

# Budget process and Key terms

February 1, 2019

## Manifest pedagogy

In the budget process, AE, BE and RE are important to understand the objectives, policies and programmes and their performance. Budget is a focus area in mains and types of budgeting such as zero based, outcome based budgeting, gender budgeting etc are important for prelims.

## In news

Union Budget

## Placing it in syllabus

Government Budgeting

## Static dimensions

1. [FRBM Act](#)
2. Key terms
3. Types of deficits

## Current dimensions

1. Vote on Account
2. [UBI](#)
3. [Back series of GDP](#)
4. Jobless growth
5. [Agriculture distress](#)

## Content

Important articles and type of accounts

The Annual financial statement in the Article 112 of the Constitution of India is commonly known as the Union Budget of India. It includes capital account and revenue account. The President of India fixes the date of the Budget presentation by the finance minister.

The receipts and disbursements are shown under three parts in which Government Accounts are kept viz.,

(i) The Consolidated Fund of India.

(ii) The Contingency Fund of India and

(iii) The Public Account of India.

### **The Annual Financial Statement (AFS)**

**It is the document as provided under Article 112, which shows the estimated receipts and expenditure of the Government of India for a particular year.**

**The Annual Financial Statement** distinguishes the **expenditure on revenue account from the expenditure on other accounts**, as is mandated in the Constitution of India. The Revenue and the Capital sections together, therefore make the Union Budget. The estimates of receipts and expenditure included in the Annual Financial Statement are for expenditure net of refunds and recoveries. The Union Government Finance Accounts also reflect expenditure in a similar manner.

### **Demands for Grants**

Article 113 of the Constitution mandates that the estimates of expenditure from the Consolidated Fund of India included in the Annual Financial Statement and required to be voted by the Lok Sabha, be submitted in the form of Demands for Grants. The Demands for Grants are presented to the Lok Sabha along with the Annual Financial Statement. Generally, one Demand for Grant is presented in respect of each Ministry or Department.

However, more than one Demand may be presented for a Ministry or Department depending on the nature of expenditure. With regard to Union Territories without Legislature, a separate Demand is presented for each of such Union Territories.

Each Demand initially gives separately the totals of;

1. 'voted' and 'charged' expenditure;
2. The 'revenue' and the 'capital' expenditure and
3. The grand total on gross basis of the amount of expenditure for which the Demand is presented. This is followed by the estimates of expenditure under different major heads of account.

## **Finance Bill**

At the time of presentation of the Annual Financial Statement before the 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. It also contains other provisions relating to Budget that could be classified as Money Bill. 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.

## **Statements mandated under [FRBM Act](#)**

1. Macro-Economic Framework Statement
2. Fiscal Policy Strategy Statement
3. Medium-Term Fiscal Policy Statement

## **Expenditure Budget**

The provisions made for a scheme or a programme may be spread over a number of Major Heads in the Revenue and Capital sections in a Demand for Grants. In the Expenditure Budget, the estimates made for a scheme/programme are brought together and shown on a net basis on Revenue and Capital basis at one

place.

## **Receipts Budget**

This document provides details of tax and non-tax revenue receipts and capital receipts and explains the estimates. The document also provides a statement on the arrears of tax revenues and non-tax revenues, as mandated under the Fiscal Responsibility and Budget Management Rules, 2004. Trend of receipts and expenditure along with deficit indicators, statement pertaining to National Small Savings Fund (NSSF), Statement of Liabilities, Statement of Guarantees given by the government, statements of Assets and details of External Assistance are also included in Receipts Budget. This also includes the Statement of Revenue Impact of Tax Incentives under the Central Tax System which seeks to list the revenue impact of tax incentives that are proposed by the Central Government.

This document also shows liabilities of the Government on account of securities (bonds) issued in lieu of oil and fertilizer subsidies in the past. This was earlier called 'Statement of Revenue Foregone' and brought out as a separate statement in 2015-16. This has been merged in the Receipts Budget from 2016-17 onwards.

## **Outcome Budget**

With effect from Financial Year 2007-08, the Performance Budget and the Outcome Budget hitherto which were presented to Parliament separately by Ministries/Departments, were merged and presented as a single document titled "Outcome Budget" in respect of each Ministry/ Department. From Financial Year 2017-18 onwards, the Outcome Budget of all Ministries have been combined into one single document and will be brought out by the Ministry of Finance in collaboration with the NITI Aayog. The Outcome Budget broadly indicates the outcomes of the financial budget of a Ministry/Department, indicating

actual deliverables linked with outlays targeted during the year and in the medium term.

### **Zero Based Budgeting**

It is the process of creating a budget from nothing without using the prior year's budget or spending numbers. No activities are assumed to be untouchable. All expenses are judged and must be justified in order to remain in the budget.

In other words, Zero-based budgeting (ZBB) is a method of budgeting in which all expenses must be justified for each new period. The process of zero-based budgeting starts from a "zero base," and every function within an organization is analyzed for its needs and costs.

### **Gender based Budgeting**

Gender Budgeting is a powerful tool for achieving gender mainstreaming so as to ensure that benefits of development reach women as much as men. It is not an accounting exercise but an ongoing process of keeping a gender perspective in policy/ programme formulation, its implementation and review. GB entails dissection of the Government budgets to establish its gender differential impacts and to ensure that gender commitments are translated in to budgetary commitments.

### **Actuals(AE)**

The actuals reflect how much revenue an account has actually generated or how much money an account has paid out in expenditures at a given point in time during a fiscal year

### **Budget Estimates(BE)**

It is a forecast of the likely expenditure and receipts based upon pre-budget presentation trends

### **Revised estimates (RE)**

It is a mid-year estimates based on six months actual trends and likely expenditure and receipts for the balance six months

### **Types of Budget deficit**

There can be different types of deficit in a budget depending upon the types of receipts and expenditure we take into consideration.

Following are three types (measures) of deficit:

1. Revenue deficit = Total revenue expenditure – Total revenue receipts.
2. Fiscal deficit = Total expenditure – Total receipts excluding borrowings.
3. Primary deficit = Fiscal deficit-Interest payments.