN DIRECT TAXES AND INDIRECT TAXES**

| **Basis** | **Direct taxes** | **Indirect taxes** |
|---|---|---|
| Impact | Direct taxes are levied on individuals and companies. | Indirect taxes are levied on goods and services |
| Shift of burden | The burden of a direct tax cannot be shifted, i.e. impact and incidence is on the same person. | The burden of an indirect tax can be shifted, i.e. impact and incidence is on different persons. |
| Nature | They are generally progressive in nature. | They are generally proportional in nature. |
| Coverage | They have limited reach as they do not reach all the sections of the company. | They have a wide coverage as they reach all the sections of the society. |

**COMPARISON BETWEEN REVENUE RECEIPTS AND CAPITAL RECEIPTS**

| **Basis** | **Revenue receipts** | **Capital receipts** |
|---|---|---|
| Meaning | They neither create any liability nor reduce any asset of the government. | They either create any liability or reduce any asset of the government. |
| Nature | They are regular and recurring in nature. | They are irregular and non-recurring in nature. |
| Future obligation | There is no future obligation to return the amount. | In case of certain capital receipts (like borrowings), there is future obligation to return the amount along with interest. |
| Examples | Tax revenue (like income tax, sales tax, etc.) and Non-tax revenue (like interest, fees, etc.) | Borrowings, disinvestment, etc. |

❖ **<u>COMPARISON BETWEEN REVENUE EXPENDITURE AND CAPITAL EXPENDITURE</u>**

| **Basis** | **Revenue expenditure** | **Capital expenditure** |
|---|---|---|
| Meaning | Revenue expenditure neither creates any asset nor reduces any liability of the government. | Capital expenditure either creates an asset or reduces a liability of the government. |
| Purpose | It is incurred for normal running of government departments and provision of various services. | It is incurred mainly for acquisition of assets and granting of loans and advances. |
| Nature | It is recurring in nature as such expenditure is spent by government on day to day activities. | It is non-recurring in nature. |
| Examples | Salary, pension, interest, etc. | Repayment of borrowings; expenditure on acquisition of capital asset, etc. |

❖ **<u>TYPES OF BUDGETS</u>;-** The difference between government receipts and government expenditures may be surplus or deficit, as the case may be. In this sense, there can be three types of budgets:

1. **<u>BALANCED BUDGET</u>;-** Government budget is said to be a balanced budget if estimated government receipts are equal to the estimated government expenditure.
2. **<u>SURPLUS BUDGET</u>:-** If estimated government receipts are more than the estimated government expenditure, then the budget is termed as 'Surplus Budget'.
3. **<u>DEFICIT BUDGET</u>:-** If estimated government receipts are less than the estimated government expenditure, then the budget is termed as deficit budget.

❖ **<u>WAYS TO CALCULATE FISCAL DEFICIT</u>:-**
Fiscal deficit can be calculated by any of the following methods:

a. Fiscal Deficit = Total expenditure – Total receipts excluding borrowings

b. Fiscal Deficit = (Revenue expenditure + Capital expenditure) – (Revenue Receipts + Capital Receipts excluding borrowings)

**OR**

Fiscal deficit = (Revenue Expenditure – Revenue Receipts) + (Capital Expenditure – Capital Receipts excluding borrowings)

**OR**

Fiscal deficit = Revenue Deficit + (Capital expenditure – capital receipts excluding borrowings)

At time, only the total borrowings are given. In such a case, Fiscal Deficit = Total borrowings.

❖ **COMPARISON BETWEEN FISCAL DEFICIT AND REVENUE DEFICIT:-**

| **Basis** | **Fiscal deficit** | **Revenue deficit** |
|---|---|---|
| Meaning | It shows the excess of total expenditure over total receipts excluding borrowings. | It shows the excess of revenue expenditure over the revenue receipts. |
| Indicator | It measures the total borrowing requirements of the government. | It indicates inability of the government to meet its regular and recurring expenditure. |

❖ **COMPARISON BETWEEN PRIMARY DEFICIT AND FISCAL DEFICIT:-**

| **Basis** | **Primary deficit** | **Fiscal deficit** |
|---|---|---|
| Meaning | It shows the difference between fiscal deficit and interest payment. | It shows the excess of total expenditure over total receipts excluding borrowings. |
| Indicator | It indicates the total borrowing requirements of the government, excluding interest. | It indicates the total borrowing requirements of the government, including interest. |
| Formula | Primary deficit = Fiscal deficit – interest payment | Fiscal deficit = Total expenditure – Total receipts excluding borrowings |

❖ **UNION BUDGET ESTIMATES FOR 2015-2016:-**

Amount in Rs. Crores

| | | |
|---|---|---|
| **1. Revenue receipts** | | 11,41,575 |
| **2. Capital receipts** (2a+2b+2c) | | |
| 2a. Recoveries of loans | 10,753 | |
| 2b. Other receipts | 69,500 | |
| 2c. Borrowing and other liabilities | 5,55,649 | 6,35,902 |
| **3. Total receipts (1+2)** | | 17,77,477 |
| **4. Plan expenditure** (4a+4b) | | |
| 4a. On revenue account | 3,30,020 | |
| 4b. On capital account | 1,35,257 | 4,65,277 |
| **5. Non-plan expenditure (5a+5b)** | | |
| 5a. On revenue account | 12,06,027 | |
| (it includes interest payment of Rs. 4,56,145 crores) | | |
| 5b. On capital account | 1,06,173 | 13,12,200 |
| **6. Total expenditure (4+5)** | | 17,77,477 |

**CALCULATTION OF VARIOUS DEFICITS**

**Revenue Deficit**

= Revenue Expenditure – Revenue Receipts

= (4a + 5a) – (1)

= 15,36,047 – 11,41,575 = Rs. **3,94,472 Crores**

**Fiscal Deficit**

= Total expenditure – Total Receipts excluding borrowings
= (4+5) – (1 +2a+2b)
= 17,77,477 – (11,41,575 + 10,753 + 69,500) = Rs. **5,55,649 Crores**

**Primary deficit**
= Fiscal Deficit – Interest Payments
= 5,55,649 – 4,56,145 = **Rs. 99,504 Crores**