



PUBLIC BUDGET

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Meaning

The word budget is derived from French word '**bougette**' meaning '**a leather bag**' or '**a wallet**'.

The Chancellor of Exchequer in England extracted his papers to present in Parliament from a bag, hence the word budget.

The budget is a financial statement showing the expected receipts and proposed expenditures of the govt. in a year.

Definitions:

P. E. Taylor- Budget is the master financial plan of the government. It brings together estimates of anticipated revenue and expenditure for the budget years.

Rene Stown- Budget is a document containing a preliminary approved plan of public revenue and expenditure.

C Bastable- The Budget has come to mean the financial arrangement of a given period, with the usual implication that they have been submitted to the legislature for approval.

Indian Constitution- Budget means the annual financial statement containing an estimate of all anticipated revenue and expenditure of the govt. for the coming financial year.

Objectives

- 1. Reducing inequalities in income and wealth**
- 2. Economic stability**
- 3. Economic growth**
- 4. Reduction of Poverty and unemployment**

- 5. To ensure accountability**
- 6. A tool for management**
- 7. To ensure co-ordination with the plan**
- 8. To Facilitate Economic Analysis**
- 9. Instrument of fiscal policy**

Components of Budget

Receipts	Expenditure
<p>A. Revenue Receipts (1+2)</p> <ul style="list-style-type: none">1. Tax Revenue2. Non-Tax Revenue <p>B. Capital Receipts (3+4+5)</p> <ul style="list-style-type: none">3. Recovery of loans4. Other Receipts5. Borrowings and other liabilities <p>C. Total Receipts (A+B)</p>	<p>D. Revenue Expenditure(6+7)</p> <ul style="list-style-type: none">6. On Non-Plan Account7. On Plan Account <p>E. Capital Expenditure(8+9)</p> <ul style="list-style-type: none">8. On Non-Plan Account9. On Plan Account <p>F. Total Expenditure(D+E)</p> <p>G. Budget Deficit (F-C)</p> <p>H. Revenue Deficit (D-A)</p> <p>I. Fiscal Deficit (G+5)</p> <p>J. Primary Deficit (I- Interest Payments)</p>

I. Receipts

A) Revenue Receipts- current income from all the sources

(i) Tax Revenue

(ii) Non Tax Revenue- other than taxation

- fines, penalties, gifts, grants, special assessments etc.

B.) Capital Receipts- creates liability

- market loans
- borrowing from RBI or other financial institutions
- External loans and aids
- Receipts from small saving schemes
- Recoveries of loans granted to States and UTs.

C.) Total Receipts = Revenue Receipts + Capital Receipts

II. Expenditure

D. Revenue Expenditure- incurred for normal day to day functioning of Govt.

- On consumption of goods and services
- Defense and civil administration
- Payment of interest on loans
- subsidies

E. Capital expenditure- on creating permanent assets

- land, machines, equipment, irrigation projects
- long term physical and financial assets

F. Total Expenditure= *Revenue expenditure + Capital Expenditure*

G. Budgetary deficit= *Total Expenditure – Total Receipts*

H. Revenue Deficit= *Revenue Expenditure - Revenue Receipts*

I. Fiscal Deficit= *Budgetary deficit + Borrowings and other liabilities*

J. Primary Deficit= *Fiscal Deficit - Interest Payments*

Types

1. Annual, supplement, Interim or long term budget

Annual- for one year

- govt. budget

Supplement- extra expenditure on emergencies

-no fixed time period

Interim- covers only a part of the year

-when elections are due

Long term- for two or more years

-represents long term plans

2. Surplus, Deficit and Balanced budget

Surplus - estimated revenue more

-decreases the liabilities, increases the reserves

-controls inflationary pressure

Deficit- estimated expenditure more

-borrowing or printing

-increases liability, decreases the reserves

-to overcome depression

Balanced- estimated revenue and proposed expenditure are
equal

3. Single or multiple budget

Single-unified budget

-estimates presented in one budget

Multiple- plural budgets

- Separate budget passed separately

4. Conventional or Cash Budget

Conventional- administrative budget

-shown on accrual basis

-flow of funds which do not belong to govt. are excluded

-inadequate picture

Cash- all cash receipts from and payments to govt.

-funds belonging and not belonging to govt. are included

- More comprehensive

5. Departmental, performance or programme budget

Departmental- all revenue and expenditure under one department

- No information regarding the activity

Performance- in terms of programmes, activities, projects etc.

- focuses on size and cost of a project

- Backward looking and ex post analysis

Programme- broad programme

- assist policy decision making
- considers contribution made and all cost incurred
- More comprehensive
- Forward looking
- Relates to ex ante plans

6. Revenue and Capital Budget

Revenue- revenue receipts and revenue expenditure

- item which are recurring in nature
- tax and non tax revenue and expenditure met

Capital- capital receipts and Capital expenditure

- acquiring and disposing in nature
- On receipts side market borrowing, foreign debt, recovery of loan etc.
- On expenditure side building, equipment, investment in shares, etc.

7. Executive or Legislative Budget

Executive- by executives of govt.

- Passed & adopted by legislature
- Initiations in the hand of executives

Legislative- prepared and adopted by legislature

- directly or by the committee appointed by it

8. Plan and Non-plan Budget

Plan- budgetary provisions relating to annual plans of the year

-financial provisions like agriculture, industry, power, transport, etc.

Non-plan- consists non-plan revenue and non-plan capital estimates

-defense, interest payments, subsidies, grants etc.

9. Incremental or Zero Base Budget

Incremental- decreasing or increasing previous year's budget

- revision of previous years budget
- to increase or decrease expenditure on projects
- Reduces cost of decision making
- Discourages comprehensive evaluation

Zero Based- with no authorized funds

- activity to be funded must be justified
- Starting all over again
- Fresh evaluation of every item
- No consideration to past or present
- Costly
- Comprehensively evaluated