CHAPTER 5

NATIONAL FINANCE

A **government budget** is a legal document that is often passed by the legislature, and approved by the chief executive- or president. The two basic elements of any budget are the revenues and expenses. In the case of the government, revenues are derived primarily from taxes. Government expenses include spending on current goods and services, which is usually called consumption expenditure government; government investment expenditures such as infrastructure investment or research expenditure; and transfer payments like retirement benefits. Budgets have an economic, political and technical basis. Unlike a pure economic budget, they are not entirely designed to allocate scarce resources for the best economic use. They also have a social basis wherein different sectors of the economy are assessed to generate benefits to the society at a large and avoid burdens. The technical element is the forecast of the likely levels of revenues and expenses.

The budget of the government has an impact on the economy as a whole. Because of its sheer magnitude, receipts and expenditure of the government and various policies that are articulated through the budget are easily the most significant factor that can do change the very nature content and direction of the economy.

The Budget is presented to Lok Sabha on such day* as the President may direct. Immediately after the presentation of the Budget, the following three statements under the Fiscal Responsibility and Budget Management Act, 2003 are also laid on the Table of Lok Sabha:- (i) The Medium Term Fiscal Policy Statement; (ii) The Fiscal Policy Strategy Statement; and (iii) The Macro Economic Framework Statement. Simultaneously, a copy of the respective Budgets is laid on the Table of Rajya Sabha. In an election year, the Budgets may be presented twice—first to secure a Vote on Account for a few months and later in full.

* By convention the Railway Budget is presented sometime in the third week of February at 1200 hours after the Question Hour. The General Budget was presented by convention, till 1998, on the last working day of February at 5 P.M. This convention was however, changed in 1999 when the General Budget was presented at 11 A.M. Since then the General Budget is presented at 11 A.M. on the last working day of February (except in 2000 when it was presented at 2 P.M.).

The Central Budget consists of the following parts.

Revenue Receipts: Revenue receipts consist of tax collected by the government and other receipts consisting of interest and dividend on investments made by government, fees and other receipts for services rendered by government

Revenue expenditure is for the normal day-to-day running of Government departments and various services, interest charged on debt incurred by Government, subsidies, etc. Usually, revenue expenditure covers all the expenditure that does not create assets. However, all grants given to State governments and other parties are also clubbed under revenue expenditure, although some of them may go into the creation of assets.

Capital Receipts: The major items of capital receipts are loans raised by the Government from the public (called market loans).Borrowings by the Government from the Reserve Bank of India (RBI) and other parties through sale of Treasury Bills. Loans received from foreign governments and bodies; and recoveries of loans granted by the Union Government to State governments, Union Territories and other parties

Capital Expenditure / Payments: It comprises of expenditure on acquisition of assets like land, building and machinery, and also investments in shares, etc.; and loans and advances granted by the Union Government to State and Union Territory governments, government companies, corporations and other parties.

Classification of Budget: Information on the working of the budgetary process is obtained from the system of classification. Since such a process has a multitude of functions and objectives, different types of classification are needed, either singly or in a combination to serve the purpose of appropriation, programme management and review, evaluation of plan implementation and financial and economic analysis. Transactions of the government can be classified by

- Objects such as salaries and wages
- Organisation and department
- Functions such as defence, education agriculture etc
- Their economic character such as consumption expenditure, capital formation etc

Economic Classification: It categorizes total government's expenditure into meaningful economic heads like investment, consumption, generation of income, capital formation etc. According to the Economic and Social Council of the United Nations, economic classification provides "an analysis of the transactions of government bodies according to homogeneous economic categories of transactions with the other sectors of the economy directly affected by them. This analysis is contained in a separate document called Economic and Functional classification of the Central Government Budget. It is brought out by Ministry of Finance. A broad categorisation is as follows.

Economic Classification of the Central Government Budget

1 Consumption Expenditure a) Defence b) Other Government Expenditure

2 Transfer Payments (Current) a) Interest Payments b) Subsidies c) Grants to State and Union Territories d) Others

3 Gross Capital Formations of Budgetary Resources

a)Physical Assets b) Financial Assets

4) Others

5) Total Expenditure

The symbols used in this chapter are:

R.E. - Revised Estimates
B.E. - Budget Estimates

Highlights:

- The total receipts of Central Government increased from Rs.192.6thousand crores in 2000-01 to Rs.614.5 thousand crores in 2009-10(B.E).This is an increase of 219%. An increase of 12.8% was observed in total receipts of Central Government in 2009-10 over 2008-09.
- Tax revenue receipts vary from 71% to 82% of total receipts during 2000-01 to 2008-09,
- Subsidy, which usually vary between 9% to 11% during 2000-01 to 2007-08 jumped to around 16% in 2008-09 of revenue expenditure before falling to less than 12% in 2009-10 (B.E. Estimate).
- Although interest payment has increased from 99.3 thousand crores in 2000-01 to 225.5 thousand crores in 2009-10,its share in revenue expenditure has come down from 35.7% in 2000-01 to 25.1% in 2009-10.

- During 2000-01, borrowings and other liabilities was 118.8 crores, which rose to 400.9 crores in 2009-10. The borrowings and liabilities were 89.3 % of capital receipts in 2000-01. The share of borrowings and liabilities has increased to 98.7% in 2009-10(B.E.)
- During the period 2000-01 to 2009-10, contribution of Plan expenditure to total expenditure increased from 25.3% to 31.8%.
- Import duty is major contributor to custom revenue. During the period 2000-01 to 2009-10, the share of Import duty in custom revenue varies between 95% to 98%. Import duty which was 46.5 thousand crores in 2000-01, rose to 80.6 thousand crores in 2009-10.
- Revenue from Union Excise duty has increased from 68.6 thousand crores in 2000-01 to 102.9 thousand crores in 20009-10.
- Corporation tax has increased from 3.57 thousand crores in 2000-01 to 21.3 thousand crores in 2008-09
- Receipts under Income Tax have increased from 3.2 thousand crores in 2000-01 to 10.3 thousand crores in 2008-09.
- Profits from Departmental Commercial Undertakings has increased by only 9.3% from 2000-01 to 2008-09.
- Dividends paid by Non-departmental commercial undertakings have increased from 3.3 thousand crores in 2000-01 to 24.7 thousand crores in 2008-09.
- Interest received from States and Union territories has come down from 22.9 thousand crores in 2000-01 to 11.8 thousand crores in 2008-09.
- Wages and salaries of Government Administration have increased from 33.8 thousand crores in 2000-01 to 56.5 thousand crores in 2008-09.
- Grants to State and Ut's have increased from 24.5thousand crores in 2000-01 to 81.6 thousand crores in 2008-09.
- During 2000-01 to 2008-09 receipts from Railways including manufacturing activity of railways workshops and production units has increased from 41.1 thousand crores to 96.5 thousand crores.
- Grants for capital formation to States and Union territories are increasing since 2000-01. It has increased from 13.1thousand crores in 2000-01 to 39.8 thousand crores in 2008-09.
- Market loans as specified in Capital Account of Government Administration and Departmental Commercial Undertakings has come down from 156 thousand crores in 2007-08 to 145 thousand crores in 2008-09. Repayment of market loans has also come down from 45.3 thousand crores in 2007-08 to 44.5 thousand crores during the same period.
- Net increase in financial liability has come down from 141.3 thousand crores in 2007-08 to 119.9 thousand crores in 2008-09.
- Net increase in financial assets has come down from 13.5 thousand crores in 2007-08 to 2.5 thousand crores in 2008-09.

This chapter contains the following tables:

Table 5.1 - Budgetary position of the Government of India
Table 5.2- Revenue from Customs Duties
Table 5.3-Revenue from Union Excise Duties
Table 5.4-Receipts under Corporation Tax
Table 5.5-Receipts under Income Tax
Table 5.6- Economic Classification of the Central Budget