



drishti

Government Budgeting

 drishtiias.com/printpdf/government-budgeting-mind-map

Introduction

Annual Financial Statement (AFS)

- ❑ Aka, the Union Budget of a year
- ❑ Is a statement of estimated receipts and expenditure of the government for that particular year (as per article 112)
- ❑ Keeps the account of the govt's finances for the financial year (April 1 to March 31)
- ❑ Union Budget 2017 introduces **3 major reforms**:
 - advancement of Budget presentation to Feb 1
 - merger of Railway Budget with the main Budget
 - doing away with plan and non-plan expenditure

In parliament, the budget goes through **five stages**

- ❑ Presentation of budget with Finance Minister's speech
- ❑ General discussion of the budget
 - following adjournment of houses for standing committees to scrutinise the demand for grants for a month
- ❑ Voting on demand for grants in Lok Sabha
- ❑ Passing of appropriation bills
- ❑ Passing of Finance bills

Objectives of Government Budget

- ❑ Resources Reallocation
- ❑ Reducing inequalities in income and wealth
- ❑ Contributing to Economic Growth
- ❑ Bringing Economic Stability
- ❑ Managing Public Enterprises

Managing Public Enterprises

- ❑ Reducing regional differences

Components of Government Budget

- ❑ **Revenue Budget** – contains revenue expenditure and receipts
 - both tax revenue (such as excise duty, income tax) and non-tax revenue (like profits, interest receipts), recorded in the receipt
- ❑ **Capital Budget** – includes
 - capital receipts (e.g.- disinvestment, borrowing)
 - capital expenditure (i.e., long-term investments, creation of assets)

Balanced, Surplus and Deficit Budget

- ❑ **Balanced Budget** – expected expenditure = anticipated receipts for a fiscal year
- ❑ **Surplus Budget** – expected revenues surpass estimated expenditure for a particular business year
- ❑ **Deficit Budget** – A budget, in deficit, if expenditure surpasses the revenue for a designated year

Measures of Govt. Deficit

- ❑ **Revenue Deficit:** Excess of govt's revenue expenditure over revenue receipts
 - **Revenue Deficit = Revenue expenditure – Revenue receipts**
- ❑ **Fiscal Deficit:** Difference b/w the govt's total expenditure and its total receipts excluding borrowing
 - **Gross Fiscal Deficit = Total expenditure – (Revenue receipts + Non-debt creating capital receipts)**
 - Indicates total borrowing requirements of the govt from all sources
- ❑ **Primary Deficit:** Fiscal deficit minus interest payments
 - **Gross primary deficit = Gross fiscal deficit – Net interest liabilities (NIL)**
 - NIL: interest payments - Interest receipts by the govt on net domestic lending

Government Budgeting

Fiscal Policy

- ❑ Use of govt revenue collection and expenditure to influence the economy

Main Objectives of Fiscal Policy in India

- ❑ **Economic growth:** maintain the economy's growth rate to achieve certain economic goals
- ❑ **Price stability:** controlling price level of the country to regulate them in case of high inflation
- ❑ **Full employment:** full or near full employment; a tool to recover from low economic activity

Deficit Financing

- ❑ "Borrowings from the Reserve Bank of India against the issue of Treasury Bills and running down of accumulated cash balances"

FRBM Act

- ❑ The **Fiscal Responsibility and Budget Management Act (2003)**, of the Indian Parliament:
 - institutionalized financial discipline
 - reduces India's fiscal deficit
 - improves macroeconomic management
 - overall management of the public funds by moving towards a balanced budget

Objectives

- ❑ Reduction of fiscal as well as revenue deficit
- ❑ To achieve inter-generational equity in fiscal management by reducing the debt burden of the future generation
- ❑ Achieving long-term macroeconomic stability
- ❑ Better coordination between fiscal and monetary policy
- ❑ Transparency in fiscal operations of the Government

Major Provisions of the FRBM Act, 2003

- ❑ Target reduction of fiscal deficit to 3% of the GDP by 2008-09
- ❑ Revenue deficit has to be reduced by 0.5% of the GDP per year with complete elimination by 2008-09
- ❑ Reduction of Public Debt
- ❑ To eliminate revenue deficit by 2008-09, sizable revenue surplus has to be created thereafter

- revenue surplus has to be created thereafter
- ❑ Mandated setting annual targets for:
 - reduction of fiscal and revenue deficit
 - contingent and total liabilities
 - ❑ Amended in 2012, mandated the Central Govt. to lay before:
 - The Houses of Parliament
 - Macro-Economic Framework Statement
 - Medium Term Fiscal Policy Statement
 - Fiscal Policy Strategy Statement
 - The Annual Financial Statement
 - Demands for Grants
 - ❑ **NK Singh committee** recommended the govt. to target a fiscal deficit of 3% of the GDP in the years up to March 31, 2020, subsequently cut it to 2.8 percent in 2020-21 and to 2.5 percent by 2023

Other Types of Budgets – Outcome, Zero-Based, etc.

- ❑ **Zero Based Budgeting:** Method involving evaluation of expenses each time a budget is made
 - expenses to be justified for each new period
- ❑ **Outcome Budget:** First introduced in the year 2005. It analyses:
 - progress of each ministry and dept
 - what the respected ministry has done with its budget outlay
 - measures the development outcomes of all govt. programs
- ❑ **Gender Budgeting:** “Gender-based assessment of budgets, incorporating a gender perspective at all levels of the budgetary process and restructuring revenues and expenditures in order to promote gender equality”

