Fiscal divi...

Topic 3

Govt Budgeting

Govt budget :- A government budget is a statement of expected expenditure of the govt and the source of financing these expenditure during a financial year.

> Govt at all levels, central, state or local prepare budgets. Govt takes decisions on behalf of the people. It is therefore accountable to the people through legislature Parliament, civic bodies etc.

Budget has 2 main parts

(i) Receipts (ii) Expenditure

(i) Receipts :- The receipts of the govt are of two types

(a) Revenue receipts (b) capital receipts

(a) Revenue Receipts :- are the current income receipts from all sources. Taxes, profits of public enterprises grants etc. govt is under no obligation to return the amount.

(b) capital Receipts :- are the borrowing of the government. Here govt is under obligation to return the amount along the interest.

Revenue Receipts :- (a) Tax revenue (b) Non-tax revenue

Tax Revenue :- A tax is a legally compulsory payment imposed on the people by the government

Direct tax	Indirect tax
Burden of tax cannot be shifted to other Person.	Burden of tax can be shifted to another Person.

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Here Liability or burden both lie on the same person ie> corporation tax, income tax, wealth tax, Gift tax.	Here Liability of payment to govt lies on the seller and actual burden lies on the buyer ie!- service tax, sales tax custom duties, Union excise duties

(ii) Non tax revenue !- Income accruing to the govt from sources other than tax

- Interest receipts !- central govt department gives loans to the people, enterprises local government etc and receives interest in return.
- Dividends and Profits !- Central govt owns production units. These are called Public Sector enterprises who produce goods and services. eg Railways, Air India, Mahanagar Telephone Nigam. nationalised banks etc.
- External grants !- Govt departments receives financial help from foreign govt in the form of donations, gifts etc.

(b) capital receipts !- 3 main sources of capital receipts of central govt

- Borrowing !- Domestic borrowing, foreign borrowing
- Recovery of loans
- Resale of share of Public sector undertaking.

Domestic borrowing !- These are borrowing with in the country. Govt borrows from the financial market by issuing govt securities and treasury bills. Govt also borrow from people through various schemes like Public Provident fund, small saving schemes Indira vikas Patra.

foreign borrowing !- These are the borrowing from foreign countr[ies]

Expenditure

(i) capital vs Revenue expenditure

capital expenditure is expenditure on creation of assets. ie> constroction of building, roads, bridges, canals.

Revenue expenditure !- it is incurred on items like payment of salaries, maintenance of property

(ii) Plan vs Non plan expenditure :-

Provision of expenditure every year according to 5yr plans is plan expenditure.

Non plan expenditure :- Provision of expenditure on routine functions of govt during the year is non-plan expenditure.

Deficits in Budget

(a) Budgetory defecit :- Excess of all budgeted expenditure over all budgeted receipts.

Budgetary deficit :- Total budget expenditure - total budget Receipts

(b) Fiscal deficit :- Excess of all expenditure over total receipts reduced by borrowings.

Fiscal deficit :- Total budget exp - total budget receipts net of borrowing

* Sources of financing deficit :-

3 sources by which the govt can finance the deficit:-

(a) Borrowing from public and foreign govts.

(b) withdrawing from its cash balances with Reserve bank of Ind

(c) Borrowing from the Reserve bank of India.

- The govt prefer to borrow from the public bcz borrowing from the public has no effect on money supply in the country. when govt borrows, money is transfered from the public to govt. The net effect of total money supply in the country is nil.
- on the other hand borrowing from RBI or withdrawing money from RBI leads to ↑ money supply. It may lead to rise in money supply and may lead to rise in Prices, may create many problems in the economy. govt may use this source only when no other source of financing is left.

Objectives of budgetary Policy

1) Providing effective administration
2) Providing infrastructure facilities
3) ,, employment opportunities.