



# PUBLIC BUDGET

**Department of Economics  
Poornaprajna College, Udupi**

# 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.

# Features of Budget

- ✓ Comprehensiveness
- ✓ Equilibrium or balance
- ✓ Annuality

✓ Flexibility

✓ Accuracy

✓ Objectivity

# 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

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

# Ideal Budget

- **Monetary terms**
- **Fixed period**
- **Practical**
- **Objective**

- **Drawing up**
- **Flexible**
- **Standards of performance**
- **Analysis**
- **Monitoring**