PUBLIC FINANCE

- Budget
- Taxation

Budget

- The term budget has been derived from a french word 'Bougette' which means a leather bag.

- Budget is an "Annual financial Statement" about an estimated government expenditure and estimated government revenue for upcoming financial year.

- Budget is the blue-print of the revenue and expenditure for upcoming financial year.

- Budget
  - Central government
    - Article : 112
  - State government
    - Article : 202

Process of Budget making

(I) Estimation of Revenue and expenditure

(II) Estimation of Budget Deficit

(III) Narrowing / Reducing the budget deficit

(iv) presentation and approval of Budget.

Process of presentation and approval of Budget:

(i) presentation of budget

(ii) General discussion

(iii) Scrutiny by departmental commities

(iv) voting on demands for grants.

- policy cut motion: Budget demand to be reduced to ₹1.

- Economy cut motion: Budget demand be reduced by a specified amount.

- Token cut motion: Budget demand be reduced by ₹100.

(v) passing of appropriation bill (Article: 114)

(vi) passing of finance bill (Article: 117)

BUDGET

↓

finance ministry

↓

Department of economic affairs

↓ Budget Division — Budget

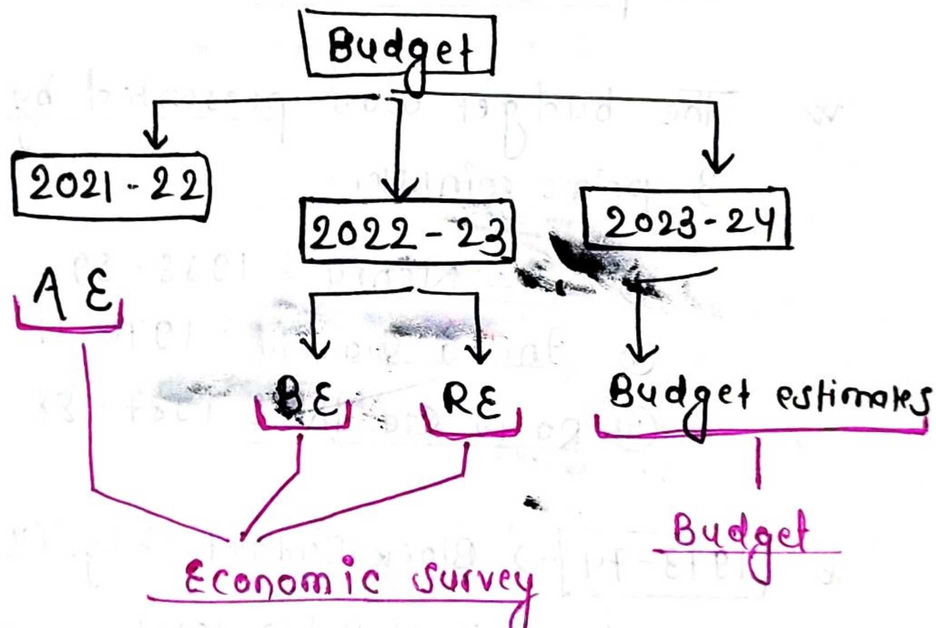
↓ Economic Division — Economic survey

* In budget the government presents data for 3 different financial year Like:

ⓐ The financial year which has been completed. : Actual Estimates

ⓑ The financial year in which the budget is presented. : Budgetory Estimates or Revised Estimates

ⓒ The upcoming financial year : Budget estimates



Some historical facts related to Indian Budget :

* first budget of India : 7th April, 1860 (James wilson)

* first budget of Independent India : 26 Nov 1947 (RK Shanmukham chetty)

* first budget of republican India :
  * 28 feb 1950
  * John mathai

* Till 1950 the budget was presented at Rashtrapati Bhawan but beacuse of leaking of budget it started printing at Minto Road.
  (But from 1980 onward it started printing at North bloc. (finance ministry)

* In 1955-56 → first time budget was printed in Hindi

* The budget was presented by ~~S.PM.~~ 3 prime minister.
  1. J L Nehru : 1958-59
  2. Indira Gandhi : 1970-71
  3. Rajiv Gandhi : 1987-88

* $\boxed{1973\text{-}74}$ → Black Budget → by YV chavan
  (Deficit of ₹ 550 crore)

* Morarji Desai presented budget maxim-um number of time : 10 times

* 1992 - 93 : Liberalized Exchange Rate management system → Manmohan

* from 1999 onward the budget starts presenting at 11 Am → Yashvant sinha (earlier it was presented at 5 pm)

* 1991 - 92 : Epochal Budget (Manmohan singh)
  (This budget related with new economic policy i.e Liberalization)

* 1997 - 98 : Dream budget (p. chitambram)
  - Decreases taxes

* 2000 - 2001 : Millennium budget
  - Yashvant sinha
  - Revolutionary change in secondary sector.

Change in budget in 2017 :

(a) Rail budget merged in annual budget
(In 1924 on recommendation of Ackwo-rth Committe the rail budget seperate from normal budget)

(b) Budget started presenting on 1st working day of feburary.
(earlier it was presented on last working day of feburary)

* In 1920-21 Nirmala Sitaraman presented her first budget :

⇒ She is the second .

* 2020-21 : Longest budget speech.

⇓

Nirmala Sitaraman : 2 hour 42 min

2021-22 : first paperless budget

BUDGET

Government Revenue

Revenue Receipt
$\boxed{A\downarrow / L\uparrow}$ ✗

- All types of taxes
- fees, fines and Licence
- Gifts and grants
- Income of PSUs.
- Interest received from loans.
- Escheats
- Special assessment fees.

Capital Receipt
$\boxed{A\downarrow / L\uparrow}$ ✓

Borrowings

- Internal borrowings
  - → RBI
  - → public
- External borrowings
  - → IMF, WB etc
  - → foreign countries

- Disinvestment
- Recovery from loans.

Government Expenditure

Revenue expenditure
$\boxed{A\uparrow / L\downarrow}$ ✗

- Scholorship, old age pension, unemployment allowances
- Subsidies
- Interest payment of loans.
- Law and order
- Salary of Hospital and school member
- grants to states
- Defence personals

Capital expenditure
$\boxed{A\uparrow / L\downarrow}$ ✓

- Roads, Dams, Bridges, Hospitals, Schools (expenditure on their construction)
- paying back the loan amount.

Government Revenue

- Revenue Receipt
  - Tax Revenue Receipt (1)
  - Non tax Revenue Receipt (2) – (7)
- Capital Receipt
  - Debt capital Receipt (1)
  - Non-debt capital receipt (2) and (3)

BUDGET 2023-2024

Rupees comes from :-

(i) corporate Tax → 15%
(ii) Income Tax → 15%
(iii) custom duties → 4%
(iv) union excise duties → 7%
(v) GST → 17%

Non Tax receipt → 6%
Borrowings → 34%
Non debt capital receipt → 2%

Note : maximum revenue → GST, revenue receipt (64%), capital receipt (36%)

Rupees goes to :-

(i) Interest payment → 20%
(ii) Defence → 8%
(iii) subsidy → 7%
(iv) pension → 4%
(v) central sector schemes → 17%
(vi) centrally sponsored scheme → 9%

(vii) States share of taxes and duties → 18%.

(viii) finance commission and other transfers → 9%

(ix) other expenditure → 8%.

Note: The maximum expenditure in budget 2023-24 : Interest payment (20%)

* 2023-24 : Total Budget : ₹ 4503097 cr
  2022-23 : ₹ 3944909 crore.

Types of Budgeting Technique

Line - Item Based Budgeting :

* when the government preapres budget on the basis of previous year budget.

Zero based Budgeting :

* first introduced in USA.
* The concept was originated by peter
* It was first used in India by the department of sci and tech
* first time it was completely introdu-ced in India in 1986-87 budget by Rajiv Gandhi.
* In this type of budgeting technique the assessment of expenditure is done

Gender Based Budgeting

* In this kind of budgeting technique gove-rnment focuses on women empowerment i.e when the government preapres budget with the approach of reducing gender gap.

* It was first introduced in India in 2005 - 06.

* In the world it was first used by Australia in 1984.

Outcome Based Budgeting

* It is also called the microlevel budgeting when government preapres budget at different department and ministry level.

* It was first used by India in 2005-06

* It is approved by finance ministry and NITI Aayog.

performance Based Budgeting

* It is also called macrolevel budgeting i.e, the budget which is preapred by finance ministry for whole India.

* It was first used in agricultural in 1949 by ______ by the recommendation of ______ Committee

Note: Earlier in Indian Budget the Budgeting expenditure was considered as developmental and Non-developmental expenditure but by the recommendation of Sukhmoy Chharovorty (1985) the budget expenditure started classifying into planned and non-planned expenditure

- In 2011 C Rangrajan recommended that the budget expenditure must be classified into revenue and budget expenditure

- In 2016 government announced to abolish planned and non-planned expenditure and it removed from 2017-18.

Planned expenditure

The expenditure which comes under the perview of 5 year plans.

Ex: The expenditure on electricity, water, press, transportation, agriculture, communication.

Non-planned expenditure

The expenditure which do not come under the perview of 5 year plan.

Ex: Expenditure on defence services, Interest payment, public services, pensions, subsidies etc.

Types of Budget

- **Balanced Budget**: $\boxed{TE = TR}$
- **Deficit Budget**: $\boxed{TE > TR}$
- **Surplus Budget**: $\boxed{TE < TR}$

Types of Budget Deficit

- **Revenue Deficit**: $\boxed{RR < RE}$
- **fiscal Deficit**: $\boxed{TE > TR}$ (Excluding borrowings)
- **primary Deficit**: fiscal deficit − Interest payments
- **Effective Revenue Deficit (2011)**: Revenue deficit − grants to states (RD - gts)

$F_D = TE > TR$ other than borrowings

or

$FD = TE - (RR + \text{Non-Debt capital receipt})$

$$\boxed{FD = TE - RR - NDCR}$$

- primary Deficit : fiscal deficit (Borrowings − Interest payment)

Deficit Statistics

	2021-22 Actual Estimate	2022-23 Budget estimate	2023-24 Revised estimate	2023-24 Budget estimate
fiscal Deficit	6.7	6.4	6.4	5.9
Revenue Deficit	4.4	3.8	4.1	2.9
Effective Revenue Deficit	3.3	2.6	2.9	1.7
primary deficit	3.3	2.8	3.0	2.3

Bihar Budget 2023-24 Deficit

	2021-22 Actual	2022-23 BE	2022-23 RE	2023-24 BE
fiscal Deficit				
Revenue Balance				
primary Deficit				

Relationship between Revenue defict and fiscal deficit :

- If Revenue deficit more than fiscal deficit then the money borrowed by the government for fulfilling the requirements of fiscal deficits will be entirely used for fulling the requirements of revenue defict. Thus, There would be more and more non-developmental expenditure.

- If fiscal deficit is more than revenue deficit, then the money borrowed for fiscal deficit can be ~~entirely~~ used for capital expenditure i.e on productive assets.

- If Revenue deficit is Zero then the money borrowed for fiscal defict will be completely used for capital expenditure

Advantage and Disadvantages of fiscal Deficit :

Advantage

(i) Increase in expenditure.

(ii) Increase in money supply.

(iii) Increase in public investment (Dams, bridges, road etc)

(iv) More employment opportunities.

Disadvantage

(i) Debt trap : If the government borrows for fullfilling the needs of fiscal deficit then the government would be in debt trap.

(ii) Increase in inflation rate.

(iii) Disequillibrium in balance of payment : If a country is in Fiscal deficit then it needs to borrow from foreign country and its put pressure on BOP.

(iv) crowding out of private investment. If the government borrows more and more for fiscal deficit then the financial institution like bank would have less money to lend the private sector and they would lend at higher interest rate, as a result the private sector would discourage to lend.

Tax - GDP Ratio

- $\frac{\text{Tax}}{\text{GDP}}$

  i.e. $10/20 = 0.5$ ✗

  $15/20 = 0.75$ ✓

- financial year 2021-22.

  $\boxed{\frac{\text{Tax}}{\text{GDP}} : 11.4\%}$ DT : 6% IT : 5.4%

- 2022 - 23 → BE → $\boxed{10.7\%}$
  → RE → $\boxed{11.1\%}$

- 2023 - 24 → $\boxed{11.1\%}$ DT : 6% IT : 5.1%

FRBM Act, 2003

fiscal Responsibility and Budget management Act, 2003

- It was introduced in India in 2003.
- It came into effect from 5 July 2004.
- Objectives of FRBM :
  1. fiscal discipline.
  2. macroeconomic stability
  3. fiscal consolidation
  4. Better coordination between fiscal policy and monetary policy

FRBM Act

Old FRBM

(2004 - 2009)

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Vijay L Kelkar

- Target of fiscal deficit by 2009 to 3% (by reducing 0.3% per year)
- Achieving the target of 0% revenue deficit (by reducing it 0.5% per year)

New FRBM

(2016-17 - 2022-23)

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NK singh

- By 2022-23 the fiscal deficit target is 2.5% (by reducing 0.2% per year)
- Revenue deficit of 0.8% (by reducing 0.5% per year)
- It recommended to form a 'fiscal council', which will coordinate between the centre and states and monetary policy and fiscal policy.
- It recommended that the FRBM must be renamed as Debt management, 'fiscal responsibility and Budget management Act and Rule'
- Debt to GDP Ratio must be 60% (40% for central government and 20% for state government)

Debt - GDP Ratio

* $\text{Debt - GDP Ratio} = \frac{\text{Debt}}{\text{GDP}}$

* financial year 2021 : 88.5%
  financial year 2022 : 83.8%
  financial year 2023 : 81%