CHAPTER 5

NATIONAL FINANCE

5.1. The Indian Economy has emerged with remarkable speed from slow-down caused by the global financial crises during 2007-09. It has already established itself firmly on the high growth track of more than 8% per annum. The medium to long term prospect of the economy, including the growth of industrial sector, continues to be positive. The rise in savings and investments and the pickup in private consumption have resulted in strong growth of the Gross Domestic Product at constant prices at more than 9% in 2010-11. In spite of hike in the prices of crude oil, which is the single largest input item, the Indian Economy is poised to further improve and consolidate in terms of key macro economic indicators.

5.2. The healthy state of the economy is reflected in the budgetary position of the Government of India presented in the tables following the Chapter. The budget of the Union government has huge impact on the economy of the country as a whole. Due to its sheer size, as reflected in high magnitude of receipts and expenditure of Government and various policy prescriptions articulated through the Budget, it can be easily considered to be the prime mover of the growth trajectory of the economy.

5.3. The Union Budget is presented to the Lok Sabha, as a matter of practice, on the last of February of the year. Immediately after the presentation of the Budget, the following three statements under the Fiscal Responsibility and Budget Management Act, 2003 are also laid on the Table of Lok Sabha:- (i) The Medium Term Fiscal Policy Statement; (ii) The Fiscal Policy Strategy Statement; and (iii) The Macro Economic Framework Statement. Simultaneously, a copy of the respective Budgets is laid on the Table of Rajya Sabha. In an election year, the Budgets may be presented twice—first to secure a Vote on Account for a few months and later in full.

5.4. By convention the Railway Budget is presented one day before the presentation of the Union Budget at 1200 hours after the Question Hour is concluded. The General Budget was presented by convention, till 1998, on the last working day of February at 17.00 hours. This convention was however, changed in 1999 when the General Budget was presented at 11.00 hours. Since then the General Budget is presented at 11.00 hours on the last working day of February (except in 2000 when it was presented at 14.00 hours).

5.5. The Union Budget consists of the following parts.

Revenue Receipts: Revenue receipts consist of tax collected by the government and other receipts consisting of interest and dividend on investments made by government, fees and other receipts for services rendered by government

Revenue expenditure: is for the normal day-to-day running of the Government departments and various services, interest charged on debt incurred by Government, subsidies, etc. Usually, revenue expenditure covers all the expenditure that does not create assets. However, all grants given to State governments and other parties are also clubbed under revenue expenditure, although some of them may go into the creation of assets.

Capital Receipts: The major items of capital receipts are loans raised by the Government from the public (called market loans); Borrowings by the Government from the Reserve Bank of India (RBI) and other parties through sale of Treasury Bills, Loans received from foreign governments and bodies; and recoveries of loans granted by the Union Government to State governments, Union Territories and other parties

Capital Expenditure/Payments: It comprises of expenditure on acquisition of assets like land, building and machinery, and also investments in shares, etc.; and loans and advances granted by the Union Government to State and Union Territory governments, government companies, corporations and other parties.

Classification of Budget: Information on the working of the budgetary process is obtained from the system of classification. Since such a process has a multitude of functions and objectives, different types of classification are needed, either singly or in a combination to serve the purpose of appropriation, programme management and review, evaluation of plan implementation and financial and economic analysis. Transactions of the government can be classified by :

- Objects such as salaries and wages;
- Organisation and department;
- Functions such as defence, education, agriculture, etc.;
- Their economic character such as consumption expenditure, capital formation, and the like.

Economic Classification: It categorizes total government's expenditure into meaningful economic heads like investment, consumption, generation of income, capital formation etc. According to the Economic and Social Council of the United Nations, economic classification provides "an analysis of the transactions of government bodies according to homogeneous economic categories of transactions with the other sectors of the economy directly affected by them. This analysis is contained in a separate document called Economic and Functional classification of the Central Government Budget. It is brought out by Ministry of Finance.

5.6. A broad categorization of the Economic Classification of the Central Government Budget is as follows :

(1) Consumption Expenditure:

   (a) Defence; and
   (b) Other Government Expenditure.

(2) Transfer Payments (Current) :

   (a) Interest Payments;
   (b) Subsidies;
   (c) Grants to State and Union Territories; and
   (d) Others

(3) Gross Capital Formations of Budgetary Resources

   (a) Physical Assets; and
   (b) Financial Assets

(4) Others.

(5) Total Expenditure.

5.7. The symbols used in this chapter are:

R.E. - Revised Estimates

B.E. - Budget Estimates

5.8. The highlights of the Chapter are :

- The total receipts of Central Government increased from ₹192.6 thousand Crores in 2000-01 to ₹ 682.21 thousand Crores in 2010-11 (B.E). This is an increase of 254%. An increase of 18.5% is expected in total receipts of Central Government in 2010-11 over 2009-10.

- Tax revenue receipts, as percentage of total receipts, increased from 71% in 2000-01 to 80% in 2009-10.

- Tax revenue accounted for almost 80% of the revenue receipt in 2009-10 which was around 71% in 2000-01. This shows the gradual decline of share of non-tax revenue in the revenue receipt which is about 20% in 2009-10 from 29% in 2000-01.

- Capital Expenditure accounted for about 15% of total expenditure in 2000-01. But its share has come down to 11% in 2009-10. In 2010-11 capital expenditure is about 13% of total expenditure.

- Customers revenue increased from ₹47616 crore in 2000-01 by ₹131780 crore in 2010-11(P). This reports in come of 177% over the inter trend.

- Share of import duties was almost 98% at customs revenue in 2000-01 crores, around 95% of and 2010-11 (Provision)

- Receipts under Corporation Tax increased from ₹3750 crores in 2000-01 to ₹24473 crores in 2009-10, which shows increase of more than 5 times during the intervennning years.

5.8. The this chapter contains the following tables:

Table 5.1 : Budgetary position of the Government of India

Table 5.2 : Revenue from Customs Duties

Table 5.3 : Revenue from Union Excise Duties

Table 5.4 & 5.5 : Receipts under Corporation Tax & Income Tax

Table 5.6 : Economic Classification of the Central Budget