

# MACRO ECONOMICS (CLASS 12<sup>TH</sup> )

## CHAPTER-GOVERNMENT BUDGET

### TOPICS

- ❖ MEANING OF GOVERNMENT BUDGET
- ❖ OBJECTIVES OF BUDGET
- ❖ STRUCTURE OF BUDGET
- ❖ DEFICITS IN BUDGET



# MEANING OF GOVERNMENT BUDGET

- ❑ Government budget is an annual financial statement showing item wise estimates of expected receipts and expenditures of the government during a financial year.
- ❑ When we talk about estimates of receipts and expenditures , we are talking about the anticipated receipts and proposed expenditures of the govt.
- ❑ One of the primary purposes of budgeting is to provide control over the revenues and expenditures of the government.
- ❑ Through this budget, the government implements economic policy and realizes its program priorities.
- ❑ The Union Budget of India, also referred to as the Annual Financial Statement in the Article 112 of the Constitution of India, is the annual budget of the Republic of India.
- ❑ The government of India presents its budget every year on the first of February.

# OBJECTIVES OF GOVERNMENT BUDGET

Government prepares the budget for fulfilling certain objectives .These objectives are the direct outcome of government economic, social and political policies.

The various objectives of government budget are

REALLOCATION OF  
RESOURCES

REDUCING INEQUALITIES OF  
INCOME

ECONOMIC GROWTH

ECONOMIC STABILTY

MANAGING PUBLIC  
ENTERPRISES

# 1. REALLOCATION OF RESOURCES

- ❑ The reallocation of resources in the government budget is for equal distribution of wealth for the people of the country. The government can use various methods of taxation, subsidies, transfer of funds to bring about a fair distribution of income.
- ❑ The government can induce the method of progressive income tax where the money is collected in form of taxes from the upper class for the benefit of the lower class in the country to bring about an even distribution of income.
- ❑ Government encourages the production of certain commodities by giving subsidies or tax reliefs. for e.g. government encourages the use of 'khadi products' by providing subsidies. (iii) government can discourage the production of harmful goods like liquor or cigarettes, by imposing heavy excise duties or taxes. in India, we use progressive taxation, i.e., higher taxes from rich people and distribute these receipts through various welfare activities.

## 2. ECONOMIC GROWTH

- ❑ To promote rapid and balanced economic growth so as to improve living standard of the people economic growth implies a sustained increase in real GDP of the economy, i.e., a sustained increase in volume of goods and services. public welfare is the main guide.
- ❑ The growth rate of a country depends on the rate of savings and investment. Therefore, the roles that are assigned to budgetary policy in this regard are to create conditions for increase in savings and investment.



**MORE PRODUCTION OF  
GOODS AND SERVICES**

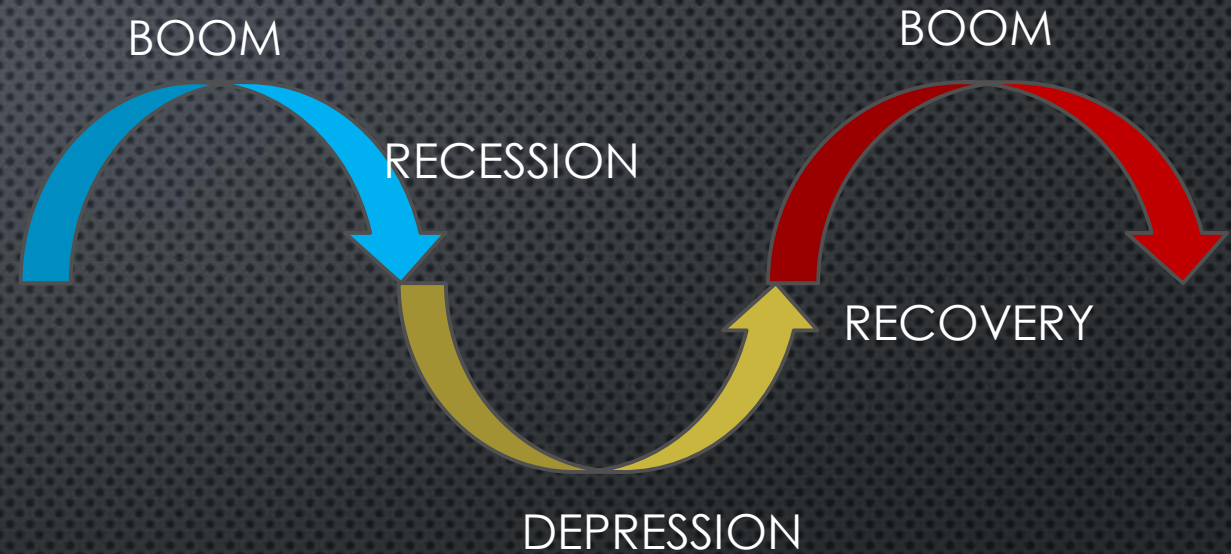
### 3. REDUCING INEQUALITIES OF INCOME

- ❑ A government budget can help to reduce inequalities in income through redistribution of income and wealth in the economy.
- ❑ By imposing taxes on rich and giving subsidies to the poor, the government redistributes income in favor of poorer sections of the society.
- ❑ Distribution of food grain through 'fair-price shops' to BPL (below poverty line) population is an important step in this direction. Equitable distribution of income and wealth is a sign of social justice.



## 4. ECONOMIC STABILITY

- ❑ Government budget is used to prevent business fluctuations of inflation or deflation to achieve the objective of economic stability. ...
- ❑ Policies of surplus budget during inflation and deficit budget during deflation helps to maintain stability of prices in the economy .
- ❑ Inflationary gap is corrected by reducing government expenditure and increasing the revenue and the displaced recaps corrected by increasing the government expenditure and decreasing the revenue .



An economy passes through different phases as shown above. It is the responsibility of the govt to maintain economic stability through budgetary policies.

## 5. MANAGING PUBLIC ENTERPRISES

- ❑ **Manage Public Enterprises** – Many **public sector** industries are built for the social welfare of the people.
- ❑ The **budget** is planned to deliver different provisions for operating such business and imparting financial help.
- ❑ the govt has to finance and manage public enterprises which are of the nature of national monopolies like railways, power generation, water lines etc.



PSUs

# Structure of Government Budget

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graph TD; A[Structure of Government Budget] --> B[Budget Receipts]; A --> C[Budget Expenditure]; B --> D[Revenue Receipts]; B --> E[Capital Receipts]; C --> F[Revenue Expenditure]; C --> G[Capital Expenditure];
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## Budget Receipts

Revenue Receipts

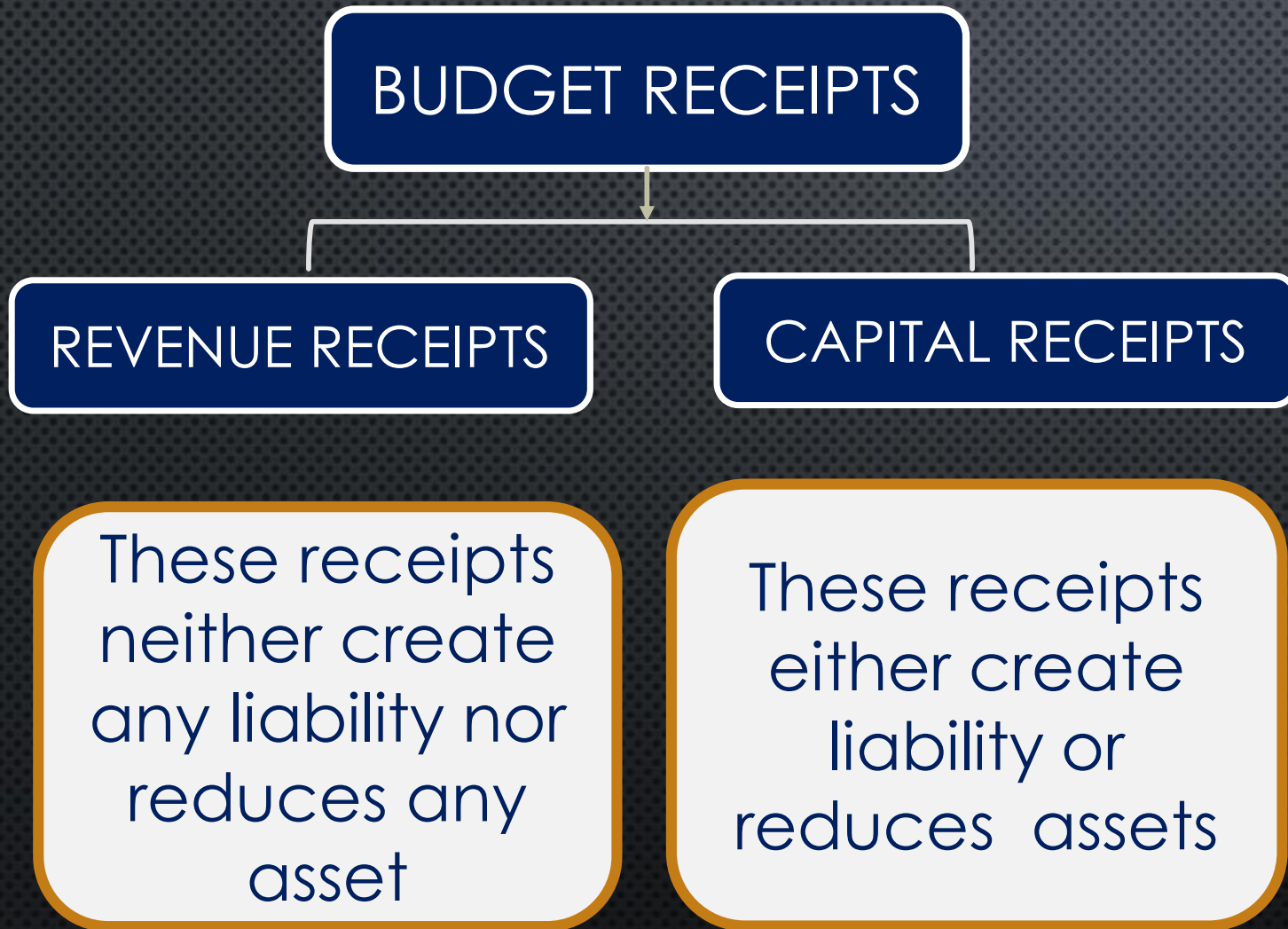
Capital Receipts

## Budget Expenditure

Revenue Expenditure

Capital Expenditure

# BUDGET RECEIPTS



Receipts basically mean when government is receiving or generating funds to meet its expenditures. As you can see on the left side, there are two ways of doing so, one is through revenue receipts and the other is through capital receipts. Usually revenue receipts are considered a better source of generating funds than capital receipts. You will be able to understand the reason once we will study these sources in detail.



WHEN GOVERNMENT IS ABLE TO GENERATE FUNDS WITHOUT SELLING ANY ASSETS OR BORROWING FROM OUTSIDE, THEN THESE SOURCES FORM REVENUE RECEIPTS. AS PER THE DEFINITION, NEITHER THEY CREATE ANY LIABILITY( MEANS NO BORROWING) NOR REDUCES ANY ASSETS ( NO SELLING OF ANY ASSET ). NOW THERE ARE TWO WAYS OF GENERATING

# TAX REVENUE RECEIPTS

| DIRECT TAXES                                                                                                                                                           | INDIRECT TAXES                                                                                                         |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"><li>• <b>Direct tax is</b> imposed directly on the taxpayer and <b>is</b> paid by the taxpayer directly to the government.</li></ul> | <b>Indirect tax is tax</b> collected by intermediaries (for e.g. retailers) from the ultimate taxpayer i.e. consumers. |
| The incidence and impact <b>of the tax is</b> on the same person                                                                                                       | The incidence and impact <b>of the tax does not lie</b> on the same person                                             |
| The burden of tax cannot be shifted in case of direct tax.                                                                                                             | The burden of tax can be shifted in case of indirect tax.                                                              |
| Example Income tax, wealth tax etc.                                                                                                                                    | Example GST, excise duty custom duty sale tax service tax                                                              |

# NON TAX REVENUE RECEIPTS

NON TAX REVENUE RECEIPTS REFERS TO THE REVENUE RECEIPTS OF THE GOVERNMENT FROM SOURCES OTHER THAN THE TAX. EXAMPLES OF NON TAX REVENUE RECEIPTS ARE

- a) INTEREST – the govt receives interest on loans given by it to state govt, union territories, local govt. It is called interest on public lending.
- b) PROFITS AND DIVIDENDS- profits from PSUs like BHEL,ONGC,NTPC, LIC etc. forms a major source of revenue for the govt. govt also gets dividends on the investments made by it.
- c) FINES AND FEES- govt generates income in the form of different types of fees like passport fees, license fees, court fees etc. also various forms of fines and penalties imposed by the govt on the law breakers is a source of income for the govt.
- d) SPECIAL ASSESSMENT- it is like a special tax that govt levies in proportion to the benefit accruing to the property owners to compensate for the cost of development of the infrastructure taking place and enhancing the value of their property.
- e) GRANTS AND DONATIONS- govt receives help from foreign govt and international organisations like IMF or WORLD BANK in the form of grants, donations, gifts etc.

# CAPITAL RECEIPTS

Capital receipts are receipts that create liabilities or reduce financial assets. They also refer to incoming cash flows.

capital receipts are of two types

## DEBT CAPITAL RECEIPTS(borrowings)

Debt Receipts have to be repaid by the government  
.Around 25 per cent of government expenditure is financed through borrowing.

## NON DEBT CAPITAL RECEIPTS(Recovery of loans and advances, disinvestment)

Non-debt receipts are those which do not incur any future repayment burden for the government. Almost 75 per cent of the total budget receipts are non-debt receipts.

# NON DEBT CAPITAL RECEIPTS

THESE RECEIPTS ARE NOT TREATED AS LIABILITIES OF THE GOVERNMENT. HENCE, IT DOES NOT GIVE RISE TO DEBT AND CALLED NON DEBT CAPITAL RECEIPTS.

## THERE ARE OF TWO TYPES OF NON DEBT CAPITAL RECEIPTS

### DISINVESTMENT



Disinvestment refers to sale of the PSUs which helps govt to raise funds. Therefore **disinvestment is a capital receipt** because it leads to reduction in assets.

### RECOVERY OF LOANS



**Recovery of loan** is a **capital receipt** because it causes a reduction in the assets of the government

# **EXPENDITURES OF THE GOVERNMENT**

BUDGET EXPENDITURE REFERS TO THE PROPOSED EXPENDITURE OF THE GOVERNMENT DURING A GIVEN FISCAL YEAR. BUDGET EXPENDITURE CAN BE BROADLY CATEGORIZED AS

**REVENUE EXPENDITURE**



It is that expenditure of the govt that neither creates any assets nor reduces any liability.

**CAPITAL EXPENDITURE.**



It is that expenditure of the govt that either creates any assets or reduces and liability.

# REVENUE EXPENDITURE

- Revenue expenses are incurred by the government for its **operational needs**.
- **It is recurring in nature**, which implies that it occurs frequently.
- Or in simple words this expenditure is a day to day expenditures of the government.
- Revenue Expenditure include payment of salaries, pension, interests, expenditure on administration, defense, health, and other services in the country

**WAGES PAID  
TO WORKERS**

**SUBSIDIES**

**INTEREST**

**DEFENSE**

**PENSIONS**

**GRANTS**

**UTILITY  
EXPENSES**

# CAPITAL EXPENDITURE

- Capital expenditures of the government are non recurring in nature which implies that they do not happen so frequently.
- These expenditures add to the capital stock of the country.
- These expenditures leads to development of infrastructure in the economy.
- a) expenditure on purchase of land, buildings, machinery, (b) investment in shares, loans by Central government to state government, foreign governments and government companies, cash in hand and (c) acquisition of valuables.
- The effect of capital expenditure decisions usually extends into the future.
- Capital expenditures are characteristically very expensive,

**NEW EQUIPMENTS IN  
NHS**

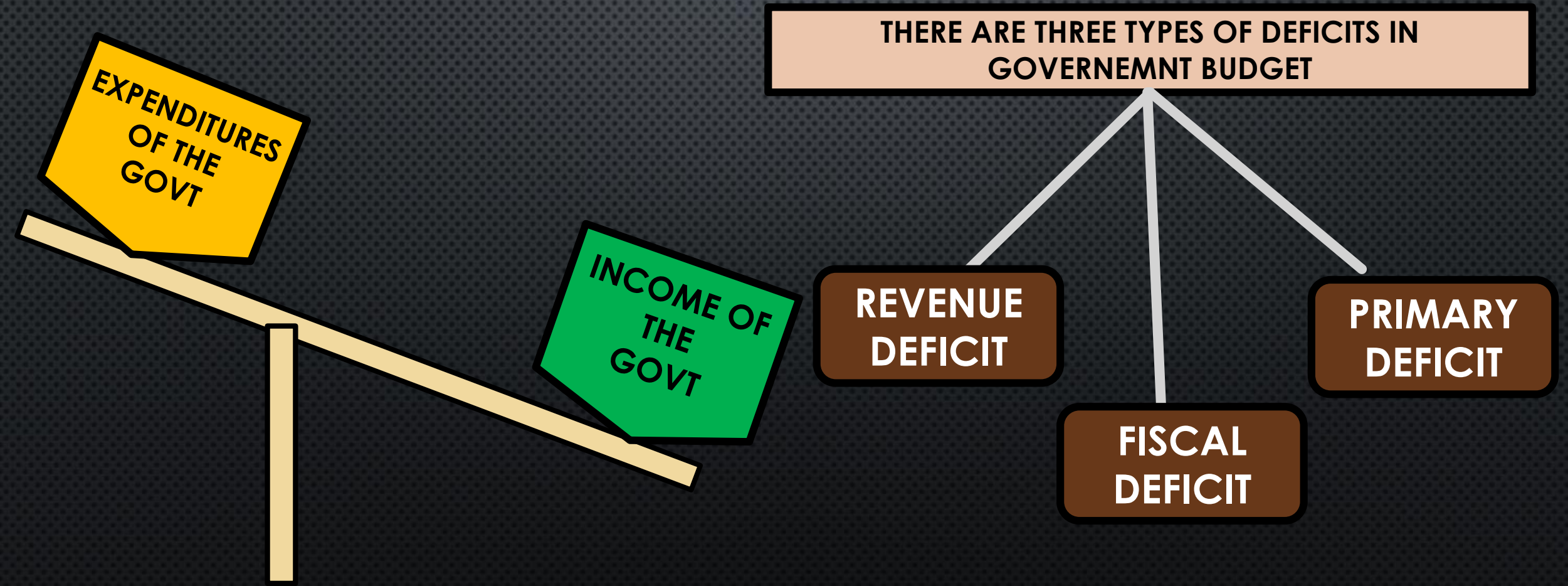
**CONSTRUCTION OF  
BRIDGES, FLYOVERS**

**FLOOD DEFENCE  
SCHEMES**

**EXTRA DEFENCE  
EQUIPMENTS**

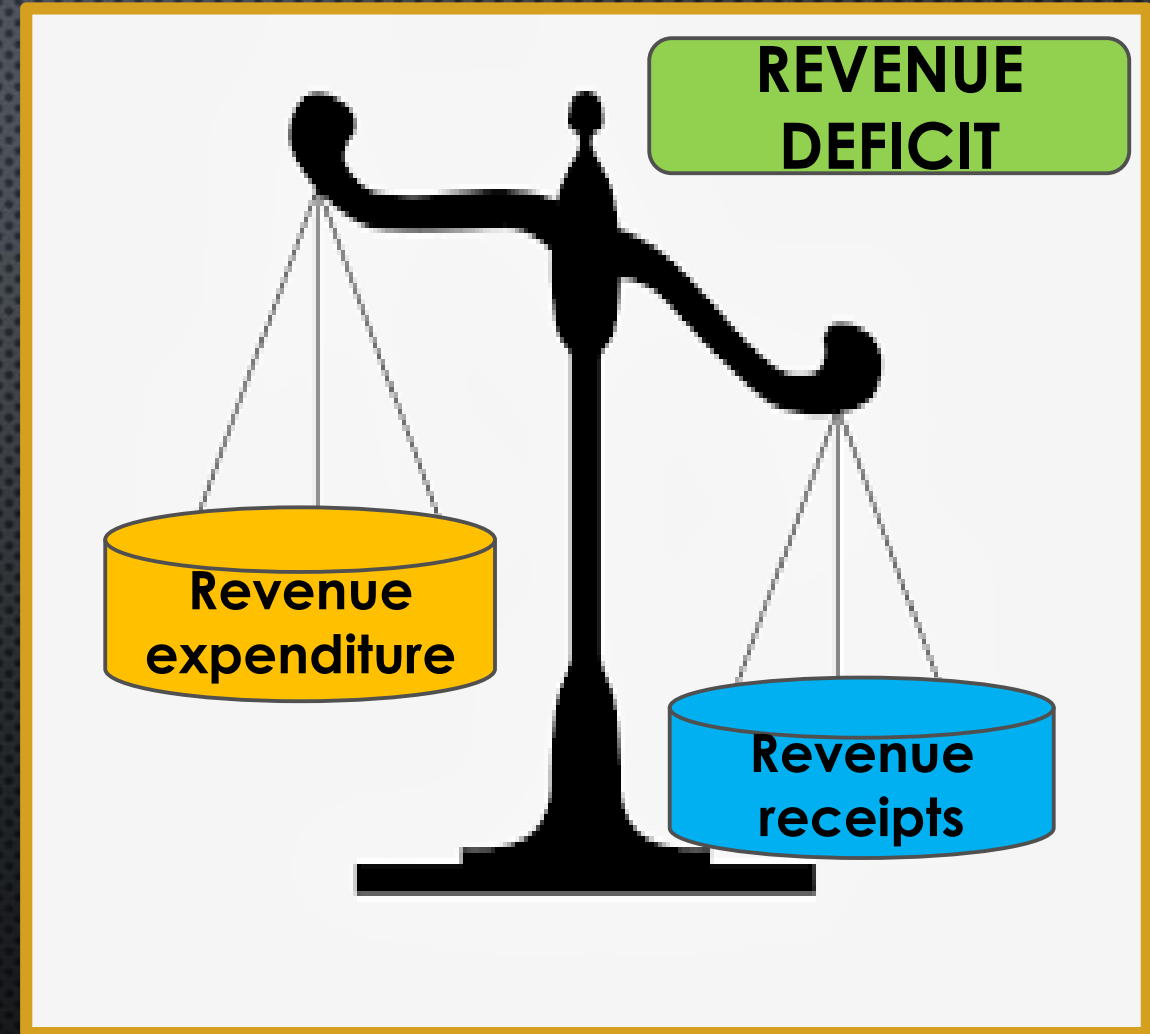
# DEFICITS IN GOVERNMENT BUDGET

- ❑ A Government Deficit is the amount of money in the set budget by which the government expenditure exceeds the government income amount.
- ❑ This deficit provides an indication of the financial health of the economy.



# 1. WHAT IS REVENUE DEFICIT

- ❑ A Revenue deficit indicates that the government doesn't have sufficient revenue for the normal functioning of the government departments.
- ❑ **REVENUE DEFICIT = REVENUE EXPENDITURE – REVENUE RECEIPTS**
- ❑ Revenue deficit is only related to revenue expenditure and revenue receipts of the government.
- ❑ Revenue deficit indicates dissaving on the government account because the government has to make up the uncovered gap by drawing upon capital receipts, either through borrowing or through the sale of its assets.



## 2. WHAT IS FISCAL DEFICIT

- ❑ Fiscal deficit refers to the difference between total expenditures of the government and the total receipts excluding borrowings.  
or
- ❑ **FISCAL DEFICIT = TOTAL EXPENDITURES – (REVENUE RECEIPTS + NON DEBT CAPITAL RECEIPTS)**
- ❑ Generally **fiscal deficit** occurs either due to revenue **deficit** or a major hike in capital expenditure.
- ❑ A high **fiscal deficit** can also be **good** for the **economy** if the money spent goes into the creation of productive assets like highways, roads, ports and airports that boost **economic** growth and result in job creation
- ❑ Fiscal deficit shows borrowing requirements of the government.  
greater fiscal deficit Implies greater borrowings by the govt. it may lead the govt into debt trap.

### FISCAL MATH

Fiscal deficit (as % of GDP)

|         |      |                                                                                     |
|---------|------|-------------------------------------------------------------------------------------|
| 2013-14 | 4.5  |  |
| 2014-15 | 4.0  |  |
| 2015-16 | 3.9  |  |
| 2016-17 | 3.5  |  |
| 2017-18 | 3.2* |  |

**Safe limit of fiscal deficit is considered 3% and 5% of GDB**

### 3. WHAT IS PRIMARY DEFICIT

- ❑ **Primary deficit** is the difference between **fiscal deficit** and interest payments.
- ❑ The total borrowing requirement of the government includes the interest commitments on accumulated debts. Primary deficit reflects the extent to which such interest commitments have compelled the government to borrow in the current period.

#### ❑ **PRIMARY DEFICIT = FISCAL DEFICIT – INTEREST PAYMENTS**

- ❑ A shrinking primary deficit indicates progress towards fiscal health
- ❑ **Primary Deficit is the root Cause of Fiscal Deficit:**

In India, interest payments have considerably increased in the recent years. High interest payments on past borrowings have greatly increased the fiscal deficit. To reduce the fiscal deficit, interest payments should be reduced through repayment of loans as early as possible

# BUDGET HIGHLIGHTS 2020-21

- **EXPENDITURE:** The government proposes to spend Rs 30,42,230 crore in 2020-21, which is 12.7% higher than the revised estimate of 2019-20.
- **RECEIPTS:** The receipts (other than net borrowings) are expected to increase by 16.3% to Rs 22,45,893 crore, owing to higher estimated revenue from disinvestments.
- **GDP GROWTH:** The government has assumed a nominal GDP growth rate of 10% (i.e., real growth plus inflation) in 2020-21. The nominal growth estimate for 2019-20 was 12%.
- **DEFICITS:** Revenue deficit is targeted at 2.7% of GDP, which is higher than the revised estimate of 2.4% in 2019-20. Fiscal deficit is targeted at 3.5% of GDP, lower than the revised estimate of 3.8% in 2019-20. Note that the government is estimated to breach its budgeted target for fiscal deficit (3.3%) in 2019-20 and the medium term fiscal target of 3% in 2020-21. This does not include off-budget borrowings (0.9% of GDP in 2020-21).

# UNION BUDGET 2021 ( FIGURES IN LAKH CRORE)

| RECEIPTS                                |                            | EXPENDITURES                |                                 |
|-----------------------------------------|----------------------------|-----------------------------|---------------------------------|
| <b>22.45+ 7.96 ( BORROWINGS) =30.42</b> |                            | <b>30.42</b>                |                                 |
| REVENUE RECEIPTS<br>= 20.2              | CAPITAL RECEIPTS<br>= 2.25 | REVENUE<br>EXPENDITURE=26.3 | CAPITAL<br>EXPENDITURE=<br>4.12 |
| TAX REVENUE =<br>16.36                  | DISINVESTMENT=<br>2.1      |                             |                                 |
| NON TAX<br>REVENUE= 3.85                |                            |                             |                                 |

NOT TO BE EVALUATED

# HOW TO CALCULATE DEFICITS USING FORMULAS

**1. REVENUE DEFICIT = REVENUE EXPENDITURE – REVENUE RECEIPTS**

**20.2 - 26.1 = 6.09 LAC CRORE (2.7 % OF GDP)**

**2 . FISCAL DEFICIT = TOTAL EXPENDITURE – TOTAL RECEIPTS EXCLUDING BORROWINGS**

**30.42 – 22.45 = 7.97 LAC CRORES (3.5% OF GDP)**

**3 . PRIMARY DEFICIT = FISCAL DEFICIT– INTEREST PAYMENTS**

**7.97- 7.09 = 0.88 lac crore (0.4% OF GDP)**