Government Budgetting

A budget (derived from old French word *bougette*, i.e. purse) is a quantified financial plan for a forthcoming accounting period. A budget is an important concept in microeconomics, which uses a budget line to illustrate the trade-offs between two or more goods. In other terms, a budget is an organizational plan stated in monetary terms.

Government budgeting is not just a presentation of Annual Financial statement, but it also reflects different policies adopted/proposes to adopt by the govt to mobilize resources, increase growth and implement various activities which promote inclusiveness, improvement of human development and infrastructure and sectoral developments.

The government budget is prepared by the Budget Division of Department of Economic Affairs of the Ministry of Finance annually which is preceded by the Economic Survey for the year which is presented in the Parliament, one day before the Budget presentation. The Budget includes supplementary excess or less grants. The railway budget is presented separately by the Ministry of Railways.

Annual Financial Statement (AFS), the document as provided under Article 112 of the Constitution, shows estimated receipts and expenditure of the Government of India for 2014-15 in relation to estimates for 2013-14 as also expenditure for the year 2012-13. In other words, the accounts (audited) for 2012-13, Revised estimates for 2013-14 and Budget estimates for the forthcoming year 2014-15 will be simultaneously presented. The receipts and disbursements are shown under the three parts, in which Government Accounts are kept viz.,(i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account. Under the Constitution, Annual Financial Statement distinguishes expenditure on revenue account from other expenditure. Government Budget, therefore, comprises Revenue Budget and Capital Budget. The estimates of receipts and expenditure included in the Annual Financial Statement are for the expenditure net of refunds and recoveries, as will be reflected in the accounts.

Consolidated Fund of India (CFI) flows from Article 266 of the Constitution. All revenues received by Government, loans raised by it, and also its receipts from recoveries of loans granted by it form the Consolidated Fund. All expenditure of Government is incurred from the Consolidated Fund of India and no amount can be drawn from the Consolidated Fund without authorization from the Parliament.

(ii) Article 267 of the Constitution authorizes **the Contingency Fund** of India which is an imprest placed at the disposal of the President of India to facilitate Government to meet urgent unforeseen expenditure, pending authorization from the Parliament. Parliamentary approval for such unforeseen expenditure is obtained, post-facto, and an equivalent amount is drawn from the Consolidated Fund to recoup the Contingency Fund. The corpus of the Contingency Fund as authorized by Parliament presently stands at Rs.500 crore.

(iii) Moneys held by Government in Trust as in the case of Provident Funds, Small Savings collections, income of Government set apart for expenditure on specific objects like road development, primary education, Reserve/Special Funds etc. are kept in **the Public Account.** Public Account funds do not belong to Government and have to be finally paid back to the persons and authorities who deposited them. Parliamentary authorization for such payments is, therefore, not required, except where amounts are withdrawn from the Consolidated Fund with the approval of Parliament and kept in the Public Account for expenditure on specific objects, in which case, the actual expenditure on the specific object is again submitted for vote of Parliament for drawl from the Public Account for incurring expenditure on the specific object.

(iv) **Revenue Budget** consists of the revenue receipts of Government (tax revenues and other Non-Tax revenues) and the expenditure met from these revenues. Tax revenues comprise proceeds of taxes and other duties levied by the Union. The estimates of revenue receipts shown in the Annual Financial Statement take into account the effect of various taxation proposals made in the Finance Bill. Other receipts of Government mainly consist of interest and dividend on investments made by Government, fees, and other receipts for services rendered by Government. Revenue expenditure is for the normal running of Government departments and various services, interest payments on debt, subsidies, etc. Broadly, **the expenditure which does not result in creation of assets for Government of India is treated as revenue expenditure.** All grants given to State Governments/Union Territories and other parties are also treated as revenue expenditure even though some of the grants may be used for creation of assets.

(v) **Capital Budget** consists of capital receipts and capital payments. The capital receipts are loans raised by Government from public, called market loans, borrowings by Government from Reserve Bank and other parties through sale of Treasury Bills, loans received from foreign Governments and international organizations, disinvestment receipts and recoveries of loans from State and Union Territory and other parties. Capital payments consist of capital expenditure on acquisition of assets like land, buildings, machinery, equipment, as also investments in shares, etc., and loans and advances granted by Central Government to State and Union Territory Governments, Government companies, Corporations and other parties.

Appropriation Bill

Under Article 114(3) of the Constitution, no amount can be withdrawn from the Consolidated Fund without the enactment of such a law by Parliament. After the Demands for Grants are voted by the Lok Sabha, Parliament's approval to the withdrawal from the Consolidated Fund of the amounts so voted and of the amount required to meet the expenditure charged on the Consolidated Fund is sought through the Appropriation Bill. The whole process beginning with the presentation of the Budget and ending with discussions and voting on the Demands for Grants require sufficiently long time. The Lok Sabha is, therefore, empowered by the Constitution to make any grant in advance in respect of the estimated expenditure for a part of the financial year pending completion of procedure for the voting of the Demands. The purpose of the **'Vote on Account'** is to keep Government functioning, pending voting of 'final supply'. The Vote on Account is obtained from Parliament through an Appropriation (Vote on Account) Bill.

Finance Bill

At the time of presentation of the Annual Financial Statement before Parliament, a Finance Bill is also presented in fulfillment of the requirement of Article 110 (1)(a) of the Constitution, detailing the imposition, abolition, remission, alteration or regulation of taxes proposed in the Budget. A Finance Bill is a Money Bill as defined in Article 110 of the Constitution. It is accompanied by a Memorandum explaining the provisions included in it.

Performance-based budgeting is the practice of developing budgets based on the relationship between program funding levels and expected results from that program. The performance-based budgeting process is a tool that program administrators can use to manage more cost-efficient and effective budgeting outlays.

At the end of the year, budget figures are compared with actual results and a simple actual-budget variance comparison is calculated. Since the analysis is simple, this analysis lacks any sophistication in terms of adjusting similar budget items for forthcoming periods by increasing or decreasing the expenditure estimates. Basically, variance results are generally used for revising monetary amounts for the next planning and budgeting cycle, and also for very simple departmental performance tracking.

Outcome Budget

(i) With effect from Financial Year 2007-08, the Performance Budget and the Outcome Budget hitherto presented to Parliament separately by Ministries/Departments, are merged and presented as a single document titled "Outcome Budget" by each Ministry/Department in respect of all Demands/Appropriations controlled by them, except those exempted from this requirement. Outcome Budget broadly indicates physical dimensions of the financial budget of a Ministry/Department, indicating actual physical performance in the preceding year (2012-2013), performance in the first nine months (up to December) of the current year (2013-2014) and the targeted performance during the ensuing year (2014-2015).

(ii) Outcome Budget contains a brief introductory note on the organization and function of the Ministry/Dept., list of major programmes implemented by the Ministry, its mandate, goal and frame work, budget estimates, scheme-wise analysis of physical performance and linkage between financial outlays and outcome, review covering over all trends in expenditure vis-à-vis budget estimates I recent years. Review of performance of statutory and autonomous bodies, reform measures, targets and achievements and plan for future refinements.

(iii) As far as feasible, coverage of women and SC/ST beneficiaries under various development schemes and schemes for the benefit of NE region.

Zero-based budgeting is an approach to planning and decision-making that reverses the working process of traditional budgeting. In traditional incremental budgeting, departmental managers justify only variances versus past years, based on the assumption that the "baseline" is automatically approved. By contrast, in zero-based budgeting, every line item of the budget must be approved, rather than only changes. During the review process, no reference is made to the previous level of expenditure. Zero-based budgeting requires the budget request be re-evaluated thoroughly, starting from the zero-base. This process is independent of whether the total budget or specific line items are increasing or decreasing.

Union Budget-2014-15

Vote on Account Budget: The Indian Constitution provides that all revenues received by the Union government and the loans raised by it are to be put into the Consolidated Fund of India. This does not include anything that is put into a Contingency Fund. Since Parliament is not able to vote the entire budget before the commencement of the new financial year (like now in 2014-15, with elections round the corner), it is necessary to keep enough money at the disposal of government to allow it to run the administration of the country for a short period of at least up to 5 to 6 months.

Budget figures for 2014-15, Vote-on-Account Budget approved by Parliament in February, 2014 are shown below :-

Budget at a Glance 2014-15(Vote-on-Acct) (Rs in Crores)

S.No	Content	2012-13(Accts)	2013-14 (Revised Estimates)	2014-15 (Budget Estimates)
1	Tax Revenue	7,40,256	8,36,026	9,86,417
2	Non-Tax Revenue	1,37,257	1,93,226	1,80,714
3	**Tot Rev.Receipts(1+2)**	**8,77,613**	**10,29,252**	**11,67,131**
4	Capital Receipts	5,32,754	5,61,182	5,96,083
5	**Total Receipts(3+4)**	**14,10,367**	**15,90,434**	**17,63,214**
6	Non Plan Expenditure	9,96,742	11,14,902	12,07,892
7	Plan Expenditure	4,13,625	4,75,532	5,55,322
8	**Total Expenditure**	**14,10,367**	**15,90,434**	**17,63,214**
9	**Revenue Deficit**	**3,65,896 (3.6)**	**3,70,288 (3.3)**	**3,82,923 (3.0)**
10	**Fiscal Deficit**	**4,90,597 (4.9)**	**5,24,539 (4.6)**	**5,28,631 (4.1)**
11	**Primary Deficit**	**1,77,428 (1.8)**	**1,44,473 (1.3)**	**1,01,626 0.8)**

The total receipts under Budget estimates 2014-15 is Rs 17,63,214 crores of which the total Revenue receipts are Rs 11,67,131 crores and capital receipts are Rs 5,96,083 crores. The total proposed Non-Plan Expenditure is Rs 12,07,892 crores and Plan Expenditure proposed is Rs 5,55,322 crores for 2014-15.

Budget Highlights 2014-15 (Vote-on-Account)

STATE OF ECONOMY

- The fiscal deficit for 2013-14 contained at 4.6 percent.
- The current account deficit projected to be at USD 45 billion in 2013-14 down from USD 88 billion in 2012-13. It is narrowed to 1.7 per cent of GDP in the last quarter of 2013-14 as against 4.8 per cent in the previous year.
- Foreign exchange reserve to grow by USD 15 billion in the Financial Year – 2013-14.

Agriculture

- Agricultural sector has performed remarkably well. Food grain production estimated for the current year is 263 million tonnes compared to 255.36 million tonnes in 2012-13. This resulted in spite of adverse conditions like cyclones affected in A.P.
- Agriculture exports likely to cross USD 45 billion higher from USD 41 billion in 2012-13.
- Agricultural credit to exceed the target of Rs.7 lakh crores, which is remarkably very high.

Manufacturing

- The sluggish import is a matter of concern for manufacturing and domestic trade sector.
- Due to deceleration in investment, the manufacturing sector has witnessed a sluggish growth.
- The National Manufacturing Policy has set the goal of increasing the share of manufacturing in GDP to 25 percent and to create 100 million jobs over a decade.
- 8 National Investment and Manufacturing Zones (NIMZ) along Delhi Mumbai Industrial Corridor (DMIC) have been announced. 9 Projects had been approved by the DMIC trust.
- 3 more Industrial Corridors connecting Chennai and Bengaluru, Bengaluru and Mumbai & Amritsar and Kolkata are under different stages of preparatory works.

Infrastructure

- In 2012-13 and in nine months of 2013-14, 29, 350 MW of power capacity, 3, 928 Kms of National Highways, 39, 144 Kms of Rural Roads, 3,343 Kms of New Railway track and 217.5 milliion tonnes of capacity per annum in our ports have been created to give a big boost to infrastructure industries.
- 19 Oil and Gas blocks were given out for exploration and 7 new Air ports are under construction.
- Infrastructure debt funds have been promoted to provide finances for infrastructure Projects.

Social Sector Initiative

- A Venture Capital Fund to provide concessional finance to Scheduled Caste will be set up by IFCI with an initial capital of ` 200 crore which can be supplemented every year.
- The restructured ICDS, under implementation in 400 districts, will be rolled out in remaining districts from 1.4.2014.
- A National Agro-Forestry Policy 2014 has been approved. A mechanism for marketing minor Forest produce has been introduced and an allocation of ` 444.59 crore has been made to continue the Scheme in 2014-15.
- A new Plan Scheme with an allocation of 100 crore has been approved to promote community radio stations.

GST and DTC

Government appeals to all political parties to resolve to pass the GST Laws and the Direct Tax Code in 2014-15

Changes in Tax Rates

Following changes in some indirect tax rates are proposed :

- States to partner in development so as to enable the Centre to focus on Defense, Railways, National Highways and Tele-communication.

- To give relief to the Automobile Industry, which is registering unprecedented negative growth, the excise duty is reduced for the period up to 30.06.2014 as follows: Small Cars, Motorcycle, Scooters - from 12 % to 8% and Commercial Vehicles.

- SUVs - from 30% to 24% Large and Mid-segment Cars - from 27/24% to 24/20% It is also proposed to make appropriate reductions in the excise duties on chassis and trailers – The rates can be reviewed at the time of regular Budget.

- The Excise Duty on all goods falling under Chapter 84 & 85 of the Schedule to the Central Excise Tariff Act is reduced from 12 percent to 10 percent for the period up to 30.06.2014. The rates can be reviewed at the time of regular Budget.

- To encourage domestic production of mobile handsets, the excise duties for all categories of mobile handsets is restructured. The rates will be 6% with CENVAT credit or 1 percent without CENVAT credit.

- To encourage domestic production of soaps and oleo chemicals, the custom duty structure on non-edible grade industrial oils and its fractions, fatty acids and fatty alcohols is rationalized at 7.5 percent.

- To encourage domestic production of specified road construction machinery, the exemption from CVD on similar imported machinery is withdrawn. A concessional custom duty 5 percent on capital goods imported by the Bank

Space

- India joined a handful of countries when it launched the Mars Orbiter Mission.
- The Country has acquired capability in launch vehicle technology, cryogenics and navigation , meteorological and communication satellites.
- Several flight tests, navigational satellites and space missions are planned for 2014-15 Redeeming promises

Funding Scientific Research

- It is proposed to set up a Research Funding Organization that will fund Research Projects selected through a competitive process. Contribution to that organization will be eligible for tax benefits. The required legislative changes can be introduced at the time of regular Budget.

Plan and Non-Plan Expenditure

In order to sustain the pace of plan expenditure, Government provided plan expenditure in 2014-15 at the same level at which it was budgeted in 2013-14, i.e. Rs. 5,55,322 crore for plan expenditure. The non-plan expenditure in the Budget estimates is to the tune of Rs.12,07,897 crores. Major components under non-plan expenditure are covering salaries, subsidies and defence expenditure. While the plan expenditure essentially covers development expenditure and on asset formation. All the ministries/departments that run key flagship programmes have been provided funds in 2014-15 as follows:

- Ministry of Minority Affairs .. ` Rs.3,711 crore
- Ministry of Tribal Affairs .. Rs.4,379 crore
- Ministry of Housing & Poverty Alleviation .. Rs.6,000 crore
- Ministry of Social Justice & Empowerment .. Rs.6,730 crore
- Ministry of Panchayati Raj .. ` Rs.7,000 crore
- Ministry of Drinking Water & Sanitation .. Rs.15,260 crore
- Ministry of Women & Child Development .. Rs.21,000 crore
- Ministry of Health & Family Welfare .. Rs.33,725 crore
- Ministry of Human Resource Development .. Rs.67,398 crore
- Ministry of Rural Development .. Rs.82,202 crore

Fiscal deficit is an economic phenomenon, where the Government's total expenditure surpasses the revenue generated . It is the difference between the government's total receipts (excluding borrowing) and total expenditure. Fiscal deficit gives the signal to the government about the total borrowing requirements from all sources.

In India, the fiscal deficit is financed by obtaining funds from Reserve Bank of India, called deficit financing. The fiscal deficit is also financed by obtaining funds from the money market (primarily from banks within and outside India.). According to the view of renowned economist John Maynard Keynes, fiscal deficits facilitate nations to escape from economic recession. From another point of view, it is believed that government need to avoid deficits to maintain a balanced budget policy.

According to FRBM Act, Governments can obtain loans from open market up to 3% of GDP and over and above the ceiling i.e a fiscal deficit above 3.0% per annum is likely to cause more inflationary trends. India's fiscal deficit which was 4.9 per cent in 2012-13 has come down to 4.6 in 2013-14 and projected in the current budget to 4.1 in the Budget 2014-15, which is in tune with the road map given by Kelkar's Committee to achieve fiscal stability by 2016-17.

Revenue deficit occurs when the actual amount of expenditure and actual amount of received revenue do not tally with the anticipated expenditure and revenue figures. Unlike revenue surplus, where the actual amount surpasses the estimated amount, revenue deficit falls short of the anticipated amount to be obtained.

primary deficit is the deficit which is derived after deducting the interest payments component from the total deficit of any budget. In other words, the total of primary deficit and interest payments makes up the total or fiscal deficit. The opposite of a primary deficit is a **primary surplus**.

Major Subsidies

Major subsidies in the Revised Estimates for 2013-14 have increased to Rs.2,45,452 crore as compared to the Budget Estimates of Rs.2,20,972 crore. The major part of increase has come from petroleum subsidies that went up from ` 65,000 crore in BE 2013-14 to ` 85,480 crore in RE 2013-14. Major subsidies are budgeted at ` 2,46,397 crore in BE 2014- 15. Total subsidies are at 2.2 per cent of GDP in RE 2013-14 and are budgeted to be at 1.9 per cent of GDP in 2014-15. Going forward, it is expected that with policy reforms and better targeting the expenditure on major subsidies will be coming down to 1.8 per cent and 1.6 per cent of GDP in FY 2015-16 and2016-17 respectively.

Major subsidies are extremely critical from the view point of fiscal consolidation and are the most important factor in determining the success of Government in meeting its fiscal targets. The effort of Government would be to address this issue with a two pronged strategy. Firstly, the Government will have to align the pricing policy for subsidized goods to ensure that the total subsidies remain within the affordable levels. Secondly, it is extremely essential to ensure that proper systems are put in place for better targeting of subsidies provided by Government.

To improve targeting of subsidies, Government has embarked upon an ambitious programme to directly transfer government benefits into Aadhar linked bank accounts of beneficiaries using the UID platform. Although, currently the scheme is at a pilot stage covering limited schemes in limited districts, once the pilot is found to be satisfactory, the system can be expanded nationwide to various transfers of benefits. Since the system is based on the UID platform to begin with, it will ensure that transfers to duplicate beneficiaries and non-existent beneficiaries will be eliminated from inception. Even the issue of eligibility can be much easily tackled in due course.

On the pricing issue, especially on petroleum, side the most important commodity which poses the greatest risk to the fiscal consolidation process is diesel. The basic problem with diesel pricing that the Government has been facing is that any delay in price correction makes further required price corrections steeper and hence even more difficult. This triggers a vicious cycle of high subsidy and rigidity in the administered prices. To resolve this issue, after affecting a substantial price hike of ` 5 per litre, Government has allowed Oil Marketing Companies to apply a ‘small’ price corrections on a frequent basis. This approach will ensure that the consumer will not feel the pinch of upward revisions as revisions will be small and at the same time it will help the Government move towards eventual decontrol. It will also ensure that the impact of diesel price increase on inflation is minimised. If there are no international shocks in the oil sector, it is expected that in a year or two the Government will be able to decontrol diesel fully.

On fertilizers, Nutrient Based Subsidy regime has been working well in the P&K sector. What is now urgently required are certain pricing reforms in the urea sector with an immediate price correction for urea. The subsidy on N-Based fertilizers amounts to Rs.45,000 crores. This is not only essential from viewpoint of the size of the subsidy bill but also from the viewpoint of balanced use of N,P&K nutrients. Over long term, Government will be working towards increase in indigenous production of fertilizers which will help reducing dependence on imports and make prices much more stable.

The food subsidy regime, in the coming years, will have to undergo a massive overhaul with introduction of Food Security Act. Along with the legislation coming into force, Government will have to focus on strengthening of public distribution systems, better tracking of delivery chain, reduction in administrative costs of FCI and other entities involved and other related reforms. The Food subsidy amounts to Rs.1,15,000 crores in the budget.

As already explained without focused subsidy reforms, the process of fiscal consolidation will be next to impossible. The expenditure of Government on major subsidies is expected to come down from 2.2 per cent of GDP in 2013-14 RE to 1.9 per cent of GDP in 2014-15. It is expected with active policy reforms the incidence will progressively reduce. Over the projection period it has been proposed to contain at 1.8 per cent and 1.6 per cent of GDP in 2015-16 and 2016-17 respectively.

Questions :

1. The Budget 2014-15 was presented at a time when the World Countries have not yet been fully recovered from the economic recession. Do you think that there are adequate measures in the Union Budget 2014-15, that would propel growth and raise the economy of the country ?

2. Revenue deficit in the Budget from year to year making the governments helpless, except borrowing money from the open market. What measures would help the government to make surplus budgets and save from debt trap ?