

Government Budget

1. What is a Government Budget?

A **government budget** is a **financial statement** that shows:

- **How much money the government expects to earn**, and
- **How much does it plan to spend** during a financial year (**1 April to 31 March**).

Trick: Think of it like a **family's monthly budget**, but at the national level.

2. Union Budget in India

- The **Union Budget** is the **annual budget of the Central Government**.
- It is presented by the **Finance Minister** in Parliament.
- **Constitutional basis:**
 - **Article 112** – Annual Financial Statement.

Why is the Budget important?

- Decides **tax rates**
- Determines **government spending** on:
 - Education, health, defence, infrastructure
- Influences:
 - **Economic growth**
 - **Inflation**
 - **Fiscal discipline**

3. Types of Government Budgeting (Explained Simply)

1. Line-Item Budgeting

- Oldest and simplest method.
- Money is allocated **item-wise** (salary, rent, fuel, stationery).
- Example: ₹100 crore for salaries, ₹50 crore for office expenses
- Focus is on **how much is spent**, not **what result is achieved**.

2. Performance Budgeting

- Introduced to improve efficiency.
- Links **money spent** with **work done**.
- Example: ₹200 crore spent → build 500 km of roads
- Focus is on **performance and outcomes**, not just spending.

3. Zero-Based Budgeting (ZBB)

- Introduced in **1987–88** in India.
- Every year, **each scheme is reviewed from zero**.
- No automatic continuation of old schemes.
- Example: A scheme must justify **why it needs funds again**.
- Helps remove **wasteful and obsolete schemes**.

4. Outcome Budgeting

- Introduced in **2005** (strengthened in 2017–18).
- Focuses on **results achieved**, not just money spent.
- Example: Spending on health → reduction in infant mortality
- Emphasis on **measurable outcomes**.

5. Gender Budgeting

- Introduced in **2005–06**.
- Examines how budget allocations **impact women**.
- Example: Schemes for women's education, health, and safety
- Focus is on **Gender equality and women's empowerment**.

4. Types of Budget (Based on Receipts & Expenditure)

1. Balanced Budget

- Government income = Government expenditure.
- Ideal situation, but **rare in practice**.

2. Surplus Budget

- Income > Expenditure.
- Used to control **inflation** and reduce public debt

3. Deficit Budget

- Expenditure > Income.
- Most common in developing countries like India.
- Used to boost **economic growth**.

5. Types of Budget Deficit

1. Revenue Deficit

Meaning:

- When **revenue expenditure > revenue receipts**
- Formula: Revenue Deficit = Revenue Expenditure – Revenue Receipts
- Indicates the government is spending on **consumption**, not asset creation
- Example: Salaries, subsidies, interest payments

2. Effective Revenue Deficit (ERD)

- **Introduced:** 2012–13
- Revenue deficit after removing grants used to create assets.
- Formula: $ERD = \text{Revenue Deficit} - \text{Grants for Capital Assets}$
- Shows the **actual consumption spending** of the government.

3. Fiscal Deficit (Most Important)

- Total borrowing requirement of the government.
- Formula: $\text{Fiscal Deficit} = \text{Total Expenditure} - (\text{Revenue Receipts} + \text{Non-debt Capital Receipts})$
- Indicates how much the government must **borrow**.
- High fiscal deficit → higher public debt.

4. Primary Deficit

- Fiscal deficit after removing interest payments.
- Formula: $\text{Primary Deficit} = \text{Fiscal Deficit} - \text{Interest Payments}$
- Shows the current government's borrowing excluding past loan burden.

5. Monetised Deficit

- When the government borrows from the **RBI**.
- Leads to an increase in the **money supply** and possible **inflation**

6. Summary Table

Concept	Simple Meaning
Budget	Annual income & spending plan
Revenue Deficit	Spending more on daily expenses
Fiscal Deficit	Total borrowing needed
Primary Deficit	Borrowing without an interest burden
ZBB	Start budgeting from zero
Outcome Budget	Focus on results

7. Note

- **Fiscal Deficit = Borrowing**
- **Revenue Deficit = Consumption spending**
- **Zero-Based Budgeting = No automatic funding**
- **Outcome Budget = Result-oriented**

- **Gender Budgeting = Women-focused planning**

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