- Regulation on Advertising

8 For Equitable Distribution

- One of the most important activities of government is to redistribute incomes so that there is equity & fairness in the society

- Progressive taxes
- Unemployment allowances
- Job reservations
- Land reforms
- Gender sensitive budgeting

etc.

but sometimes Government failure occurs when:-

- Intervention is ineffective causing wastage of resources
- Intervention produces fresh + more serious problems

x ——— x ——— x ——— x ——— x ——— x ——— x

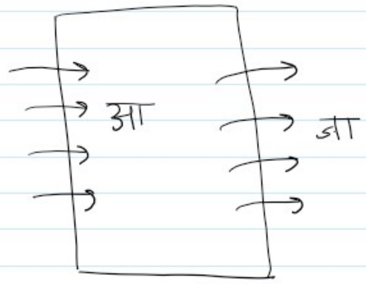
CH-7 Unit 3 Process of Budget Making

1 Introduction

→ Government all over the world have to perform manifold functions from protecting territories, maintaining law & orders, provision of public goods and implementation of comprehensive plans for economic + social welfare of its citizens.

→ A budget is a statement that presents the details of "where the money comes from and where

→ A budget is a statement that presents the details of "where the money comes from and where the money goes to"



" अनुमान "

The budget also contains estimates of the government's amounts for next fiscal year called budgeted estimates

v.Imp. R

2 Process of Budget Making

→ The Budget is prepared by the Ministry of Finance in consultation with NITI Aayog & other relevant ministries.
(National Institution for Transforming India)

→ The Budget must be presented and approved by both houses of parliament before the beginning of fiscal year. (1 April – 31 March)

→ Article 112 of constitution provides that in respect of every financial year the president shall cause to be laid before both the houses of parliament a statement of estimated receipts and expenditure of the government of India for that year, referred as Annual financial Statement

→ The budgetary procedure are :-
(i) Preparation of Budget
(ii) Presentation and enactment of Budget
(iii) Execution of the budget

→ The budget process mainly consists of two activities
a) Administrative process - documentation

a) Administrative process - documentation

b) Legislative process - legal process

→ A series of pre budget consultations are done by the union finance minister with chief ministers of states, various stakeholders etc.

→ The Budget documents depict information relating to receipts and expenditures for 2 years

अनुमान

Budget estimates (BE) of receipts + expenditure in respect of current and ensuing financial year

अनुमान में change

For the current year through Revised Estimates (RE)

"Actuals" of the year preceding current year

→ The budget speech of Finance Minister is usually in $\boxed{2}$ parts

→ Part A of Budget gives an outline of prevailing macro economic situation of the country and budget estimates for next financial year.

→ Part B of Budget speech details the progress the government has made on various developmental measures and also the tax proposals.

→ The annual financial statement shows the receipts and expenditure of government in 3 separate parts

Consolidated Fund of

Contingency Fund of

Public Accounts

Consolidated Fund of India | **Contingency** Fund of India | Public Accounts

→ The list of Budget documents presented to the Parliament, besides the finance minister's speech, is given below

a) Annual Financial Statements (AFS)

b) Demand for Grants (DG)

c) finance bill

d) Statements mandated under **FRBM Act** :- (Fiscal Responsibility & Budget Management)

→ Macro-Economic framework statement

→ Medium-Term fiscal policy cum fiscal policy strategy statement.

→ The expenditure of certain categories (eg :- allowances of President, emoluments of Supreme court judges etc) are **charged** on "Consolidated Fund of India"

(*) By convention in an election year, the budget may be presented **TWICE**

→ The Budget is discussed in two stages in Lok Sabha. The Lok Sabha has the power to concur or to refuse any demand or even reduce the amount of grant sought by government.

100000 crore घाटा

The Budget is laid on the table of the Rajya Sabha soon after the finance minister has completed the speech in Lok Sabha. The Rajya Sabha, doesnot vote on the demands of grant and there is only general discussion.

→ After the general discussion, the government introduce

→ After the general discussion, the government introduces Appropriation Bill

It is intended to give authority to the govern-ment to incur expenditure from and out of Consolidated Fund of India.

100000 Crore.

Motions for reduction to various demands for grants are made in the form of CUT MOTIONS seeking to reduce the sum sought by the government.

→ The finance bill seeking to give effect to the government's taxation proposal is introduced in Lok Sabha immediately after the presentation of General Budget. The finance bill is taken up for consideration and passing after the Appropriation bill is passed.

(Finance Bill has to be passed within 75 days of its introduction)

→ After the finance bill has been passed by Lok Sabha, it is transmitted to Rajya Sabha for recommendations. It has to be returned back within 14 days (Recommendation of Rajya Sabha may be accepted or rejected by Lok Sabha)

* On the last day of the days alloted for discussion on the demands for grants, the speaker puts all the outstanding demands for grants to vote of the house. This process is called "GUILLOTINE"

* Since 2017-18, the date of presentation of budget has been advanced to 1st February. Merger of Railway Budget with General Budget

(3) Sources of Revenue

MOF = Ministry of Finance

Department of Revenue

of Finance

Department of Revenue
of Ministry of Finance

→ Central Board of Direct Taxes (CBDT)

→ Central Board of Indirect Taxes + Customs (CBIC)

* Centre's Net Tax Revenue is the total of tax revenue after paying of the state's share and the National Calamity Contingent Duty (NCCD) transferred to National Calamity Contingency.

100 Tax Revenue $\xrightarrow{10}$ "state share"

Tax Revenue $\xrightarrow{5}$ NCCD

बच गया
(Net Tax Revenue)
= 85

* Government Receipts

- Revenue Receipts
  - Tax Revenue
    - eg Direct Tax
    - Indirect Tax
  - Non Tax Revenue
    - Interest receipts
    - Dividend receipts
    - Profits of PSU
    - Others etc
- Capital Receipts — IRREGULAR
  - Debt receipts — ↑ L
    - Borrowings
    - other receipts (eg PF receipts etc)
  - Non debt receipts — ↓ A
    - Disinvestment
    - Recovery of Loans

(4) Public expenditure Management.

→ Public expenditure is necessary to accelerate economic growth and to promote employment opportunities.

opportunities.

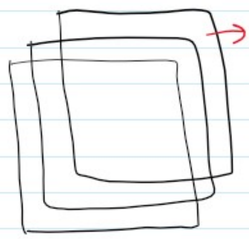
→ But unproductive public expenditure may lead to :-
(फ़िज़ूल का खर्चा)

- larger deficits ☹
- high taxes ☹
- Low economic growth ☹
- greater debt burden. ☹

Department of Expenditure of MOF

- preparation of Central government **Accounts**
- **Assists** Ministries
- Controlling **cost & prices** of public services
- Monitoring of **Audit observations**

etc

*  → expenditure profile → After approval of Finance Minister ; circulated to the Ministries.

Budget documents

* Central Government Expenditure

- **Centre's expenditure**
  - establishment
  - Central
  - Other
- **Centrally Sponsored Schemes & transfers**
  - Centrally
  - Finance
  - Other

Establishment expenditure | Central Sector Schemes | Other Central expenditures | Centrally Sponsored Schemes | Finance Commission transfer | Other transfer to States

---

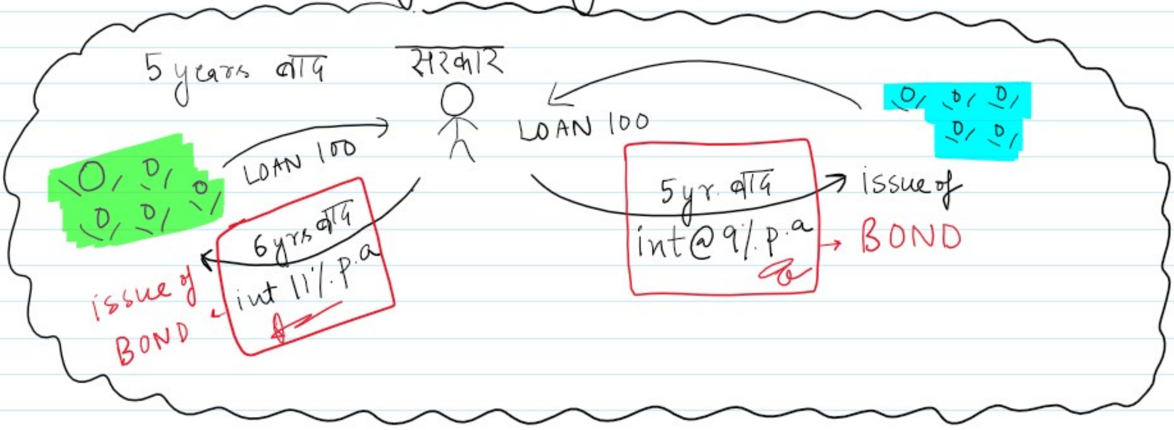
5 *Imp. Public Debt Management (2 Marks)

Sovereign Debt → शासक (KING)

Government borrowings from Internal + external sources

↓

Government Keeps on "refinancing" the debt by issuing bonds.



→ Debt sustainability is an important indicator of overall macro economic health of country

→ Debt Management Strategy (Pillars)

- Low Cost of Borrowing
- Risk Mitigation (कम करना)
- Market development

→ Institutions responsible for public debt management

→ Institutions responsible for public debt management

- RBI
  - domestic (Internal) debt
- Department of Economic affairs, Ministry of Finance
  - External debt
- Budget division of Ministry of Finance
  - other liabilities

** RBI —Loans (upto 3M)→ सरकार

Ways & Means Advances (WMA)

* FRBM was passed in 2003 to promote legislative framework for redution of deficit.

FRBM → Fiscal Responsibility & Budget Management

* Public debt Management Cell (PDMC) was Created in 2016 under Department of Economic affairs.

* Public debt (31 March 2024) ₹ 1,69,46,666 crore

- internal: ₹ 1,64,23,983 crore
- External: ₹ 5,22,683 crore

* RBI is developing G-Sec Market to broaden Investor participation.
(Retail Direct Scheme)

G-Sec → Government Securities

(Retail Direct Scheme) Government Securities

---

6 BUDGET CONCEPT

Balanced Budget	Surplus Budget	Deficit Budget
Total expenditure = Total Receipts	TE < TR	TE > TR

* TE = Capital expenditure (+) Revenue expenditure

* TR = Capital receipts (+) Revenue Receipts

CE	:	$\boxed{\uparrow A}$ or $\boxed{\downarrow L}$ Roads Construction, Repayment of Loan.
RE	:	Subsidies given, Salary given, Interest payments
CR	:	$\boxed{\uparrow L}$ or $\boxed{\downarrow A}$ Borrowings, Disinvestment
RR	:	Tax revenue, Non Tax Revenue.

7 Budget Deficit

= Total expenditure (–) Total receipts

Fiscal deficit.
Borrowing
$\boxed{200}$

RR =	100	RE	150
CR =	200 (+) 200	CE	350
TR	300	TE	500

TR	300	TE	500

Deficit Budget

→ Revenue Deficit = Revenue expenditure (−) Revenue Receipts

= 150 (−) 100

= 50

→ Fiscal Deficit

(Signifies Borrowings)

= Total expenditure (−) Total Receipts (excluding Borrowings)

= 500 (−) 300

= 200 (Borrowings)

$\boxed{\text{OR}}$

= Revenue deficit (+) Capital expenditure (−) Capital receipts (excluding Borrowings)

= 50 (+) 350 (−) 200

= 200 (signifies Borrowings)

→ Primary Deficit

= Fiscal Deficit (−) Net Interest liabilities

x ———— x ———— x ———— x ———— x ———— x

CH 7

Unit 4

"Fiscal Policy"

(1) Introduction