

# UNIT – 3: THE PROCESS OF BUDGET MAKING: SOURCES OF REVENUE, EXPENDITURE MANAGEMENT AND MANAGEMENT OF PUBLIC DEBT

## LEARNING OUTCOMES

**After studying this Chapter, you will be able to –**

- ♦ Define government budget and explain the need and objectives of budget
- ♦ Describe the budget concepts and terminologies
- ♦ Illustrate the process of budget making
- ♦ Detail the different sources of government revenue and expenditure
- ♦ Elucidate the process of management of public debt



## 3.1 INTRODUCTION

Governments all over the world have to perform manifold functions from protecting their territories, maintaining law and order, provision of public goods and implementation of comprehensive plans for economic and social welfare of its citizens. To execute these functions efficiently, the government requires adequate financial resources. Budget is a powerful policy instrument in the hands of government to regulate and to restructure a country's economic priorities.

The need for budgeting arises from the need to efficiently allocate limited resources to ensure maximum social welfare. The government also needs to reallocate resources in accordance with its declared priorities. By proper budgeting, the government is able to ensure redistribution of income and wealth. The other objectives of budgets are reduction/

elimination of economic fluctuations to bring in stability, sustainable increase in real GDP and reduction in regional disparities.

In simple terms, a budget is a statement that presents the details of 'where the money comes from' and 'where the money goes to'. The government budget is a document presented for approval and legislation by a government and contains estimates of the proposed expenditure for a given period and the proposed means of financing them. In other words, a government budget is a schedule of the entire revenues and expenditures that the government expects to receive and plans to spend during the following year. The budget includes projections for the economy and its various sectors such as agriculture, industry, and services. The budget also contains estimates of the government's accounts for the next fiscal year called budgeted estimates. Being the document which consolidates revenues from all sources and outlays for all activities, the budget is the most comprehensive report of the government's finances.

Apart from the union budget, state and the local bodies have their own budgetary processes for the next financial year. However, the focus of this unit will be the union budget only.



## 3.2 THE PROCESS OF BUDGET MAKING

The budgetary process is the means by which the executive and legislative branches together formulate a coherent set of taxing and spending proposals. The finances of the government of India have traditionally been controlled by the Ministry of Finance. The budget is prepared by the Ministry of Finance in consultation with NITI Aayog and other relevant ministries. The budget must be presented and approved by both houses of parliament before the beginning of the fiscal year (April 1 to March 31).

Despite the fact that the term 'budget' has not been used in the Indian Constitution, the process of making it is generally referred to as budgeting. Article 112 of the 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 the estimated receipts and expenditure of the government of India for that year, referred to as the "Annual Financial Statement"'.

The budgetary procedures are -

- (i) Preparation of the budget
- (ii) Presentation and enactment of the budget and
- (iii) Execution of the budget.

The budget process mainly consists of two types of activities:

1. The administrative process, wherein the budget along with the accompanying documents are prepared in consultation with various stakeholders;

2. The legislative process wherein the budget is passed by the parliament after discussions.

Despite the fact that the union budget is presented on 1st February (or any other suitable date as decided by the government), the process of budget preparation commences in August-September of the previous year. The Budget Division of the Ministry of Finance prepares a comprehensive schedule for carrying out the budget preparation activities.

The process of budget making is set off with the Budget Division issuing the budget circular containing detailed instructions and formats for preparing the estimates to all ministries, states, union territories and autonomous bodies. The detailed estimates of expenditure are prepared by ministries and departments according to their assessment of requirements for the subsequent year. Every department prepares estimates for receipts and expenditure separately.

A series of pre-budget consultations are done by the union finance minister with the finance ministers and chief ministers of states, various stakeholders and interest groups including industry associations, representatives from agriculture and social and welfare sectors, labour organisations, experts from NITI Aayog, economists etc. to elicit their suggestions on the proposed budget.

The budget is presented in the Parliament in such form as the Finance Ministry may decide after considering the suggestions (if any) of the Estimates Committee. Broadly, the budget documents depict information relating to receipts and expenditure for two years. They are:

- (i) Budget estimates (BE) of receipts and expenditure in respect of current and ensuing financial year
- (ii) For the current year through Revised Estimates (RE); and
- (iii) Actuals of the year preceding the current year

The budget speech is mainly a policy document which draws attention to the proposed policies and programmes of the government. The finance minister makes a detailed budget speech at the time of presenting the budget before the Lok Sabha. The budget speech presents details of the proposals for the new financial year regarding taxation, borrowings and expenditure plans of the government.

The budget speech of the Finance Minister is usually in two parts.

- Part A of the budget speech gives an outline of the prevailing macro economic situation of the country and the budget estimates for the next financial year. Elaborating the priorities of the government, the minister presents a broad framework of the total funds raised by the government via taxes or borrowings, proposed

government expenditure allocations for different sectors and fresh schemes for different sectors.

- Part B of the budget speech details the progress the government has made on various developmental measures, the direction of future policies and the government's tax proposals for the upcoming financial year including variations in the current taxation system.

The Annual Financial Statement shows the receipts and expenditure of government in three separate parts under which government accounts are maintained, namely:

1. Consolidated Fund of India
2. Contingency Fund of India, and the
3. Public Account.

The list of budget documents presented to the parliament, besides the finance minister's budget speech, is given below:

- (a) Annual Financial Statement (AFS)
- (b) Demands for Grants (DG)
- (c) Finance Bill
- (d) Statements mandated under FRBM Act:
  - i. Macro -Economic Framework Statement
  - ii. Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement

Nine other documents which are in the nature of explanatory statements supporting the mandated documents are also presented along with the documents mentioned above.

The expenditures of certain categories (e.g. the emoluments and allowances of the President of India and his/her office, and emoluments of Judges of supreme courts and high ranking personnel of constitutional bodies across India) are 'charged' on the Consolidated Fund of India and are not subject to the vote of parliament, are also indicated separately in the budget.

By convention in an election year, the budget may be presented twice. The first one is to first to secure a Vote on Account for a few months. This is followed by the Annual financial statement for that year or the full-fledged Budget.

The budget is discussed in two stages in the Lok Sabha. First, there is the general discussion on the budget as a whole. After the first stage of general discussion on the union budget is over, the house is adjourned for a fixed period. During this period, the demands for grants of various ministries/ departments are considered by the standing committees concerned, and once the reports are presented by these committees within the stipulated time, the house proceeds to discussion and conducts ministry-wise voting on demands for grants.

The Lok Sabha has the power to concur or to refuse any demand or even to reduce the amount of grant sought by government. The budget is laid on the table of the Rajya Sabha soon after the Finance Minister has completed her/his budget speech in the Lok Sabha. The Rajya Sabha, does not vote on the demands for grants and there is only a general discussion on the budget.

After the general discussion on the budget proposals and voting on demands for grants have been completed, the government introduces the Appropriation Bill. The Appropriation Bill is intended to give authority to government to incur expenditure from and out of the Consolidated Fund of India. Motions for reduction to various demands for grants are made in the form of 'cut motions' seeking to reduce the sums sought by government.

The Finance Bill seeking to give effect to the government's taxation proposals is introduced in Lok Sabha immediately after the presentation of the general budget. It is accompanied by a memorandum explaining the provisions of the bill and their effect on the finances of the country. The motion for leave to introduce a finance bill cannot be opposed. The finance bill is taken up for consideration and passing after the Appropriation Bill is passed. The finance bill seeks to give effect to the financial proposals of the government for the next financial year. The Parliament has to pass the Finance Bill within 75 days of its introduction.

On the last day of the days allotted for discussion on the demands for grants, the speaker puts all the outstanding demands for grants to the vote of the house. This process is known as 'Guillotine'. It is a device for bringing the debate on financial proposals to an end within a specified time.

After the Finance Bill has been passed by the Lok Sabha, it is transmitted to the Rajya Sabha for its recommendations. The bill being a money bill, Rajya Sabha has to return it within a period of 14 days, with or without recommendations. The recommendations of Rajya Sabha may be accepted or rejected by the Lok Sabha.

However from 2017-18, the date of presentation of the budget has been advanced to 1st February. An important budgetary reform was the merger of railway budget with the general budget from the budget for financial year 2017-18.

### **3.3 SOURCES OF REVENUE**

The Department of Revenue of the Ministry of Finance exercises control in respect of the revenue matters relating to direct and indirect union taxes. The department is also entrusted with the administration and enforcement of regulatory measures provided in the enactments concerning goods and services tax (GST), central sales tax, stamp duties and other relevant fiscal statutes.

The Department of Revenue exercises control in respect of matters relating to all the direct and indirect union taxes through two statutory boards, namely,

1. the Central Board of Direct Taxes (CBDT) and
2. the Central Board of Indirect Taxes and Customs (CBIC).

Matters relating to the levy and collection of all direct taxes are looked after by the CBDT whereas those relating to levy and collection of goods and service taxes (GST), Customs and central excise duties, service tax and other Indirect taxes fall within the purview of the CBIC.

Government receipts are classified under two categories:

1. Revenue receipts which consists of tax revenue and non tax revenue.
2. Capital receipts which consists of debt receipts and non debt capital receipts

The broad sources of revenue are:

1. Corporation tax
2. Taxes on income
3. Wealth tax
4. Customs duties
5. Union excise duties
6. Goods and services tax including GST compensation cess
7. Taxes on union territories

Centre's net tax revenue is the total of tax revenue after paying of the states' share and the National Calamity Contingent duty (NCCD) transferred to the National Calamity Contingency

Non-tax revenues comprise the following:

1. Interest receipts,
2. Dividends and profits from public sector enterprises and surplus transfers from Reserve Bank of India
3. Other Non-tax revenues and
4. Receipts of union territories

Various social services provided by the government such as medical services, public health: broadcasting, education, sports, art and culture, housing: and economic services such as communication, energy, transport, science, technology and environment, railways and general administrative services also yield revenue for the government.

Capital Receipts include:

1. Non debt capital receipts which include
  - (a) Recoveries of loans and advances
  - (b) Miscellaneous capital receipts (disinvestments and others)
2. Debt capital receipts which include
  - (a) Market loans for different purposes
  - (b) Short term /Treasury bill borrowings
  - (c) Securities issued against small savings,
  - (d) State provident fund (Net)
  - (e) Net external debts
  - (f) Other receipts (Net)

In short, non debt receipts include recoveries of loans advanced by the government to PSEs, state governments, foreign governments and union territories and sale proceeds of government assets, including those realized from divestment of government equity in public sector undertakings (PSUs). Debt capital receipts comprise of market loans and short term borrowings by the government, borrowing from the Reserve Bank of India and loans taken from foreign governments/institutions. Examples of 'Other receipts' include Sovereign Gold Bond Scheme, receipts from international financial institutions and saving bonds.

### **3.4 PUBLIC EXPENDITURE MANAGEMENT**

In view of the limited nature of resources, a prudent and well designed public expenditure management is essential for any government to ensure that the level of aggregate public expenditure is consistent with a sustainable macroeconomic framework. Developing economies like India require enormous amount of public spending to initiate and accelerate economic growth and to promote employment opportunities. Effective reduction in fiscal deficit requires an ingenious mix of revenue and expenditure policies. Government expenditure affects allocation of resources among various uses and therefore, great care should be taken to channelize the resources to socially desirable areas.

Public expenditure management is the process that allows governments to be fiscally responsible. Public expenditure programmes or projects should be designed and implemented to provide given levels of outputs or achieve specific objectives at minimum cost. The economic costs of unproductive public expenditures can be extensive and may have far reaching effects such as:

- larger deficits

- higher levels of taxation,
- lower economic growth,
- fewer resources available for use elsewhere, and
- greater debt burden in the future.

The Department of Expenditure of the Ministry of Finance is the nodal department for overseeing the public financial management system in the central government and matters connected with state finances. It is responsible for

- the implementation of the recommendations of the Finance Commission and the Central Pay Commission,
- monitoring of audit comments/observations, and
- preparation of central government accounts.
- Additionally, it also assists central ministries/departments in
- controlling the costs and prices of public services,
- reviewing systems and procedures to optimize outputs and outcomes of public expenditure.

The requirements of funds for all categories of expenditure including various programmes and schemes, along with receipts of the departments are discussed during the pre-budget meetings chaired by Secretary (Expenditure). Expenditure estimates are provisionally finalized and communicated to ministries/departments after the approval of Finance Minister. One of the explanatory documents of the budget document is the 'Expenditure Profile' (earlier known as expenditure budget) consisting of relevant data across all ministries/departments to outline a profile of the general financial performance of the government of India. It gives an aggregation of various types of expenditure and certain other items across demands.

The total expenditure through budget (both current and capital) of various ministries and departments is composed of central expenditure and transfers. In Expenditure budget, the Central government expenditure is classified into six broad categories as below:

A. Centre's Expenditure:

- Establishment Expenditure of the Centre;
- Central sector schemes, and
- Other central expenditures including those on CPSEs and Autonomous Bodies

B. Centrally Sponsored Schemes and other Transfers:

The transfers include

- Centrally sponsored schemes
- Finance Commission transfers and
- Other transfers to states

Establishment expenditure includes establishment-related expenditure of the ministries/departments, and attached and subordinates offices. Central Sector Schemes (CS) include those schemes which are entirely funded and implemented by the central agencies under union government ministries/departments.

### 3.5 PUBLIC DEBT MANAGEMENT

In emerging market and developing economies, the government is generally the largest borrower. Government debt from internal and external sources contracted in the Consolidated Fund of India is defined as Public Debt. The government raises funds primarily from the domestic market using market-based and fixed-rate instruments to finance its fiscal deficit.

Public debt, in simple words, means debt incurred by the government in mobilizing savings of the people in the form of loans, which are to be repaid at a future date with interest. Public debt is not a one-time exercise of borrowing and repaying. Debt servicing is a continuous exercise as a portion of debt falls due each month, government does not usually cut expenditure or raise taxes to provide funds to retire or repay the maturing bonds. Rather, the government simply refinances the debt, i.e. it sells new bonds and uses the proceeds to pay off holders of the maturity bonds. Hence public debt management becomes a crucial task or responsibility of the government and plays an important role in macroeconomic stability of a country. Productive use of public debt contributes to economic growth and welfare of the society. Sustainability of sovereign debt has always been an important indicator of the overall macroeconomic health of a country. Debt sustainability is in great part a function of the level of debt and the government's capacity to service the outstanding debt.

Public debt management refers to the task of determining, by the fiscal and monetary authorities, the size and composition of debt, the maturity pattern, interest rates, redemption of debt etc. It is the process of setting up and implementing the strategy for managing public debt in order to raise the required amount of funding at the desired risk and cost levels.

The overall objective of the central government's debt management policy is to "meet the central government's financing needs at the lowest possible long term borrowing costs and also to keep the total debt within sustainable levels. Additionally, it aims at supporting development of a well-functioning and vibrant domestic bond market".

Keeping in view the increasing magnitude of public borrowing both internal and external, the extent to which the government can mobilise funds from public depends upon the skilful public debt management. Debt management strategy is based on three broad pillars namely, low cost of borrowing, risk mitigation and market development.

The institutions responsible for public debt management are:

1. Reserve Bank of India – domestic marketable debt i.e., dated securities, treasury bills and cash management bills.
2. Ministry of Finance (MOF); – external debt
3. Ministry of Finance; Budget Division and Reserve Bank of India – Other liabilities such as small savings, deposits, reserve funds etc.

The responsibility of managing the domestic debt of the central government and of 28 state governments and two union territories is entrusted with the Internal Debt Management Department (IDMD) of the Reserve Bank of India. The RBI acts as the debt manager for marketable internal debt. While treasury bills are issued to meet short term cash requirements of the government, dated securities are issued to mobilise longer term resources to finance the fiscal deficit. From 1997 onwards, the Reserve Bank also provides short-term credit up to three months to state governments banking with it in the form of Ways and Means Advances (WMA) to bridge temporary mismatches in cash flows.

External debt (bilateral and multilateral loans) is managed by the Department of Economic Affairs in the Ministry of Finance (MoF). Most of the external debt is sourced from multilateral agencies (International Bank for Reconstruction and Development, Asian Development Bank, etc.). There is no sovereign borrowing from international capital markets. The entire external debt, in terms of original maturity, is on long -term basis and a major part is at fixed interest rates. The risk associated with external the debt is the depreciation in the value of the domestic currency vis-à-vis the currency of denomination of external loans leading to increase in the government's debt servicing cost.

The Fiscal Responsibility and Budget Management (FRBM) was passed in 2003 to provide a legislative framework for reduction of deficit and thereby debt of the central government to a sustainable level. The objectives of the act are:

- inter-generational equity in fiscal management,
- long run macroeconomic stability,
- better coordination between fiscal and monetary policy, and
- transparency in fiscal operation of the government.

The Public Debt Management Cell (PDMC) was created in 2016 under the Department of Economic Affairs. The Medium Term Debt Management Strategy or MTDS 2021-24 is a framework to determine the appropriate composition of the debt portfolio. The objective of the debt management strategy is to efficiently raise debt at the lowest possible cost in the medium term while ensuring that financing requirements are met without disruption.

The sheer size of India's public debt can be understood from the following table:

**Debt Position of the Government of India** (in ₹ crores)

|                                     | As on 31 <sup>st</sup> March 2026 | As on 31 <sup>st</sup> March 2027 |
|-------------------------------------|-----------------------------------|-----------------------------------|
| Internal debt and other liabilities | 190,43,590                        | 207,70,868                        |
| External debt                       | 6,74,426                          | 7,11,182                          |
| Total                               | <b>197,18,016</b>                 | <b>214,82,050</b>                 |

**Source: Budget 2026-2027**

In line with the global trend, the government of India also responded to the pandemic challenges and increased its expenditure on health and social sector. At the same time, the revenue receipts declined substantially due to the adverse effects of the pandemic on economic activity. Consequently, fiscal deficit widened necessitating an increase in the size of the borrowing programme significantly during 2020-21 and 2021-22 in order to render counter-cyclical fiscal policy support and to provide targeted support to segments deeply hit by the pandemic.

The Reserve Bank has been proactively engaged in the development of the government securities (G-sec) market including broadening of investor participation. As part of continuing efforts to increase retail participation in G-sec, 'RBI Retail Direct' facility was announced on February 5, 2021:

- for improving the ease of access by retail investors through online access to the primary and secondary government securities market
- to provide the facility to open their government securities account ('Retail Direct') with the Reserve Bank.

### Budget concepts

#### Type of budgets

**Balanced budget:** - A balanced budget is a budget in which revenues are equal to expenditures. Thus, neither a budget deficit nor a budget surplus exists. Revenue does not fall short of expenditure. i.e., revenue is equal to expenditure (Revenue= Expenditure).

**Unbalanced budget:** The budget may either be surplus or deficit.

- A **surplus budget:** when estimated government receipts are more than the estimated government expenditure it is termed as surplus budget. When the government spends less than the receipts the budget becomes surplus. Briefly put, public revenue exceeds public expenditure ( $R > E$ .)
- A **deficit budget:** when estimated government receipts are less than the government expenditure, it is termed as a deficit budget. A deficit budget increases the liability of the government or decreases its reserves. In modern economies, most of the countries follow deficit budgeting.

### Capital Receipts

Capital receipts are those receipts that lead to a reduction in the assets or an increase in the liabilities of the government. Examples include recoveries of loans, earnings from disinvestment and debt.

### Revenue Receipts

Revenue receipts can be defined as those receipts which neither create any liability nor cause any reduction in the assets of the government. There are two sources of revenue receipts for the government — tax revenues and non-tax revenues.

### Revenue Expenditure

Revenue expenditure is expenditure incurred for purposes other than creation of physical or financial assets of the central government. It relates to those expenses incurred for the normal functioning of the government departments and various services, interest payments on debt incurred by the government, and grants given to state governments and other parties (even though some of the grants may be meant for creation of assets).

### Capital Expenditure

There are expenditures of the government which result in creation of physical or financial assets or reduction in financial liabilities. This includes expenditure on the acquisition of land, building, machinery and equipment, investment in shares, and loans and advances by the central government to state and union territory governments, PSUs and other parties.

When a government spends more than it collects by way of revenue, it incurs a budget deficit. There are various measures that capture government deficit and they have their own implications for the economy.

### Budgetary Deficit or Overall Deficit

Budgetary Deficit is defined as the excess of total estimated expenditure over total estimated revenue is the difference between all receipts and expenditure, both revenue and capital.

### Revenue Deficit

The revenue deficit refers to the excess of government's revenue expenditure over revenue receipts. It shows the shortfall of government's current receipts over current expenditure. It shows the government revenue is insufficient to meet the regular expenditures in connection with the normal functioning of the government, or the government is diverting resources from other sectors to finance its current expenditure.

$$\text{Revenue deficit} = \text{Revenue expenditure} - \text{Revenue receipts}$$

### Fiscal Deficit

When the government's non-borrowed receipts fall short of its entire expenditure, it has to borrow money from the public to meet the shortfall. The excess of total expenditure over total receipts excluding borrowings during a given fiscal year is called the fiscal deficit. In other words, fiscal deficit is the difference between the government's total expenditure and its total receipts excluding borrowing. It is often presented as a percentage of the gross domestic product (GDP).

Total Receipts excluding borrowing = Revenue Receipts + Capital Receipts excluding borrowing or (Non debt creating capital receipts). Non debt creating capital receipts include recoveries of loans advanced by the government and sale proceeds of government assets, including those realized from divestment of government equity in public sector undertakings (PSUs).

$$\text{Fiscal deficit} = \text{Total Expenditure} - \text{Total Receipts excluding borrowing}$$

$$\text{Fiscal Deficit} = (\text{Revenue Expenditure} + \text{Capital Expenditure}) - (\text{Revenue Receipts} + \text{Capital Receipts excluding borrowing})$$

$$\text{Fiscal Deficit} = (\text{Revenue Expenditure} - \text{Revenue Receipts}) + (\text{Capital Expenditure} - \text{Capital Receipts excluding borrowing})$$

$$\text{Fiscal Deficit} = \text{Revenue Deficit} + (\text{Capital Expenditure} - \text{Capital Receipts excluding borrowing})$$

The fiscal deficit will have to be financed by borrowing. Therefore fiscal deficit points to the total borrowing requirements of the government from all sources. In case revenue deficit occupies a substantial share of fiscal deficit, it is an indication that a large part of borrowing is used for consumption purposes rather than for investment.



Source : PIB

### Primary Deficit

Primary deficit is defined as fiscal deficit of current year minus interest payments on previous borrowings. In other words whereas fiscal deficit indicates borrowing requirement inclusive of interest payment, primary deficit indicates borrowing requirement exclusive of interest payment. It tells how much of the government's borrowings are going towards meeting expenses other than interest payments. Primary deficit thus gives an estimate of borrowings on account of current expenditure exceeding current revenues. The goal of measuring primary deficit is to focus on present fiscal imbalances.

$$\text{Primary deficit} = \text{Fiscal deficit} - \text{Net Interest liabilities}$$

Net interest liabilities interest payments minus interest receipts by the government on domestic lending.

### Finance Bill

The Bill produced immediately after the presentation of the union budget detailing the Imposition, abolition, alteration or regulation of taxes proposed in the budget.

### Outcome budget

The outcome budget establishes a direct link between budgetary allocations of schemes and its annual performance targets measured through output and outcome indicators. The outcome budget is a progress card on what various ministries and departments have done with the outlays in the previous annual budget. It measures the development outcomes of all government programs and whether the money has been spent for the purpose it was sanctioned including the outcome of the fund usage.

**Guillotine**

The parliament has very limited time for examining the expenditure demands of all the ministries. So, once the prescribed period for the discussion on demands for grants is over, the speaker of Lok Sabha puts all the outstanding demands for grants, whether discussed or not, to the vote of the house. This process is popularly known as 'Guillotine'.

**Cut Motions**

Motions for reduction to various demands for grants are made in the form of cut motions seeking to reduce the sums sought by government on grounds of economy or difference of opinion on matters of policy or just in order to voice a grievance.

**Consolidated Fund of India**

All revenues received, loans raised and all moneys received by the government in repayment of loans are credited to the Consolidated Fund of India and all expenditures of the government are incurred from this fund. Money can be spent through this fund only if appropriated by the parliament. The consolidated Fund has further been divided into 'revenue' and 'capital' divisions.

**Contingency Fund of India**

A fund placed at the disposal of the President to enable him/her to make advances to the executive/Government to meet urgent unforeseen expenditure. Contingency fund enables the government to meet unforeseen expenditure and does not require prior legislative approval, unlike with the Consolidated Fund. For meeting such exigencies, advances are made to the executive from the contingency fund which is subsequently reported to the Parliament for recoupment from the Consolidated Fund of India.

**Public Account**

Under provisions of Article 266(1) of the Constitution of India, public account is used in relation to all the fund flows where government is acting as a banker. Examples include Provident Funds and Small Savings. This money does not belong to government but is to be returned to the depositors. The expenditure from this fund need not be approved by the parliament.

## TEST YOUR KNOWLEDGE

### Multiple Choice Questions

1. The difference between the budget deficit of a government and its debt service payments is
  - (a) Fiscal deficit
  - (b) Budget deficit
  - (c) Primary deficit
  - (d) None of the above

The following hypothetical figures relate to country A

₹ Crores

|                                |        |
|--------------------------------|--------|
| Revenue receipts               | 20,000 |
| Recovery of loans              | 1,500  |
| Borrowing                      | 15,000 |
| Other Receipts                 | 5,000  |
| Expenditure on revenue account | 24,500 |
| Expenditure on capital account | 26,000 |
| Interest payments              | 2,000  |

2. The revenue deficit for country A is
  - (a) 5,000
  - (a) 24,000
  - (c) 4,500
  - (d) None of the above
3. Fiscal deficit of country A is
  - (a) 14,000
  - (b) 24,000
  - (c) 23,500
  - (d) None of the above

4. *Primary deficit of Country A is*
  - (a) 26,000
  - (b) 26,500
  - (c) 22,000
  - (d) 24,500
5. *In NITI Aayog, NITI stands for*
  - (a) National Initiative for Transforming India
  - (b) National Institution for Transforming India
  - (c) National Institute for Technology and Innovation
  - (d) None of the above
6. *The Appropriation Bill is intended to*
  - (a) reduce unnecessary expenditure on the part of the government
  - (b) give authority to government to incur expenditure from and out of the Consolidated Fund of India
  - (c) give authority to government to incur expenditure from the revenue receipts only
  - (d) be passed before the budget is taken for discussion
7. *Public debt management aims at*
  - (a) An efficient budgetary policy to avail of domestic debt facilities
  - (b) Raising loans from international agencies at lower rates of interest
  - (c) Raising the required amount of funding at the desired risk and cost levels
  - (d) Management of public expenditure to reduce public debt
8. *The railway budget is*
  - (a) Part of the general budget, but is presented by the railway minister
  - (b) Part of the general budget from the budget for financial year 2017-18.
  - (c) Part of the general budget from the budget for financial year 2021-22
  - (d) Part of the general budget but presented on the next day of the general budget

## 9. Outcome budgeting

- (a) shares information about the money allocated for various purposes in a budget
- (b) establishes a direct link between budgetary allocations and performance targets measured through output and outcome indicators
- (c) establishes a direct link between budgetary performance targets and public account disbursements
- (d) shares information about public policies and programmes under the budget

## 10. Corporate tax

- (a) is collected by the union government and can be a capital receipt or revenue receipt
- (b) may be collected by the respective states and fall under revenue receipts
- (c) may be collected either by the centre or states and fall under revenue receipts
- (d) is collected by the union government and is a revenue receipt

## 11. Government borrowings from foreign governments and institutions

- (a) Capital receipt
- (b) Revenue receipt
- (c) Accounts for fiscal deficit
- (d) Any of the above depending on the purpose of borrowing

The following table relates to the revenue and expenditure figures of a hypothetical economy

In ₹ lakh Crores

|     |                                            |      |
|-----|--------------------------------------------|------|
| (a) | Recovery of loans                          | 5.1  |
| (b) | Salaries of govt. servants                 | 41.1 |
| (c) | Capital Expenditure                        | 45.0 |
| (d) | Interest payments                          | 1.3  |
| (e) | Payments towards subsidies                 | 3.2  |
| (f) | Other receipts (mainly from disinvestment) | 11.6 |
| (g) | Tax revenue (net of states' share)         | 26.3 |
| (h) | Non-tax revenue                            | 12.3 |
| (i) | Borrowings and other liabilities           | 6.8  |
| (j) | States' share in tax revenue               | 11.9 |

12. *The capital receipts are*
- (a) 23.5
  - (b) 19.7
  - (c) 11.3
  - (d) *None of the above*
13. *Revenue deficit is*
- (a) 23.6
  - (b) 13.0
  - (c) 7.0
  - (d) 2.6
14. *The non-debt capital receipts of this country is*
- (a) 45.1
  - (b) 16.7
  - (c) 15.8
  - (d) *None of the above*
15. *A budget is said to be unbalanced when*
- (a) *when government's revenue exceeds government's expenditure*
  - (b) *when government's expenditure exceeds government's revenue*
  - (c) *either budget surplus or budget deficit occurs*
  - (d) *All the above*
16. *Fiscal deficit refers to*
- (a) *the excess of government's revenue expenditure over revenue receipts*
  - (b) *The excess of total expenditure over total receipts excluding borrowings*
  - (c) *Primary deficit - interest payments*
  - (d) *None of these*
17. *Budget of the government generally impacts*
- (a) *the resource allocation in the economy*
  - (b) *redistribution of income and enhance equity*

- (c) *stability in the economy by measures to control price fluctuations*
  - (d) *all the above*
18. *Which of the following is a statement submitted along with the budget as a requirement of FRBM Act*
- (a) *Annual Financial Statement*
  - (b) *Macro -Economic Framework Statement*
  - (c) *Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement*
  - (d) *(b) and (c) above*
19. *Government borrowing is treated as capital receipt because*
- (a) *It is mainly used for creating assets by government*
  - (b) *It creates a liability for the government*
  - (c) *Both a) and b) above are correct*
  - (d) *None of the above is correct*
20. *'Retail Direct 'scheme is*
- (a) *Initiated by the Reserve Bank of India*
  - (b) *facilitate investment in government securities by individual investors.*
  - (c) *Direct sale of goods and services by government departments*
  - (d) *Both (a) and (b) are correct*
21. *Non-debt capital receipts*
- (a) *do not add to the assets of the government and therefore not treated as capital receipts*
  - (b) *are those that do not create any future repayment burden for the government*
  - (c) *are those that create future liabilities for the government*
  - (d) *facilitate capital investments at low cost*
22. *Which of the following is a capital receipt?*
- (a) *Licence fee received*
  - (b) *Sale proceeds from disinvestment*

- (c) Assistance from Japan for covid vaccine
- (d) Dividend from a public sector enterprise
23. Grants given by the central government to state governments is
- (a) A revenue expenditure as it is meant to meet the current expenditure of the states
- (b) A revenue expenditure as it does neither creates any asset, nor reduces any liability of the government
- (c) A capital expenditure because it increase the capital base of the states
- (d) It is a grant and so does not come under revenue expenditure or capital expenditure.
24. Short-term credit from the Reserve Bank to state governments to bridge temporary mismatches in cash flows is known as
- (a) RBI credit to states
- (b) Commercial credit of RBI
- (c) Ways and Means Advances (WMA)
- (d) Short term facility

## ANSWERS

|     |     |     |     |     |     |     |     |     |     |     |     |
|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| 1.  | (c) | 2   | (c) | 3   | (b) | 4.  | (c) | 5.  | (b) | 6.  | (b) |
| 7.  | (c) | 8.  | (b) | 9.  | (b) | 10. | (d) | 11. | (a) | 12. | (a) |
| 13. | (c) | 14. | (b) | 15. | (d) | 16. | (d) | 17. | (d) | 18. | (d) |
| 19. | (b) | 20. | (d) | 21. | (b) | 22. | (b) | 23  | (b) | 24  | (c) |