Union Budget

Introduction

- The budget can be defined as the most comprehensive report of the government's finances in which revenues from all the sources and outlays for all activities are consolidated.
- According to Article 112 of the Indian Constitution, the Union Budget of a year is referred to as the Annual Financial Statement (AFS).
- Union Budget is prepared by the Department of Economic Affairs of Ministry of Finance.
- Budget comprises of revenue budget and capital budget.
- Revenue Budget consists of the Revenue Expenditure and Revenue Receipts
- Capital Budget consist of the Capital Receipts and Capital Expenditure

Stages of Budget

- In parliament, the budget goes through 6 stages
  - 1- Presentation of Budget
  - 2- General Discussion
  - 3- Scrutiny by Departmental Committees
  - 4- Voting on Demand for Grants
  - 5- Passing of Appropriation Bill
  - 6- Passing of Finance Bill.

Revenue Receipt

- Revenue receipts can be defined as those receipts which neither create any liability nor cause any reduction in the assets of the government.
- The receipts received which cannot be recovered by the government.
- It comprises income amassed by the Government through taxes and non-tax sources like interest, dividends on investments.

Revenue Expenditure

- Revenue Expenditure is that part of government expenditure that does not result in the creation of assets.
- Payment of salaries, wages, pensions, subsidies and interest fall in this category as revenue expenditure examples.
- Revenue expenses are incurred by the government for its operational needs.

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Capital Receipts

- Capital receipts are receipts that create liabilities or reduce financial assets.
- They also refer to incoming cash flows.
- Capital receipts can be both non-debt and debt receipts.
- Loans from the general public, foreign governments and the Reserve Bank of India (RBI) form a crucial part of capital receipts.

Capital Expenditure

- Spending incurred by the government which results in the formation of physical or financial possessions of the Union government or decrease in financial liabilities of the Union Government.
- It also includes the expenditure incurred on acquiring fixed assets like land and investment by the government that gives profits or dividend in future.
- It also includes mortgages by the Union government to Public Sector Undertakings, state and union territories

Budget Deficit

- The budget deficit is the excess of total expenditure over total receipts.
- It is an indicator of the financial health of the economy.
- The opposite of the concept of the budget deficit is budget surplus.
- Following are three types of the deficit:
  - Revenue deficit
  - Fiscal deficit
  - Primary defici

Budget Surplus

- A Budget is said to be surplus when the expected revenues surpass the estimated expenditure for a particular business year.
- A surplus budget normally refers to the financial conditions of the governments.
- Budget becomes surplus, when taxes imposed, are higher than the expenses.

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Revenue Deficit

- Revenue deficit = Total revenue expenditure – Total revenue receipts.
- Revenue deficit is excess of total revenue expenditure of the government over its total revenue receipts.
- Revenue deficit actually indicates that the government's own earning is inadequate to meet normal functioning of government departments and provision of services.
- Revenue deficit results in borrowing.
- The revenue deficit includes only such transactions which affect the current income and expenditure of the government.

Fiscal deficit

- Fiscal deficit = Total expenditure – Total receipts excluding borrowings.
- A situation of fiscal deficit is said to happen when the government's total expenditures exceed the revenue that it generates excluding the money from borrowings.
- The fiscal deficit is, in fact, equal to borrowings. Thus, the fiscal deficit is an indicator of the borrowing requirement inclusive of interest payment.
- Greater fiscal deficit signifies greater borrowing by the government.

Primary deficit

- Primary deficit = Fiscal Deficit-Interest payments.
- Primary deficit is defined as a fiscal deficit of current year minus interest payments on previous borrowings.
- Primary deficit indicates borrowing requirement exclusive of interest payment (i.e., amount of loan).
- It shows how much government borrowing is going to meet expenses other than interest payments.
- The primary deficit is a narrower concept and a part of the fiscal deficit because the latter also includes interest payment. It is generally used as a basic measure of fiscal irresponsibility.