7/1/22

Government Budget

Q What do you mean by Govt. Budget?

Ans. Govt. budget is an annual statement showing item wise estimates of receipts and expenditure during a fiscal year. (Apr. 1 to 31st Mar)
The receipts and expenditures are estimated figures and not the actual ones. In India budget is presented in parliament by finance minister on the first day of February of each year, It's approved by parliament before implementation.

Budget of Govt. shows the performance of Govt. in last year and financial policies of the coming year.

(Imp) Q What are the objectives of Govt. budget?

Ans Following are objective of Govt. budget:-

(1) Reallocation of Resources → Through budget Govt aims at reallocation of resources according to economic and social priorities of country and its done by one of the following ways:-

(a) Tax Concessions → To encourage investment, Govt can give tax concession to producers like in case of Khadi products. On the other hands govt. can discourage the investment on certain goods by charging heavy taxes like production of tobacco, liquor, etc.

(ii) Directly producing goods & services → There are no. of goods whose prodⁿ is undertaken on non-profit bases that doesn't attract private investment therefore Govt. produces such goods for social welfare. For instance, water supply, sewage system, etc

(iii) Reducing Inequalities → Economic inequality is an inherent part of every economic system. Govt try to reduce such inequalities of income and wealth to its budgetary policy. It can be done by charging heavy taxes on rich and lesser from the poor. It's known as progressive system of taxation that helps in reducing inequalities.

income↑ taxes↑

(iiii) Economic Stability → Large scale fluctuations in prices is a sign of economic instability. These fluctuations create uncertainities in the economy. Govt can control these fluctuations through budgetary tools.
For instance during inflation when demands are more than supply, Govt can bring down aggregate demand by reducing its own expenditure. On the other hand, during deflation Govt. can increase its own expenditure and can reduce taxes to encourage more demand in economy.

inflation deflation

(iv) Management of Public Enterprises → In a country there are large no. of public enterprises created for social welfare. In a budget financial help is provided to these enterprises by making various provisions. (GAIL, SAIL, hospitals, school)

(v) Economic Growth → The growth of an economy depends to a great extent on savings and investments. For this purpose sufficient resources in public sector are provided. The Govt. makes various provisions to increase the overall rate of savings and investments.

(v) Reducing Regional Disparities → Govt. budget try to reduce regional disparities through taxation and expenditure policy and by encouraging set up of prodⁿ units in backward areas.

Q. What are the components of Govt. Budget?

ans. There are 2 main components of a Budget:-

(i) Revenue Budget → It is concerned with Revenue aspect of Govt. Budget ~~as~~ and has 2 parts
(a) Revenue Receipts and Revenue Expenditure

(ii) Capital Budget → It is concerned with capital aspect of Govt. budget. It has 2 main parts
Capital Receipts and Cap. Expenditure

Q What are different budget receipts?

Budget receipts can be classified into following main categories:-

(i) Revenue Receipts ⇒
(ii) Capital Receipts

Revenue Receipts. → Those receipts which neither create any liability nor reduce any asset of govt. are known as revenue receipts. For e.g. → Receiving tax by govt. These revenue receipts are further classified into following categories:-

① Tax receipts
② Non-tax receipts

(a) **Tax Receipts** → It refers to a compulsory payment charged on public by Govt. having no direct benefit in return. These taxes are further classified into following:-

1. **Direct Taxes** → Those taxes which are imposed on income or property of a person and paid by that same person i.e. the burden of this tax cannot be shifted onto others like in income tax it's paid by the person on whose income taxes is charged.

2. **Indirect Taxes** → Those taxes which are charged on one person and paid by another are known as Indirect Taxes. The burden of these taxes can be shifted on to others. For e.g. → GST, VAT, Excise Duty

- Budget
  - Expenditure
  - Receipts
    - Non Tax
    - Tax Receipt
      - Direct Tax (Income Tax, Wealth Tax, Corporate Tax)
      - Indirect Tax (GST, VAT, Excise Duty, Custome Duty)

Non Tax Receipts → Those receipts of Govt. which it receives from all the sources other than tax are non-tax receipts. Main source are as follows:-

(i) **Interest** → Govt. receive interest on loan given to state govt. and public and private enterprises

(ii) **Profits and Dividends** → Govt. receive profit through Public Sector Undertakings (PSU's) like LIC, Indian Railways, Indian oil

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Corporation from sale of goods & services.

(iii) Fees → It refers to charges imposed by govt to cover the cost of recurring services provided by it. For e.g. → court fee, registration fees, import fees, etc.

~~(iv)~~

(iv) Fine and penalities → Those payments which are charged on law breakers like fine on breaking traffic laws.

(v) Escheat → It's claim of Govt. on property of a person who dies without leaving any legal representative behind.

(vi) Gifts and grants → Govt. receives gifts and grants from foreign Govt. and international orgn ~~dif~~ like IMF, WHO, etc. These aren't regular ~~r~~sources of receipts.

(vii) Four Fietures → This are kind of penalties imposed by court for non fulfillment of court's orders.

(viii) Special Assessment → It refers to payment made by owners of those properties whose value has appreciated due to developmental activities of govt. For e.g. → Increase ~~df~~ in value of property near metro-station

	Direct Taxes	Indirect Taxes
Meaning	Those taxes which are charged on income or wealth of a person	Taxes which are charged on goods & services.
Shift of burden	The burden of tax cannot be shifted on to other and has to be paid by the same person.	The burden can be shifted on to another, it's charged on one paid by another.
Nature	They are generally progressive in nature.	They're generally proportional in nature
Coverage	They have limited coverage since it's charged from few sections of society.	They have a wider coverage as they're charged from all sections of society.

Q What do you mean by capital receipts and what are its different sources?

ans It refers to those receipts which either create a liability or reduces the assets of govt., they are generally non-recurring in nature. The sources of capital receipts are broadly classified into following:-

(i) Borrowings are liabilities of govt. → Govt. borrows funds to meet the excess of expenditures over receipts. It may borrow from public, RBI, foreign Govt's. or international organisations like world bank, IMF, etc.

(ii) Recovery of loans → Govt grants loans to state govts, union territories etc. Recovery of such loans is a kind of capital receipts as they reduce assets of Govt.

(iii) Disinvestment → It refers to selling a part or whole of the share of public sector undertaking held by ~~Govt~~ govt. which leads to transfer of ownership of public sector undertaking to private sector. This reduces the asset of Govt.

(iv) Small saving → It refers to funds raised from public in the form of various saving like post office deposit, national saving certificate, Kisan Vikas Patr, etc.

~~(v)~~ ~~D~~

Q Diff b/w Revenue receipts & Capital receipts

	Revenue Receipt	Capital Receipt
Meaning	These receipts neither create any liability nor reduce any asset of Govt.	These receipts either create a liability or reduces an asset
Nature	They are recurring in nature	They are non-recurring in nature.
Future obligation	There's no future obligation to repay.	In some of them there's a future obligation to repay
Examples	Tax receipts like income tax or GST. and non-tax receipts like fines, interest, escheats.	Eg. → Borrowings, Investment, etc.

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Q What is budget expenditure and what are its kind ?

It refers to the estimate expenditure of govt. during the fiscal year known as B.E.
It can be classified into following :-

① Revenue Expⁿ → An expenditure which never create any asset nor reduces any liability of govt. is known as RE. This expenditure is recurring in nature incurred in normal working of Govt.
For e.g. → Payment of salaries, pension, interest

② Capital Expenditure → It refers to expenditure which either creates an asset or reduces liability of govt., it's non-recurring in nature and adds to the capital stock of an economy. The examples are loan to state Govt. expenditure on building, roads, flyovers, railways, etc.

Q Diff. b/w Revenue Expⁿ & Capital Expⁿ

Basis	Revenue Expⁿ	Capital Expⁿ
Meaning	Revenue exp. neither create any asset nor reduces any liability of Govt.	It either creates an asset or reduces any liability of Govt.
Purpose	It's incurred in normal day to day	It's incurred on acquisition of capital
Nature	It's recurring in nature	It's non-recurring in nature
E.g. →	Salary / Pension / interest	Repayment of Borrowing, Acquisition of cap. asset, etc

Q What is budgetry deficit and what are its type?

ans It's the excess of total estimated expenditure over total estimated receipt. In other words when Govt. spent more than what it collect it's the situation of budgetary deficit. It has three main types:-

① Revenue Deficit → It's the excess of revenue expenditure over revenue reciept.

Revenue Deficit = Revenue Exp^n − Revenue Reciept

This deficit implies following:-

ⓐ Govt. is unable to meet its regular and recurring exp^n out of its own revenue.

ⓑ. That Govt. is dis-saving i.e. Govt. is using up saving of other sector of economy to fund its consumption exp^n.

ⓒ. Govt. has to make up this deficit through capital reciept i.e. borrowing or dis-investment. In other words revenue deficit leads to either increase in liability or reduction in assets.

ⓓ. That Govt. is using capital receipt to meet consumption exp^n that may lead to inflation situation in economy.

ⓔ. A higher revenue deficit is a warning signal that Govt. either loses its expenditure or increase the revenue.

Q. What are the major steps to reduce revenue deficit?

ans. Govt. should take serious steps to reduce its expenditure and avoid un-necessary unproductive expenditure.
Govt. should try to increase its revenue from ~~tax~~ non-tax resources.

FISCAL DEFICIT → It refers to excess of total expenditure over total receipts, except borrowing during a fiscal year.

Fiscal Deficit = Total Expⁿ − Total Receipt (excluding borrowings)

* Note → Fiscal deficit can also be calculated as total borrowings of Govt.

IMP IMPLICATION OF FISCAL DEFICIT

Debt Trap → It indicates the total borrowing requirement of govt. It not only involve repayment of principal amount, but also require payment of interest. Interest payment increase the revenue expⁿ which lead to revenue deficit. This creates a ~~visas ci~~ vicious circle of fiscal & revenue deficit where Govt. takes more loans to repay previous loans. As a result country is caught in debt trap.

Explanation → Govt. mainly borrow from RBI that prints new currency to meet the deficit which increases the money supply in economy and creates inflationary pressure.

(a) Foreign dependence - Govt. also borrow from foreign countries which raises its dependence on other country.

(b) Affects the future growth - Borrowing increases the financial burden for future generations that adversely affects the future growth and development of the country.

Q What are the important ways to finance the fiscal deficit?

ans Following are three imp. ways to finance fiscal deficit that are:-

① Borrowing from Public → In this method Govt. borrow from public through mkt. loan by issuing bonds etc. This is known as debt finance budgetary ~~budget~~ deficit.

② Borrowing from external sources - In this method Govt. may borrow from international organisation like worldbank IMF, etc.

③ Expansion in money supply - In this method Govt. may ask central bank for help and RBI issue new currency = amt. of deficit this is known as deficit financing. In this process Govt. borrow money by giving ~~budget~~ treasury bills to RBI.

It's also known as monetization of fiscal deficit. only the this method is of inflation in the economy.

3. Primary Deficit →

→ Fiscal Deficit − Interest Payment

It's the difference between fiscal deficit and net ~~int.~~ interest payment

Fiscal deficit indicates borrowing including interest whereas, primary deficit indicates borrowing excluding interest.

Primary deficit indicates borrowing requirement of Govt. and fiscal deficit is net of interest payments. lesser payments deficits or zero primary deficit means Govt. has to borrow fresh loans to meet its earlier commitment of interest payment.
On the other hand higher primary deficit reflects fiscal irresponsibility of Govt.

PD = Fiscal deficit − Interest payment

Q Revenue receipt = 100
Capital receipt = 80
If revenue deficit is 25 how much is Revenue Expⁿ

Revenue ~~Recp~~ Deficit (RD) = Revenue Expⁿ − Revenue ~~deficit~~ receipt

$25 = x - 100$

$x = 125$

Q Revenue Receipt = 40
" Expⁿ = 30
Capital Reciept = 30
Cap. Expn = 50
Find revenue deficit and fiscal deficit

RD = 40 − 30
RD = 10

Fiscal Deficit = Total Expⁿ − Total Reciept

(30 + 50) − (40 + 30)
80 − 70
$\boxed{F.D = 10}$ → ans.

Q Revenue Receipt = 55
Capital receipt = 42
Tax revenue = 18
Borrowings = 40 (fiscal deficit)
Revenue Expⁿ = 88
Interest = 28

Revenue deficit = 88 − 55
⇒ 33

Fiscal deficit = 40

Primary deficit = 40 − 28
⇒ 12 ans.

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Q Tax revenue = 50
Revenue Exp = 110
capital Expⁿ = 210
Non-tax revenue = 30
Capital receipt = 140
(~~Nett~~ Net off borrowings)
Interest Payment = 20

Revenue Receipt = Tax revenue + Non-tax revenue
= 50 + 30 = 80

Revenue deficit = 110 - 80
⇒ 30

Fiscal deficit = (110 + 210) - (140 + 80)
= 320 - 220
⇒ 100 ans.

$$\begin{array}{r} 110 \\ +210 \\ \hline 320 \end{array}$$

Primary deficit = 100 - 20
= 80 ans.

Q ~~Reven~~ RD = 35
RR = 70
CE = 120
RE = ?

RD = RE - RR
35 = RE - 70
RE = 105 ans.

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Q Interest Payment for the yr is 1,40,000
Total borrowing = 2,70,000
Primary deficit = ?

PD = 2,70,000 − 1,40,000
PD = 1,30,000 → ans.

Q PD = 12,000
Interest = 7000
FD = ?
12,000 = x − 7000
x = 19,000 ans.

Q Cap. Receipt (except net of borrowing) − 95
Revenue Exp = 100
Interest = 10
RR = 80
Cap. Expn = 110

RD = 100 − 80
$\boxed{RD = 20}$
FD = (100+110) + (80+95)
= ~~210~~ + 175
$\boxed{FD \Rightarrow 35}$ ans.

PD = 35 − 10
PD = 25

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Q RE = 70,000
Borrowing = 15000
RR = 50,000
Interest = 25% of Revenue Deficit

FD – ? PD – ?

RD = 70,000 – 50,000
RD = 20,000
$Int = \frac{25}{100} \times 20,000 = 5,000$

FD = 15,000
~~PD = 15,000 – 5,000~~
$\boxed{PD = 10,000}$ ans.

Q Non Debt creating Cap. Receipt = 25,000
RD = 12,000
Int. = 7000
RE = 20,000
CE = 25,000
RR ? FD – ? PD – ?

~~RD =~~ 12,000 = 20,000 – RR
RR = 8,000 ans.

FD = (20,000 + 25,000) – (8,000 + 25,000)
= 45,000 – 33,000
FD = 12,000 ans.

15
+8
33

PD = 12,000 – 7,000
PD = 5,000 ans

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Note ① FD = Total Expⁿ – Total Receipt except borrowing

② Total Expⁿ = Revenue + Cap. Expⁿ

Total Receipt = Cap. Receipt + Revenue Receipt

Q FD → 12,000 RD = RE – RR

RD → 9,000 9000 = x – 6000

PD → 5,000 x = 15,000

RR → 6000

Non Debt creating Cap. Receipt = 10,000

Cap. Expⁿ → ? Total Expⁿ – ? Int – ?

FD = TE – TR

12,000 = (x + 15,000) – (6000 + 10,000)

12,000 = x + 15,000 – 16,000

12,000 = x – 1000

x = 13,000

Total Expⁿ = 15,000 + 13,000

= 28,000

~~Interest = 5,00~~

PD = FD – Int

5,000 = 12,000 – Int

Int = 7000 ans.

Q Total receipt excluding borrowing = 20,000
~~RR~~ RD = 8,000
CE = 22,000
Revenue Exp^n = ~~20,000~~ 15,000

~~RR = RD = RE - RR~~
~~8,000 = 18,000 - RR~~
~~RR = 10,000~~

CR - ?
FD - ?
PD - ?

~~CF 70%~~

RD = RE - RR
8,000 = 15,000 - RR
RR = 7,000

TR = CR + RR
20,000 = CR + 7000
$\boxed{CR = 13,000}$

FD = (15,000 + 22,000) - (20,000)
=> 37,000 - 20,000
$\boxed{FD => 17,000}$

22
+15
37

PD = 17,000 -

Q PD = 8,000
FD = 10,000
Non Debt Creating CR = 9000
RD = 5000
CE = ?
Int = ?

PD = FD - Int
8,000 = 10,000 - Int
$\boxed{Int = 2000}$

FD = TE - TR
10,000 = (CE +

FD = RD + CE - CR (except Borrowing)

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1. $RD = RE - RR$
2. $FD = TE - TR$ (except borrowing)

$= RD + CE - CR$ (except borrowing)

3. $PD = FD - \text{Interest}$

Q What is the difference b/w Primary Deficit and Fiscal Deficit?

Basis	Primary Deficit	Fiscal Deficit
Meaning	It's the difference between fiscal deficit and interest payment	It is the excess of total expenditure over total receipts except borrowing.
Indicator	It indicates the total borrowing requirements ~~extra~~ of Govt. excluding interest.	It indicates the total borrowing requirements of Govt. including interest.
Scope	It has a narrow scope.	It has a wider scope.