**7. Government Budget**

**Points to be remembered:**

* ***Budget:*** An annual statement of the revenue and expenditure by the government.
* ***Revenue Receipts:*** Those inflows of money to the government account against which no liability of repayment is created.
* ***Capital Receipts:*** Those inflows of money to the government against which a liability of repayment devolves upon the government.
* ***Revenue Budget:*** A statement relating to the revenue expenditure and revenue receipts of the government.
* ***Capital Budget:*** A statement relating to the capital receipts and capital expenditure of the government.
* ***Surplus Budget:*** A budget in which the receipts of the government exceed its expenditure.
* ***Deficit Budget:*** A budget in which the receipts of the government fall short of its expenditure.
* ***Balanced Budget:*** A budget in which the receipts of the government are matched by its expenditure.

Budget is divided into two parts:

1. Revenue budget; and
2. Capital budget.

**Revenue budget:**

The revenue budget contains details relating to the current revenues and the current expenditure of the government.

* **Revenue Receipts:** It is government income through tax revenue (direct and indirect taxes) and non- tax revenue (interest receipts, dividends and profits, external grants, etc). Revenue receipts are also known as *current revenues*.
* **Revenue Expenditure:** The government expenditure which meets the consumption needs of the government is called revenue expenditure. The purpose of this expenditure is not to build up any assets in the economy. This type of expenditure is necessary to keep the government machinery running and to enable the government meet its liabilities. It is also known as *current expenditure* of the government.

Normally, the government expenditure is classified into two categories:

1. Plan expenditure; and
2. Non- plan expenditure.

The overall expenditure of the government can also be classified in two groups:

1. Developmental expenditure; and
2. Non- developmental expenditure.

**Capital budget:**

Capital budget contains details relating to the capital receipts and capital expenditure of the government.

***Capital Receipts:*** the government’s capital receipts refer to all those sources of inflows to the government account which have any one of the following features:

* These involve a liability of repayment such as loans and borrowings;
* These involve a recovery of loans earlier extended by the government;
* These involve selling of an asset of the government, for example, disinvestment of the equity of the public sector undertakings.

***Capital Expenditure:*** expenditure incurred by the government on such items as have a life of more than one year is called capital expenditure. This type of expenditure adds to the capital stock of the economy.

Capital expenditure is also classified into two categories:

1. Plan expenditure; and
2. Non- plan expenditure.

The sum total of the revenue receipts and the capital receipts constitutes the total receipts of the government.

i. e., revenue receipts + capital receipts = total receipts

The sum total of the revenue expenditure and capital expenditure constitutes the total expenditure of the government.

i. e., revenue expenditure + capital expenditure = total expenditure

**Overall Budget:**

The overall budget of the government comprises all the receipts and all the expenditure of the government.

The various sources of receipts can be briefly summarized as follows:

**A. Revenue Receipts**

A 1 Tax Revenue

1. Corporation tax
2. Income tax
3. Custom duty
4. Excise duty

A 2 Non- tax Revenue

1. Interest receipts
2. Dividend and profits
3. External grants

**B. Capital Receipts**

1. Recoveries of loans
2. Market borrowings and other loans
3. External assistance
4. Disinvestment of PSU equity

**C. Overall Receipts (= A + B)**

Various sources of government expenditure can be briefly summarized as follows:

I. Non- plan expenditures

I A. Revenue Expenditure

1. Interest payments
2. Defence
3. Subsidies
4. Economic, social and other services

I B. Capital Expenditure

1. Defence capital
2. Non- plan capital outlay
3. Loans to:
4. Public enterprises,
5. States, and
6. Foreign Governments.

II. Plan Expenditure

II A. Revenue Expenditure

1. Central plan
2. Central assistance to states

II B. Capital Expenditure

1. Central plan
2. Central assistance to states

**III. Overall Expenditure (= I + II)**

**Balanced, Surplus and Deficit Budget**

* **Surplus budget:** If the receipts of the government are more than its expenditure, it is called surplus budget. A surplus budget implies that the government is pumping out more money from the economic system. It has a contractionary effect and level of economic activity falls.
* **Balanced budget:** If the receipts of the government are equal to its expenditure, it is called balanced budget. It will have a neutral effect on the level of economic activity. It will neither have an expansionary effect nor contractionary effect on the economy.
* **Deficit budget:** If the receipts of the government are less than its expenditure, then the budget is called deficit budget. It implies that the government is pumping in more money in the economy. It has an expansionary effect and the level of economic activities rise. Government of developing countries always plan for a deficit budget.

**Different Measures of Deficits:**

* **Revenue Deficit:** When revenue expenditure of the government is greater than the revenue receipts, it is called revenue deficit. It is financed by drawing upon the capital budget.
* **Budgetary deficit:** when overall expenditure of the government is greater than the overall receipts, it is called budgetary deficit. It is financed by printing of new currency notes by the government.
* **Fiscal deficit:** it is the excess of overall expenditure over the sum of revenue receipts, and recoveries of loans. It is financed by loans and borrowings and printing of new currency notes.
* **Monetized deficit:** that part of the fiscal deficit which is financed by printing of new currency notes is called monetized deficit.
* **Primary deficit:** when interest payment is deducted from fiscal deficit, it is called primary deficit.

**Objectives of budget:**

* To promote economic growth;
* To promote balanced regional development;
* To reduce inequalities in the distribution of income and wealth;
* To promote saving and investment in the economy;
* To promote full employment and price stability.

**Review Questions**

**Multiple Choice Questions:**

1. An annual statement of the revenue and expenditure by the government is known as-
2. Revenue budget;
3. Budget;
4. Capital budget;
5. None of these.
6. Those inflows of money to the government account against which no liability of repayment is created, is called-
7. Revenue receipts;
8. Capital receipts;
9. Revenue expenditure;
10. Capital expenditure.
11. Those inflows of money to the government against which a liability of repayment devolves upon the government, is known as-
12. Revenue receipts;
13. Capital receipts;
14. Revenue expenditure;
15. Capital expenditure.
16. A statement relating to the revenue expenditure and revenue receipts of the government is known as-
17. Revenue budget;
18. Budget;
19. Capital budget;
20. None of these.
21. A statement relating to the capital receipts and capital expenditure of the government is known as-
22. Revenue budget;
23. Budget;
24. Capital budget;
25. None of these.
26. A budget in which the receipts of the government exceed its expenditure is called-
27. Surplus budget;
28. Deficit budget;
29. Balanced budget;
30. None of the above.
31. A budget in which the receipts of the government fall short of its expenditure is known as-
32. Surplus budget;
33. Deficit budget;
34. Balanced budget;
35. None of the above.
36. A budget in which the receipts of the government are matched by its expenditure is known as-
37. Surplus budget;
38. Deficit budget;
39. Balanced budget;
40. None of the above.
41. When revenue expenditure of the government is greater than the revenue receipts, it is called-
42. Budget deficit;
43. Revenue deficit;
44. Fiscal deficit;
45. Monetized deficit.
46. When overall expenditure of the government is greater than the overall receipts, it is called-
47. Budget deficit;
48. Revenue deficit;
49. Fiscal deficit;
50. Monetized deficit.
51. The excess of overall expenditure over the sum of revenue receipts, and recoveries of loans is called-
52. Budget deficit;
53. Revenue deficit;
54. Fiscal deficit;
55. Monetized deficit.
56. When interest payment is deducted from fiscal deficit, it is called-
57. Budget deficit;
58. Revenue deficit;
59. Fiscal deficit;
60. Primary deficit.

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| **Ques.** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **11** | **12** |
| **Ans.** | **B** | **A** | **B** | **A** | **C** | **A** | **B** | **C** | **B** | **A** | **B** | **D** |

**Write *T* for true and *F* for false statement given below:**

1. An annual statement of the revenue and expenditure by the government is called budget.
2. In surplus budget, the receipts of the government fall short of its expenditure.
3. Recoveries of loans, market borrowings and other loans, external assistance, disinvestment of PSU equity are capital receipts of the government.
4. Interest receipts, dividend and profits, external grants are non- tax revenues of the government.
5. Corporation tax, income tax, custom duty and excise duty are tax revenue of the government.
6. Interest payments, defense, subsidies, economic, social and other services are example of government’s revenue expenditure.
7. Loans to public enterprises, states, and foreign governments are examples of capital expenditure of the government.
8. If the receipts of the government are more than its expenditure, it is called surplus budget.
9. If the receipts of the government are less than its expenditure, then the budget is called deficit budget.
10. When revenue expenditure of the government is less than the revenue receipts, it is called revenue deficit.

**Matching Test:**

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| --- | --- |
| **Match- I** | **Match- II** |
| 1. If the receipts of the government are more than its expenditure | 1. Balanced budget |
| 1. If the receipts of the government are equal to its expenditure | 1. Surplus budget |
| 1. If the receipts of the government are less than its expenditure | 1. Deficit budget |

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| --- | --- | --- | --- |
| **Match- I** | A | B | C |
| **Match- II** | 2 | 1 | 3 |

|  |  |
| --- | --- |
| **Match- I** | **Match- II** |
| 1. **Revenue Deficit** | 1. When interest payment is deducted from fiscal deficit. |
| 1. **Fiscal deficit** | 1. The excess of overall expenditure over the sum of revenue receipts, and recoveries of loans |
| 1. **Budgetary deficit** | 1. When overall expenditure of the government is greater than the overall receipts. |
| 1. **Primary deficit** | 1. When revenue expenditure of the government is greater than the revenue receipts. |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Match- I** | A | B | C | D |
| **Match- II** | 4 | 2 | 3 | 1 |

**Questions with Answer:**

1. **What is *budget*?**

An annual statement of the revenue and expenditure by the government is called budget.

1. **How can you classify budget?**

Budget is divided into two parts: - Revenue budget; and Capital budget.

1. **What is revenue budget?**

The revenue budget contains details relating to the current revenues and the current expenditure of the government.

1. **What is capital budget?**

Capital budget contains details relating to the capital receipts and capital expenditure of the government.

1. **What is revenue receipts?**

It is government income through tax revenue (direct and indirect taxes) and non- tax revenue (interest receipts, dividends and profits, external grants, etc). Revenue receipts are also known as *current revenues*.

1. **What is revenue expenditure?**

The government expenditure which meets the consumption needs of the government is called revenue expenditure. The purpose of this expenditure is not to build up any assets in the economy. This type of expenditure is necessary to keep the government machinery running and to enable the government meet its liabilities. It is also known as *current expenditure* of the government.

1. **What do you mean by capital receipts?**

*Capital Receipts* refer to all those sources of inflows to the government account which have any one of the following features:

* + These involve a liability of repayment such as loans and borrowings;
  + These involve a recovery of loans earlier extended by the government;
  + These involve selling of an asset of the government, for example, disinvestment of the equity of the public sector undertakings.

1. **What do you understand by capital expenditure?**

The expenditure incurred by the government on such items as have a life of more than one year is called capital expenditure. This type of expenditure adds to the capital stock of the economy.

1. **Define: Surplus budget, balanced budget and deficit budget.**

**Surplus budget:** If the receipts of the government are more than its expenditure, it is called surplus budget. A surplus budget implies that the government is pumping out more money from the economic system. It has a contractionary effect and level of economic activity falls.

**Balanced budget:** If the receipts of the government are equal to its expenditure, it is called balanced budget. It will have a neutral effect on the level of economic activity. It will neither have an expansionary effect nor contractionary effect on the economy.

**Deficit budget:** If the receipts of the government are less than its expenditure, then the budget is called deficit budget. It implies that the government is pumping in more money in the economy. It has an expansionary effect and the level of economic activities rise. Government of developing countries always plan for a deficit budget.

1. **Define: revenue deficit, budgetary deficit, fiscal deficit, monetized deficit and primary deficit.**

**Revenue Deficit:** When revenue expenditure of the government is greater than the revenue receipts, it is called revenue deficit. It is financed by drawing upon the capital budget.

**Budgetary deficit:** when overall expenditure of the government is greater than the overall receipts, it is called budgetary deficit. It is financed by printing of new currency notes by the government.

**Fiscal deficit:** it is the excess of overall expenditure over the sum of revenue receipts, and recoveries of loans. It is financed by loans and borrowings and printing of new currency notes.

**Monetized deficit:** that part of the fiscal deficit which is financed by printing of new currency notes is called monetized deficit.

**Primary deficit:** when interest payment is deducted from fiscal deficit, it is called primary deficit.

1. **What are the main objectives of budgeting?**

The main objectives of budgeting are:

* To promote economic growth;
* To promote balanced regional development;
* To reduce inequalities in the distribution of income and wealth;
* To promote saving and investment in the economy;
* To promote full employment and price stability.

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