The making of Budget.

Handwritten notes by CA Pooja Datte -CA Foundation

Please also refer class notes / modules

Unit :- Budget making and its Concepts.

Budget :- Budget is a powerful policy instrument

It tables/gives proposed exp and proposed

BUDGET
FINANCE
SAVING
CASH
FUND
COUNTING
1.
2.
3.
EXPENSES

Types of budget.

Balanced Budget
Exp = Revenue

Unbalanced Budget.
Exp ≠ Revenue

- Surplus Budget
  Exp are less than Revenue
- Deficit Budget.
  Exp are more than revenue

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Budget prepared by MoF + NITI Aayog NITI Aayog

NITI - National Institute for Transforming India

Budget division sends Budget circular
↓
ministries, states, UT,
asking detailed estimates of expenditure
↓
Suggestions on Budget.
↓ MOF
then presented in Lok Sabha
↓
Budget Speech is in 2 parts
→ Part A present macro-economic situation, estimates of next FY exp allocations for diff sectors and fresh schemes
→ Part B :- Govt tax proposals

Annual Financial Statements (AFS)
CFI, Contigency Fund, Public Accounts
+

documents → (i) AFS
(ii) Demand for grants (DG)
(iii) Finance Bill
(iv) Statements as per FRBM Act
a) Macro Economic Framework Stat.
b) Medium Term Fiscal Policy cum Fiscal Policy Strategy Statement.
(v) explanatory statements.

FRBM
Fiscal Responsibility & Budget Mgt Act

Emoluments of President and SC judges are mentioned seperately in budget but are not subject to vote. They are to be spent from CFI

Budget discussions

- First there is discussion on **general budget.** and then Parliament is adjourned
- then demand for grants of various ministries are discussed by standing committees.
- After the reports on DG are submitted voting on DG takes place. in Lok Sabha
- Lok Sabha can **cut / reduce any demand** for grants.
- Budget is tabled in Rajya Sabha. In Rajya Sabha general discussion on budget is done and no voting of DG
- After budget discussions and voting of DG, govt introduces the appropriation Bill. **Appropriation bill** gives **authority to govt** to make exp from CFI
- Motions for reductions for DG are made in the form of **'cut motions'**
- After appropriation bill, Finance bill is taken up for consideration
- Parliament has to pass the bill within **75 days** of its introduction
- **Guillotine** - discussion on DG is put for voting only with specified time.
- After Lok Sabha Finance bill presented → Rajya Sabha
- Rajya Sabha has 14 days to return the money bill with or without recomendations.
- These recommendations may be accepted or rejected by Lok Sabha
- Since 2017-18 budget date has been advanced to 1st February.
- Also since 2017-18 railway budget was merged with general budget

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Govt Receipts

- **Revenue Receipts**
  - **Tax Rec**
    - Corporation Tax
    - Income Tax
    - Customs duties
    - Excise duties
    - GST
    - Tax on UT
  - **non Tax Receipts**
    - interest
    - profits from PSU
    - surplus from RBI
    - other non tax Receipts
    - Receipts of UT
    - schools, hospitals, transport, railways, other economic activity generate income
- **Capital Rec**
  - a
  - affect blanancesheet
  - **Non Debt Receipts**
    - recovery of loan
    - disinvestment
  - **Debt Receipts**
    - market loans
    - short term borrowings.
    - external debt
    - state PF
    - other receipts

Corporation Tax = Corporate Tax
It is income tax paid by Companies.
It is collected by union govt.

Capital Receipts = ↓ in assets
↑ in liability

eg sale of asset. disinvestment.
recovery of loans given
receiving loan from other

Revenue Receipt - they neither cause any liability or any reduction in asset.
Govt has 2 sources (i) Tax revenue
(ii) non tax revenue

Revenue Exp exp for
(i) normal functioning of govt.
(ii) interest payment (on debt)
(iii) payment of grants to states / UT / others

Capital Expenditure = exp which result in ~~it~~ creation of assets or reduction of liability. eg acquisition of Land / Build
invest in shares
repayment of loans.

Public Debt Management

Debt ≡ Loans

- Debts
  - Internal debt - Domestic debt
  - External debt
- Public Debt Management is crucial to achieve macro economic stability
- Debt Management is based on 3 pillars

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(i) low cost of borrowing (ii) risk mitigation
(iii) market development

→ Domestic Debt managed by → **IDMD of RBI**
External Debt managed by → Dept of Economic Affairs in MOF
There is a PDMC under Dept of Economic Affairs.

IDMD = Internal Debt Management Dept

→ Internal Debt (from public)

Treasury Bills → Short Term Cash Requirements of Govt

dated Securities → are issued to mobilise longer term resources to finance fiscal deficit

Ways and Means Advance (WMA) → RBI $\xrightarrow{\text{short term } \cancel{\text{credit}}}$ State Govt
upto 3m
↓
to meet temporary mismatches in cash flow

→ External Debt → loans from Asian Development Bank / International Banks
→ long term and fixed int rate
↓
risk is depreciation in value of domestic currency

→ RBI announced **RBI Retail Facility** on 5th Feb 2021 to ↑ retail participation in G-sec (more investors through online access)

G-Sec = Govt Securities

Some more terms to be read from notes / ICAI module

Outcome budget

Consolidated Fund of India

Contingency Fund of India

Public Account

Insert text here

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① Deficit = Exp − Income
Rev Deficit = Rev Exp − Rev Income

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$$\text{Fiscal Deficit} = \underbrace{\text{Total Exp}}_{\text{Rev Exp} + \text{Cap Exp}} - \underbrace{\text{Total Receipt (excluding borrowing)}}_{\text{Rev Rec} + \text{Cap Receipt}}$$

$$\text{Fiscal Deficit} = \text{Rev exp} + \text{Cap Exp} - \left[\text{Rev Receipts} + \text{Cap receipts excluding borrowing}\right]$$

$$= \text{Rev Exp} - \text{Rev Receipt} + \text{Cap Exp} - \text{Cap Receipts}$$

$$= \text{Rev Deficit} + \text{Cap Exp} - \text{Cap Receip excl borrowing}$$

Fiscal deficit indicates governments borrowing requirement. Fiscal deficit ≡ Budget deficit.
It is indicated as % of GDP

Primary deficit = Fiscal deficits − Interest Payment.

Int payment means debt service payments