Chapter-10

Government Budget and the Economy

What is the $\boxed{\text{annual Budget}}$ of the Govt?

financial Performance of the govt. over Past 1 year. + financial policies & Programmes for the next 1 year

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BUDGETARY POLICY or FISCAL POLICY

→ Revenue Aspect → Expected Receipts

→ Expenditure Aspect → Expected Expenditure

→ Growth & Stability

Who present the Budget?

* The finance Minister (Nirmala Sitaraman).
* The Budget is presented in the Parliament for Approval.

Government Budget

Thus, Government Budget is a statement of – Expected receipts & Expected expenditure of Govt's fiscal policy for 1 year to attain the twin objective of Growth & Stability

(1st April — 31st March)

(Govt. Deficit)

Budget Deficit

When, $\boxed{\text{Budget Exp} > \text{Budget Receipts}}$

Or, the excess of BE over & above. B.R

Thus,

$\boxed{\text{Budget Deficit} = \text{Budget exp} - \text{Budget Receipts}}$

Types

Revenue Deficit

RD = RE − RR

RE → Revenue exp^n.

RR → Revenue Receipts

Fiscal Deficit

FD = BE − BR (except borrowing)

BE = Budget Exp^n.

BR = Budget Receipt

Primary Deficit

PD = FD − Interest payment

FD = fiscal Deficit.

Revenue Deficit

$\boxed{RD = RE - RR}$

Implication / How to Manage?

a) loss of Social welfare.

b) Raise borrowing from Rest of the world. (Creditworthiness will be impacted)

c) Disinvestment.

Fiscal Deficit

FD = BE − BR (except borrowing)

Implication / How to Manage?

Fiscal Deficit implies more borrowing by the Govt.

a) Inflationary Spiral

b) Hinders national Growth

c) vicious circle of high FD & low GDP growth.

d) Erosion of Govt. Credibility

☞ FD = Budget deficit (+) Borrowings

☞ FD = Revenue Deficit + capital Exp^n (−) capital Receipt (exclude borro

Primary Deficit

PD = FD − Int. Payment

The implication of Primary deficit are similar to fiscal deficit only. However, Primary Deficit doesnot carry burden of Int. payments.

Budget

- Receipts
- Expenditure
  - Revenue expenditure
  - Capital expenditure
  - Plan & Non-plan Expenditure

Revenue expenditure

a) doesnot create any assets for the Govt.

b) doesnot cause any reduction in liability of Govt.

Eg:- Old age pension, Salary, Grants to other state govt, Defence expenditure, Int. paid on borrowing etc.

Capital expenditure

a) Create assets for the Govt.

b) Reduce liability of the Govt.

Eg → Purchase of Land, shares, Construction etc. of Roads etc.

Plan & Non-plan Expenditure

Plan Expenditure:- Which was already planned by Govt, which include Revenue & Capital expenditure

Non-Plan Expenditure:- All expenditure other than plan-expenditure, which is routine functioning of the Govt.

① Total Expenditure (TE) = Capital Exp^n (CE) + Revenue Exp^n (RE)

② Total Receipt (TR) = Capital Receipt (CR) + Revenue Receipt (RR)

③ TR > TE ☞ Surplus Budget

④ TR = TE ☞ Balanced Budget

⑤ TR < TE ☞ Deficit Budget (Budget Deficit)

Non-Tax Receipts

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which arises from sources other than tax

① fee (for administrative & Judicial services)

② fines, Income from PSUs

③ Escheat (Property with no legal heir)

④ Special Assessment

⑤ Grants/ Donations (@ time of war, calamities etc).

Capital Receipts

which create corresponding liability on the Government

(+)

which cause Reduction in the assets of the Govt.

Capital Receipts

- Borrowings
  - Govt. borrow Money from
    - a) Public
    - b) RBI
    - c) Rest of the world.
- Recovery of loans
  - Loans given to State Govt.
- Other Receipts
  - * Sale of Shares
  - * Sale of stake in PSUs (Disinvestme

Taxes

- Progressive & Regressive Tax
- Direct & Indirect Tax
- VAT & Specific Tax

a) Progressive & Regressive Tax

Progressive Tax → which ↑ with ↑ in income, the more burden is on Rich.

Regressive Tax → Real burden is on poor than rich.

b) Direct & Indirect Taxes

Direct Tax → whose burden is to be borne by person on whom it is imposed. Eg → Income Tax.

Indirect Tax → whose burden can be shifted to another person.

$\boxed{\text{Eg} \rightarrow \text{GST}}$

Budget

Budget Receipts | Budget Expenditure

Budget Receipts:

Revenue Receipts | Capital Receipts

Revenue Receipts:

a) Do not create corresponding liability for the Government

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b) No reduction in the assets of the Govt.

Eg:- Tax Receipt (✓)
Sale of share (x)

Revenue Receipts

Tax Receipts | Non-tax Receipts

Tax Receipts:

a) Compulsory payment to the govt. by the household, firms & other units.

* The taxpayer Cannot expect any service or benefit from the Government in return of the tax payments made by him.

Objectives

1. GDP growth
2. Allocation of resources
   (balance b/w Max (Profit) & Social welfare)
3. Redistribution of Income & wealth
   (Through tax & Subsidies)
4. Balances Regional Growth
   (Through liberal trade policies & tax benefit)
5. Employment opportunities
6. Economic Stability

Components

Budget

- Budget Receipt
  - Revenue Receipts
  - Capital Receipts
- Budget Expenditure
  - Revenue Expenditure
  - Capital Expenditure
  - Planned Expenditure
  - Unplanned Expenditure