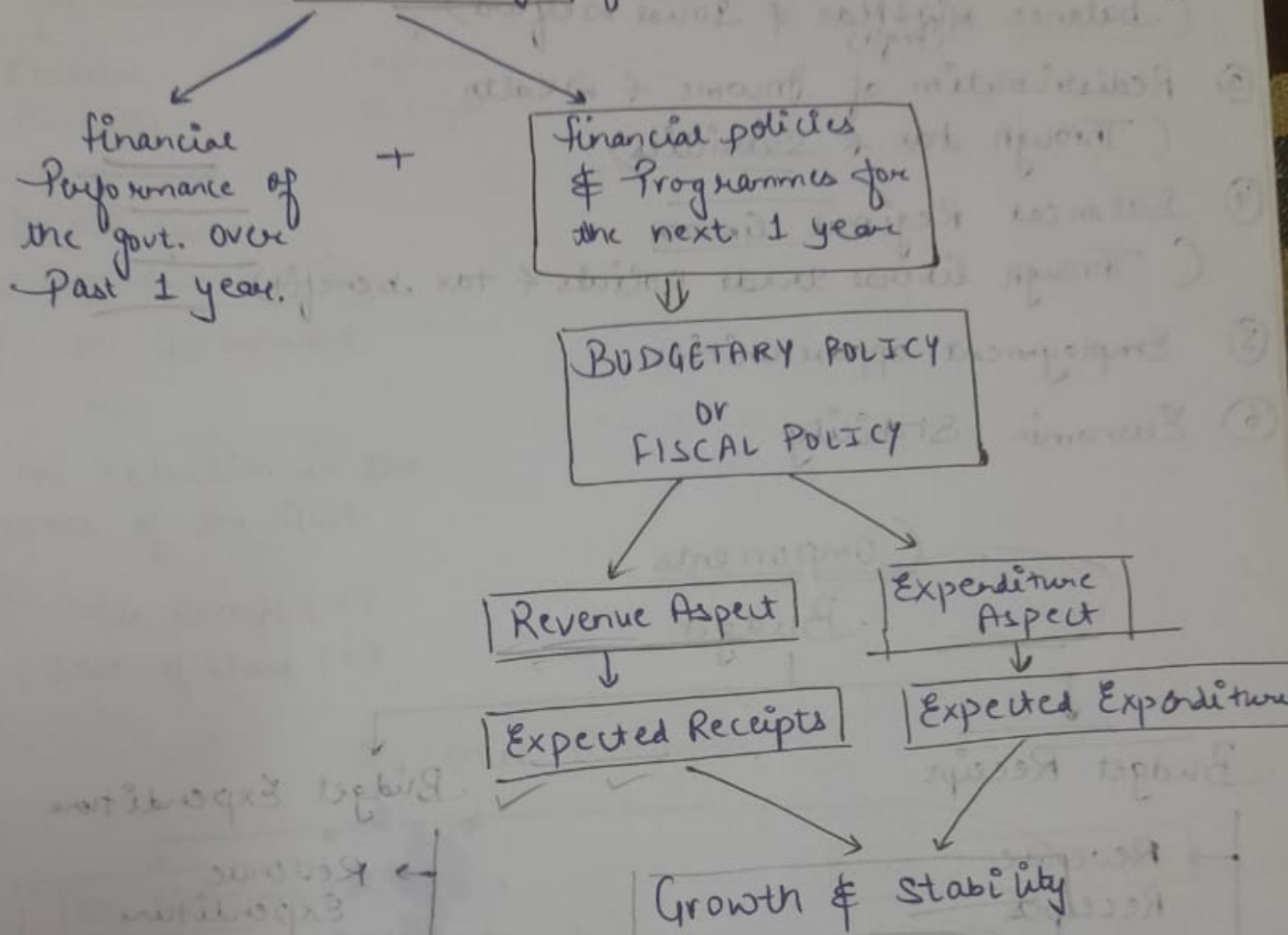


Chapter - 10  
Government Budget and the Economy

What is the annual Budget of the Govt?



Who present the Budget?

\* The finance Minister (Nirmala Sitharaman).

\* 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  
(1<sup>st</sup> April - 31<sup>st</sup> March)

(Govt. Deficit)  
Budget Deficit

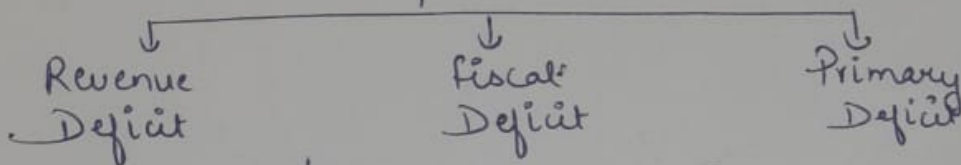
When,  $\text{Budget Exp} > \text{Budget Receipts}$

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

Thus,

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

Types



$$RD = RE - RR$$

RE → Revenue exp<sup>n</sup>.

RR → Revenue Receipts

$$FD = BE - BR \quad (\text{except borrowing})$$

BE = Budget Exp<sup>n</sup>.

BR = Budget Receipt

$$PD = FD - \text{Interest payment}$$

FD = fiscal Deficit.

Revenue Deficit

$$RD = RE - RR$$

Implication/ How to Manage?

- a) Loss of Social welfare
- b) Raise borrowing from Rest of the world.
- c) Creditworthiness will be impacted
- d) Disinvestment.

Fiscal Deficit

$$FD = BE - BR \quad (\text{except borrowing})$$

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

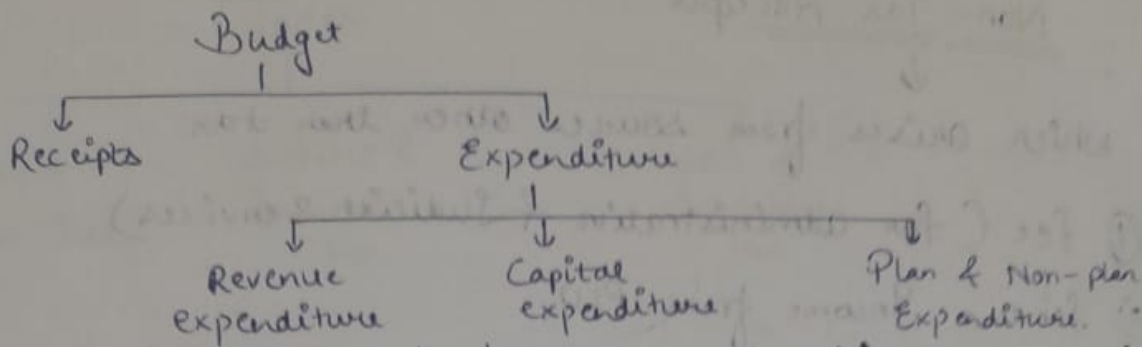
$$FD = \text{Budget deficit (+) Borrowings}$$

$$FD = \text{Revenue Deficit + capital Exp (-) capital Receipt (exclude borrowings)}$$

Primary Deficit

$$PD = FD - \text{Int. Payment}$$

The implication of Primary deficit are similar to fiscal deficit only. However, Primary Deficit does not carry burden of Int. payments.



a) does not create any assets for the Govt.

b) does not cause any reduction in liability of Govt.

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

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<sup>n</sup> (CE) + Revenue Exp<sup>n</sup> (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



which arises from sources other than tax

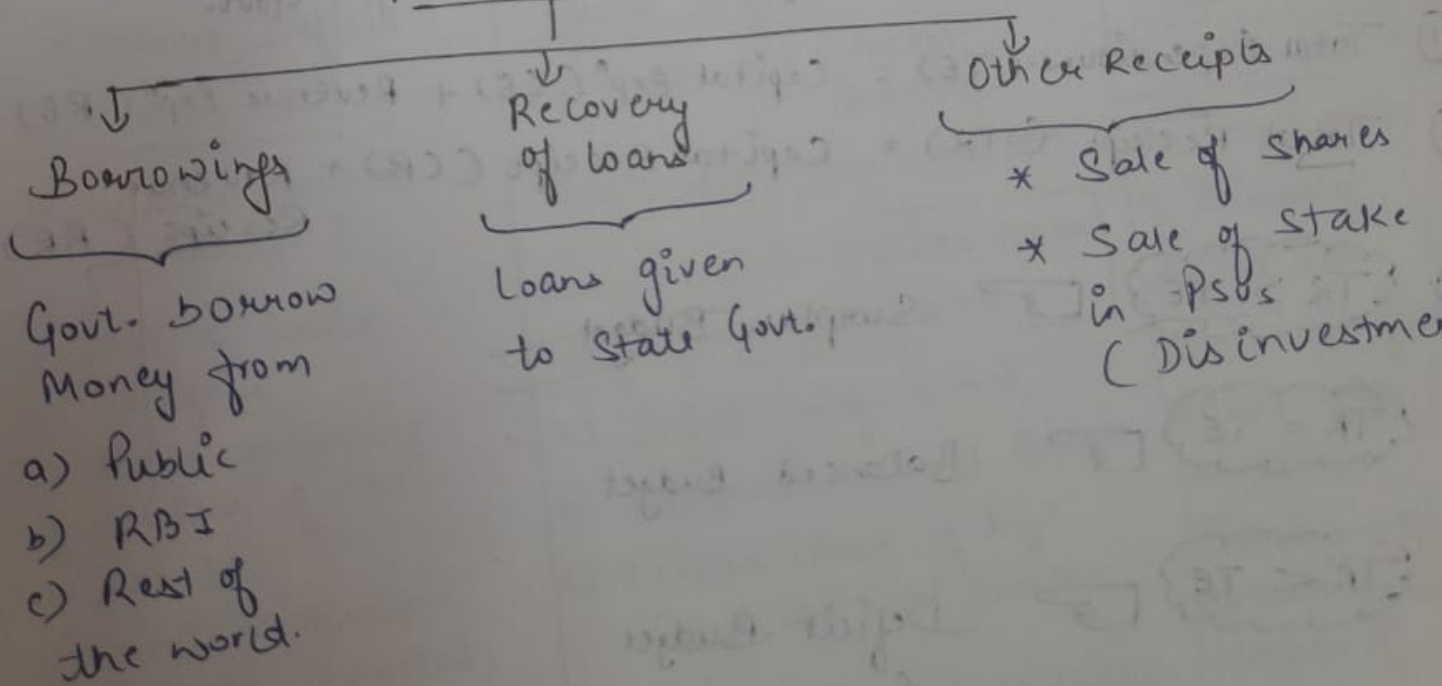
- ① fee (for administrative & judicial services)
- ② fines, Income from PSUs
- ③ Escheat (Property with no legal heir)
- ④ Special Assessment
- ⑤ Grants/ Donations (@ time of war, calamities etc).

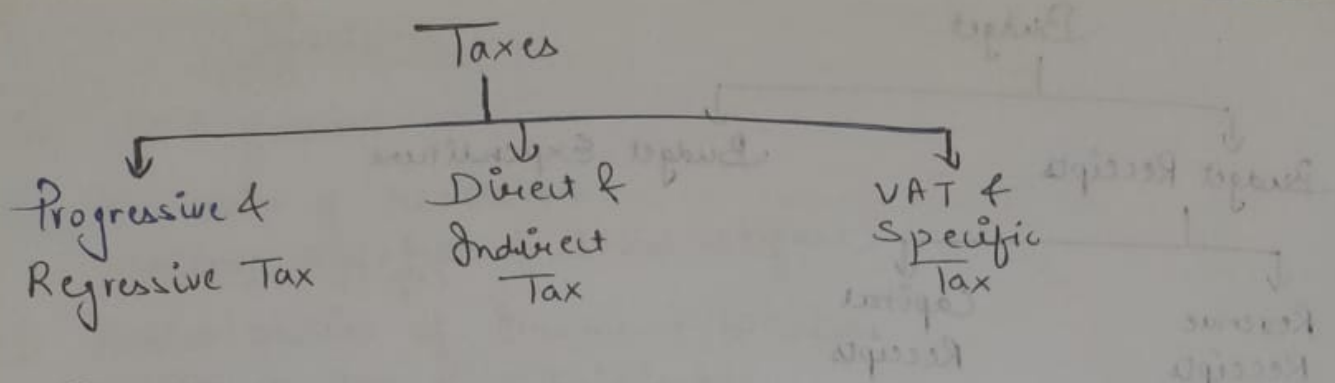
## Capital Receipts

which create corresponding liability on the Government

which cause <sup>(+)</sup> Reduction in the assets of the Govt.

### Capital Receipts





a) Progressive & Regressive Tax

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

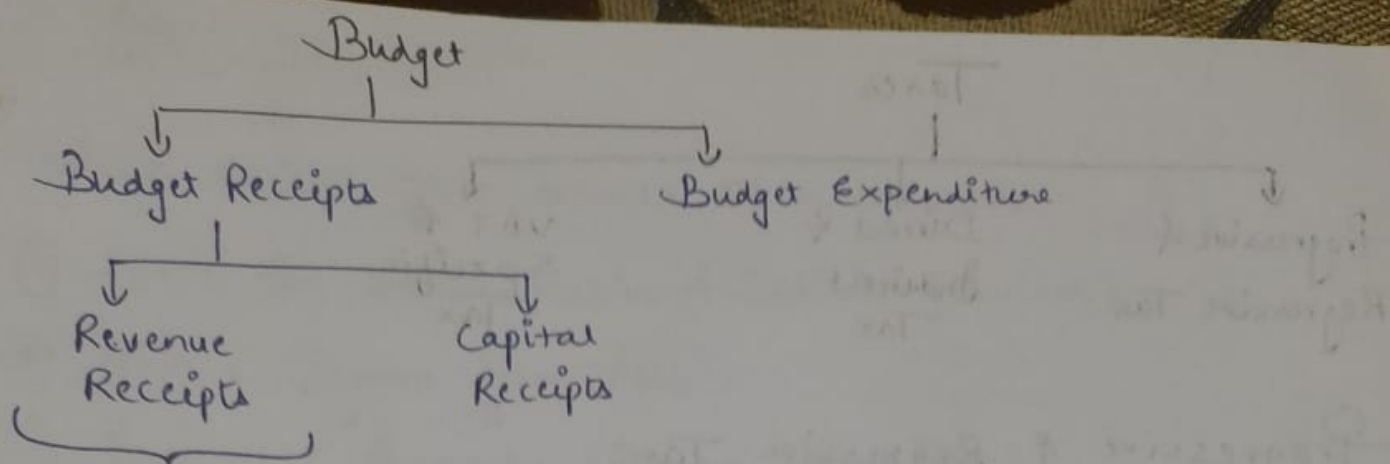
Regressive Tax → Real burden is on poor than rich.

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.  
Eg → GST

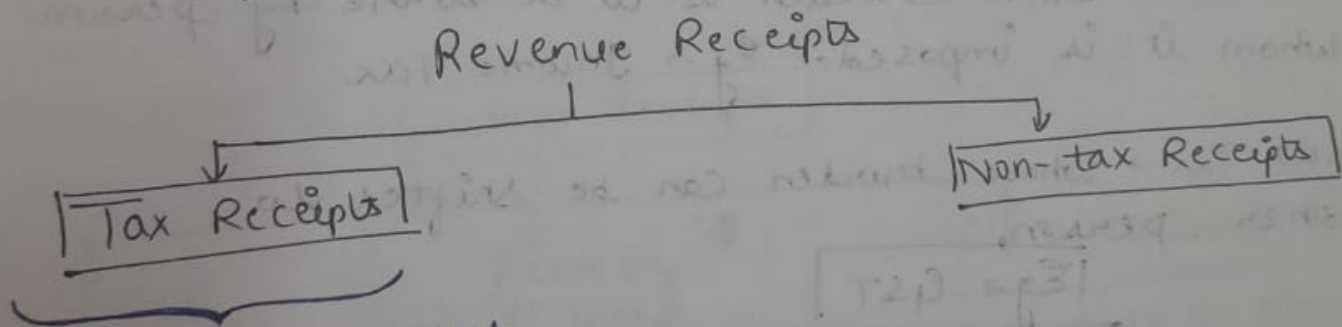
Income Tax is a direct tax because it is levied on the income of the individual and the burden cannot be shifted to another person.



a) Do not create Corresponding liability for the Government

b) No reduction in the assets of the Govt.

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



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

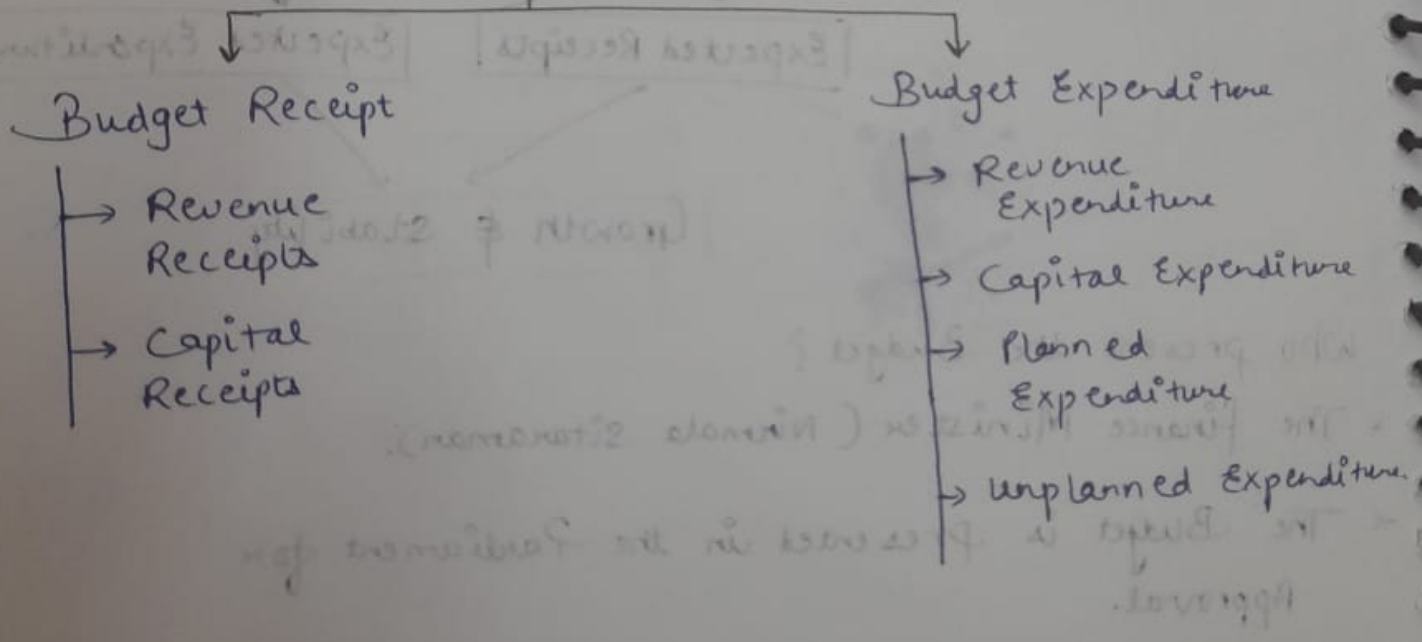
\* The taxpayer Cannot expect any service or benefit from the Government in return of tax payments made by him.

# Objectives

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

# Components

## Budget



Government Budget  
 Government Budget is a statement of estimated receipts & expenditure of Govt. for a financial year. It is a statement of financial position of Govt. for a financial year. It is a statement of financial position of Govt. for a financial year.