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Government Budget

Macro - economics

Q1. What do you mean by Government budget?

A→1 Government Budget is an annual statement showing item wise estimate of receipts and expenditure during a fiscal year (April 1 - 31st March). The receipts and expenditure are estimated figures and not the actual ones. In India budget is presented in parliament by finance minister on the 1st day of February of each year; It is approved by parliament before implementation. Budget of government shows the performance of govt. last year and financial policies of the coming years. (mullasee)

Important

Q2. What are the objectives of Government Budget.

A. Following are the main objective of govt budget -

1. Reallocation of resources - Through budget govt aims at re-allocation of resources according to economic and social priorities of country and it is done by one of the following ways

Tax concession - To encourage investment govt can give tax consesation like incase of Khadi products. On the other hand govt. can discourage the investment on other goods by changing heavy taxes like production of tabaccos, liquor etc.

Directly producing goods & services - There are of goods whose production is undertaken non-profit basis that does not attracts

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inflation - Demand/supply

Deflation - Demand/supply

private investment. Therefore, govt produces such goods for social welfare. For instance water supply, sewage system etc.

2. Reducing inequalities - Economic inequality is an inherent part of every economic system. Government tries to reduce such inequality of income & wealth through its budget policy. It can be done by changing heavy taxes on rich & lesser from the poor. It is known as progressive system of taxation that help in reducing inequality

3. Economic stability - Large scale fluctuation in prices is a sign of economic instability - These fluctuation creates uncertainity in economy - govt can control these fluctuation through budgetry tools.

For instance, during inflation when demand are more than supply government can bring down aggregate demand by reducing its own expenditure. On the other hand during de-inflation govt can increase its own expenditure and can reduce taxes to encourage more demand in economy.

4. 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 organisation by making various provisions. Bharat Oil / Indian Railway / GAIL / MTNL

5. Economic growth - The growth of an economy

investment ↑ growth ↑ (national income ↑)

depends to a great extend on saving & investments. For this purpose suffient resources for investment in public sector & are provided. Government makes various provisions to increase the overall rate of saving & investments

⑥ Reducing regional disparities – Government budget try to reduce regional disparities through ~~taxation~~ & expenditure policies and by encouraging set up of production unit in backward areas.

Question-3 What are the components of G.B.?

Ans 3 Two various components are :–

Revenue Budget → It is concerned with revenue aspect of government budget. has two main parts :–

1) Revenue Receipt
2) Revenue Expenditure

Capital Budget – Concerned w capital aspect of govt budget & has 2 main parts

1) Capital Receipts
2) " Expenditures

What are budget receipts?

Budget receipt can be classified into following main categories

Revenue Receipts
Capital Receipts

Revenue Receipts → Those receipt which neither create any liability nor reduce any asset of government are known as Revenue receipts
for example - Recieving tax by govt.

These revenue receipt are futher classified into following categories :–

① Tax receipt
② Non tax receipt.

Tax receipt – It refers to ~~a~~ a compulsory payment (accompulsory) charged on public by govt having no direct benefit in return. These taxes are futher classified into following

① Direct taxes – Those taxes which are impose on income or property of a person. is paid by that same person i.e burden of this tax cannot be shifted onto others.
like in income tax it is paid by the person on whose income tax is charged

② Indirect Taxes – Those taxes which are charged on 1 person & paid by another are known as I.T. i.e burden on these taxes can be shifted on to others for example – GST, VAT, excise duty etc.

Budget – Receipt / expenditure

Receipt – Direct tax (Income tax, wealth tax corporate tax) / Indirect tax (GST, VAT, Excise duty custom duty)

Revenue – Non tax / Tax receipt

Non Tax receipt - Those receipt of government which ~~receipt~~ from all sources other than tax receipt is coming from source.
Main sources are as follows:

1. Interest - Government receive interest on loan given to state govt & public and private enterprises.
2. Profits & dividends - Govt receive profit through public sector undertakings like LIC, Indian railway, Indian oil cooperation from sale of good & service.
3. Fees - It refers to charges impose by govt to cover the cost of recurring services provided by it. for ex - court fees/ registration fees/ import fees.
4. Fines & penalties - Those payments which are charged on law breakers like fine on breaking traffic laws.
5. Es-cheat - Claim of govt on property of a person who dies without leaving any legal representative behind.
6. Gift & Grants - Govt recieves gifts and grants from foreign govt and ~~individuals~~ from international organisation like IMF, WHO, etc. These are not regular sources of receipts.
7. ~~Forefeiture~~ forfeitures - These are kind of penalties imposed by court for non-fulfilment of court's order.

Special assessment - It refers to payment made by owner of those property whose value has appreciated due to developmental activities of govt for example - Increase in value of property near metro station.

fees - charge impose by govt to cover up the cost of services provided by it

Q. Differentiate between direct taxes & indirect taxes.

| Basis | Direct Taxes | Indirect taxes |
|---|---|---|
| Meaning | Those taxes which are charged on income or wealth of a person. | Those taxes which are charged on exp. |
| Shift of burden | The burden of direct tax can't be shifted on another & has to be paid by the same person. | The burden of indirect tax can be shift on another & it can be charged & paid by another. |
| Nature | They are generally progressive in nature | They are generally proportional in nature |
| Coverage | They have limited coverage since it is charged from few ~~per few~~ section of society. | They had a wider coverage as they are charged from all section of society |

Q. What do you mean by capital receipt and what are its diff sources?

As. Capital Receipt - it refer to those receipt which either create liability or reduces assets of govt. They are generally non recurring in nature. The sources of capital receipt are broadly classified into following.

1. Borrowings - They are liabilities of govt. Govt borrows funds to meet excess of expenditure over receipts - They may borrow from Public, RBI, foreign government or international orgn. & institutions like World Bank, IMF etc

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2. Recovery of loans- Govt grants loan to state govt - union territories, recovery, such loan is like capital receipt ~~because it~~ as it reduce asset of govt

3 Disinvestment- It refers to selling a part whole of share of public sector undertaking held by govt which lead to transfer of ownership of public sector undertaking to private sector. This ~~also~~ reduces the asset of govt

(ownership deity)

4 Small savings - It refers to fund raised from public in the form of various saving like post office deposit, national saving certificate, Kissan Vikas Patra.

Q Differentiate between Revenue receipt and capital receipts?

| Basis | Revenue Receipts | Capital Receipts |
|---|---|---|
| Meaning - | These receipts neither create any liability nor reduce any asset of government. | These receipts either create a liability or reduces an asset and the |
| Nature - | They are recurring in nature | The are non-recurring in nature |
| Future obligation | There is no future obligation to repay | In some of them there is a future obligation to repay |

| | | |
|---|---|---|
| Ex- | Tax reciepts like income tax, GST, wealth tax and non tax reciepts fines, penalities, Escheat | Borrowing, dis investment, recovery of loans |

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 expenditure - A expenditure which neither create any asset nor reduces any liability of government is known as R E. This expenditure is recurring in nature. incurred in normal working of govt.

For example - Payment of salaries, pension, interest, (maintenance) etc.

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

Q Differentiate between revenue and capital expenditure?

| Basis | Revenue | Capital |
|---|---|---|
| (1) Meaning | Revenue exp. neither create asset nor reduces any liability of govt | It either create an asset or reduces any liability of govt. |
| (2) Purpose- | It is incurred in normal day to day routine of govt | It is incurred on acquisition of capital ~~of~~ asset of govt |

| | | |
|---|---|---|
| ue | It is recurring in nature. | It is non-recurring in nature |
| → | Salary/Pension/interest etc. | Repayment of borrowing, Acquisition of capital asset etc. |

Revenue receipt → neither create any liability nor any asset (tax, fees)

(...tenance) Revenue exp (salaries) (taxes) — neither create any asset nor reduces ~~any~~ liability (subsidies) (debt)

capital exp (floods —) (construction)
→ either create any asset or reduces any liability

capital receipt → either create a liability or reduce assets

Q What is budgetary deficit and what are its type?

A → It is the excess of total estimated expenditure over total estimated receipt. In other words when govt spent more than what it collect it is the situation of budgetary deficit. It has three main types :-

(1) Revenue deficit - It is the excess of revenue expenditure over revenue receipt.

Revenue deficit = Revenue expenditure - Revenue Receipt

This deficit implies following :-

(1) Government is unable to meet ~~the~~ its regular and recurring expenditure out of its own revenue.

(2) That govt is dis-saving i.e govt is using up saving of other sector of economy to fund its consumption expenditure.

(3) Govt has to make-up this deficit through capital receipt i.e borrowing or dis-investments. In other words revenue deficit leads to either increase in liability or reduction in assets.

(4) That government is using capital receipt to meet consumption expenditure that may lead to inflationary situation in economy. As higher borrowing increase the burden of interest payment.

(5) A higher revenue deficit is a warning signal that govt either ~~taxes~~ its expenditure or increase the revenue.

Q What are the major to reduce revenue ~~re~~ deficit

Ans- ① Govt should take serious steps to reduce the expenditure and avoid un-necessary, unproductive expenditure.

Govt should try to increase its revenue from tax ~~tax to non-tax~~ non-tax resources.

FISCAL DEFICIET - It refers to excess of total expenditure over total receipts, except borrowing during a given fiscal year.

Fiscal deficiet = TOTAL EXPENDITURE - TOTAL RECEIPTS (excluding borrowings)

Note - Fiscal deficiet can also be calculated as Total borrowings of government.

Implication of Fiscal deficiet

① Debt Trap - ~~Its~~ It indicates the total borrowing requirement of government. It not only involve repayement of principal amt, but also require payement of intrest. Intrest payment increase the revenue expenditure which lead to revenue deficiet. This creates a visas circle of fiscal & revenue deficiet where government takes more loans to repay previous loans. As a result country is caught in debt trap.

Inphlation - Govt mainly borrow from RBI that prints new currency to meet the deficiet which increases the money,

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supply in economy. And creates inflationary pressure.

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

(4) Affects the future growth - Borrowing increases the financial burden for future generations, that adversely effects the future growth & development of the country.

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

A) Following are three imp ways to finance fiscal deficit that are:-

1 Borrowing from public - In this method govt borrow from public ~~to~~ mkt loans by issuing ~~[illegible]~~ bonds etc. through This is known as debt finance budgetary 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 ~~[illegible]~~ (central bank) RBI issue new currency = amt of deficit this is known as deficit financing. In this process government borrows money by giving budgery bills to RBI. It is also known as monetization of fiscal deficit. In this method is of ~~[illegible]~~ inflation only risk

Total exp - Total

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in the economy.

3. Primary deficit

[PRIMARY DEFICIT := Fiscal deficit - Interest Payment]

It is the difference between fiscal deficit and net interest payment.

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

Primary deficit indicates borrowing requirements of govt and fiscal deficit is net of interest payments. Lesser primary deficit 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.

(1) RD =

(2) FD =

(3) PD = Fiscal deficit - Interest Payment

Numericals

Q. Revenue Receipt = 100

Capital Receipt = 50

If Revenue deficit is 25 how much is the Revenue expenditure

RD = Revenue exp - Revenue receipt

$25 = x - 100$

$x = 100 + 25$

Revenue expenditure $\rightarrow$ $\boxed{x = 125}$

Revenue Reciept = 40
Revenue expenditure = 80
Capital reciept = 30.
Capital expenditure = ~~8~~0

Find Revenue deficit and fiscal deficit?.

$$\text{Revenue deficit} \overset{RE - RR}{=} \cancel{80} - \cancel{40} \; 40 - 30$$

$$= \underline{10}.$$

Fiscal deficit = $\overset{\text{Total exp}}{\cancel{40+30}} - \overset{\text{Total Receipt}}{\cancel{30+80}}$ (except borrowing

$\cancel{70} - 80$

$\underline{= 40}$

Total expenditure $(30 + 80) - (\cancel{40}\,80 + 40)$

$80 - 70$

FD → $\underline{= 10}$

Revenue reciept = 55
Capital reciept = 42
~~Non~~ tax revenue = 18
Borrowings = 40 (fiscal deficit)
Revenue exp - 88
Interest = 28

$$\begin{array}{r} 88 \\ - 55 \\ \hline 33 \end{array}$$

Revenue deficit = 88 - 55
$\cancel{00}$ 33

Fiscal deficit = 40

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Primary deficit = Fiscal deficit − Interest
= 40 − 28
Primary deficit → 12

40
−28
12

Q
Tax revenue = 50
Revenue exp − 110
Capital ~~receipt~~ exp = 210
Non tax revenue − 50
Capital receipt = 140
(Net off borrowing)
Interest payment = 20

80

RD → Revenue receipt = Tax revenue + Non tax
50 + 30
80

Revenue ~~deficit~~ = 110 − 80
30

~~Primary d~~
Fiscal deficit = Total exp =
(Revenue + cap exp)
110 + 210
Total expenditure − 320

Total receipts =
(Revenue + Capital)
80 + 140
220

110
210
320

140
80

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Fiscal deficit =
320 − 220
= 100

Primary deficit = 100 − 20
= 80

Revenue expenditure −
Revenue deficit = Revenue expenditure − Revenue Reciept.

Fiscal deficit → Total expenditure − Total receipt (excluding borrowing)

Primary deficit = Fiscal deficit − Interest Payment

Q Revenue deficit − 35 cr
Revenue receipt − 70
Capital expenditure − 120
Revenue expenditure = ?

35 = Revenue exp − 70

Revenue expenditure = 70 + 35
RE = 105