

Public Finance

by
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Role of Government in an Economy



Expansionary Policy

Helps in Revival of
Economy and
Promoting Growth
and Investments



Contractionary Policy

Helps in Fighting
Inflation

Which one of the following statements appropriately describes the "fiscal stimulus"?

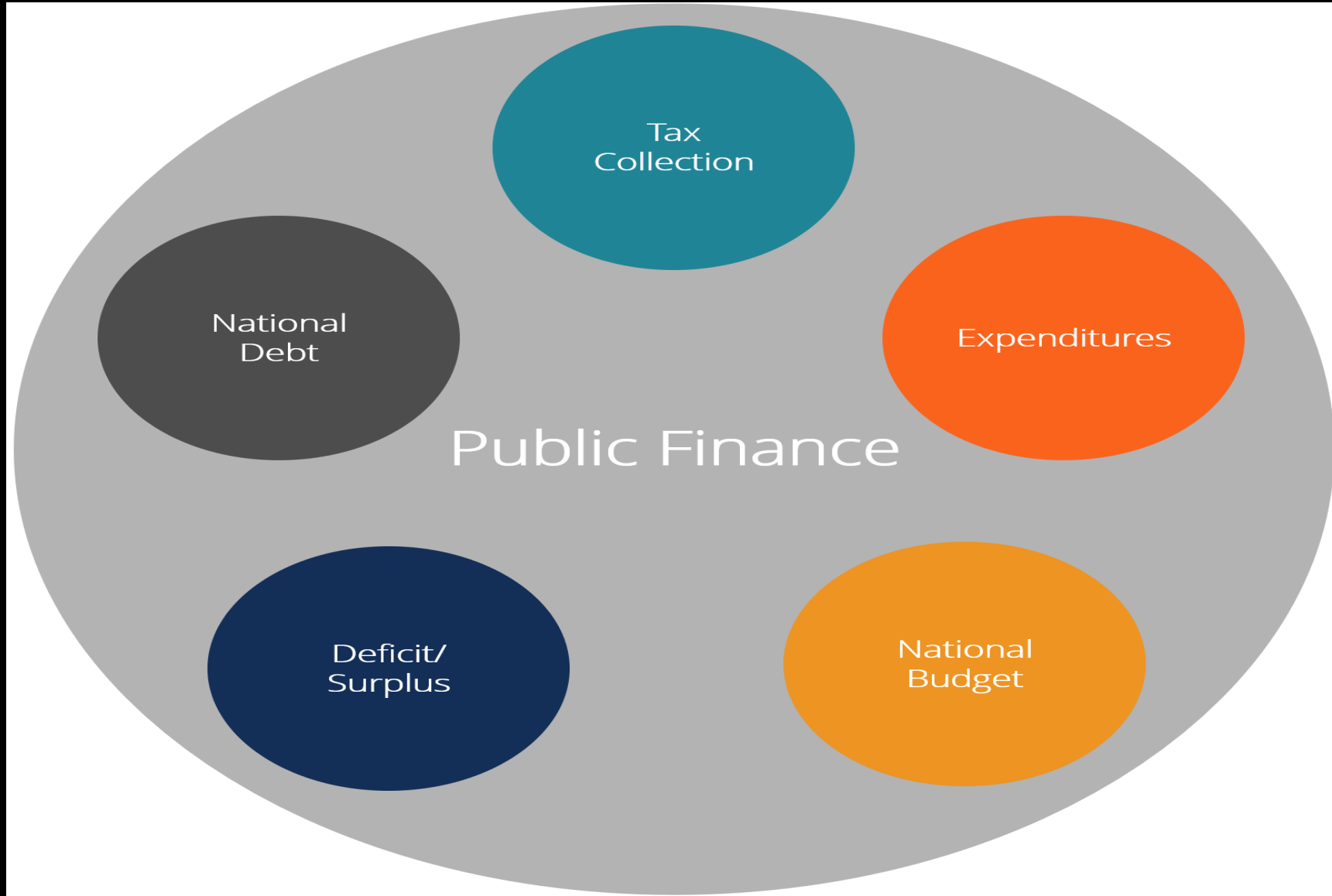
- (a) It is a massive investment by the government in manufacturing sector to ensure the supply of goods to meet the demand surge caused by rapid economic growth.
- (b) It is an intense affirmative action of the government to boost economic activity in the country.
- (c) It is government's intensive action on financial institutions to ensure disbursement of loans to agriculture and allied sectors to promote greater food production and contain food inflation.
- (d) It is an extreme affirmative action by the government to pursue its policy of financial inclusion.

Consider the following actions by the Government:

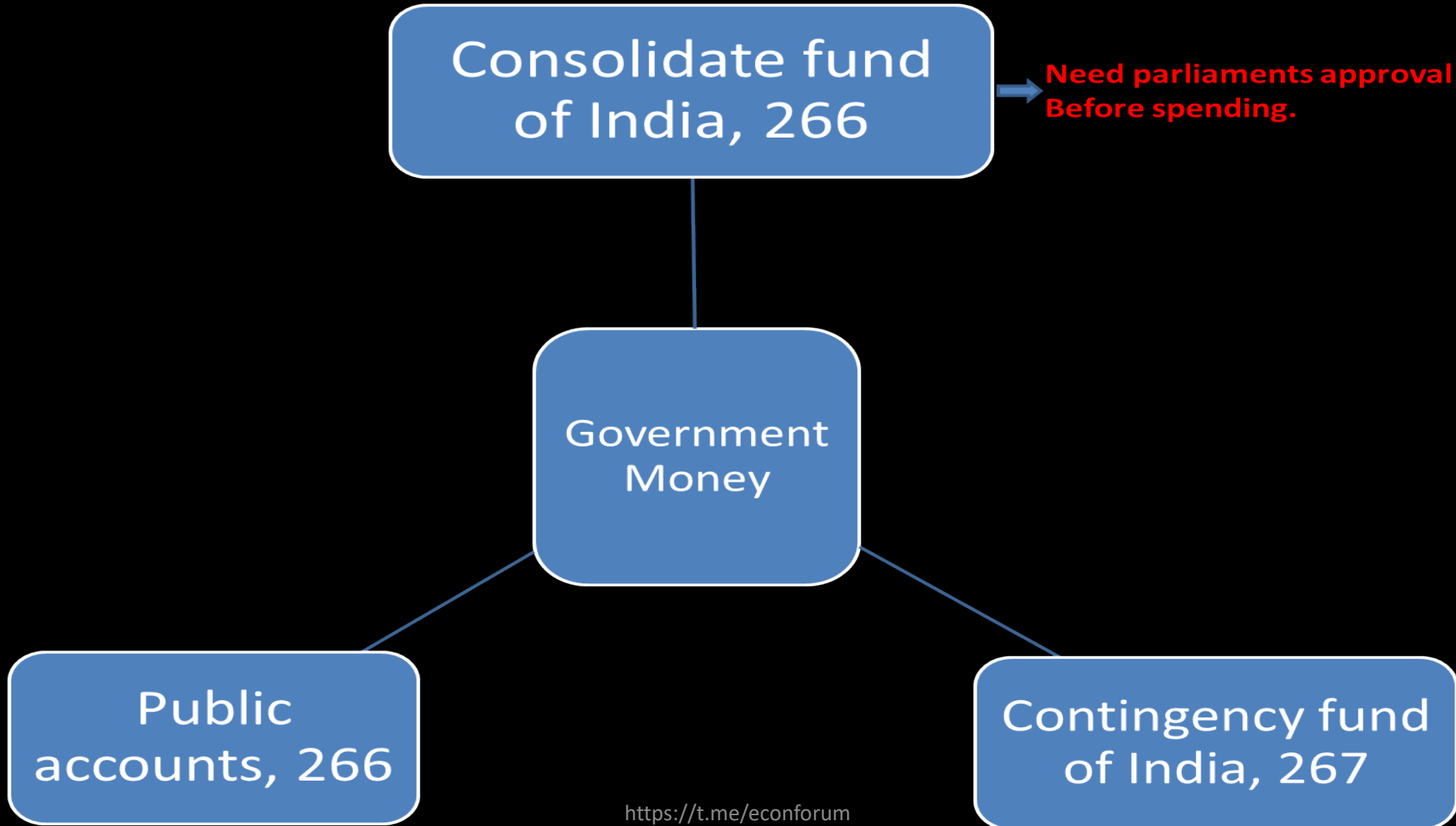
1. Cutting the tax rates
2. Increasing the government spending
3. Abolishing the subsidies in the context of economic recession

Which of the above actions can be considered a part of the "fiscal stimulus". package?

- (a) 1 and 2 only.
- (b) 2 only
- (c) 1 and 3 only.
- (d) 1,2 and 3

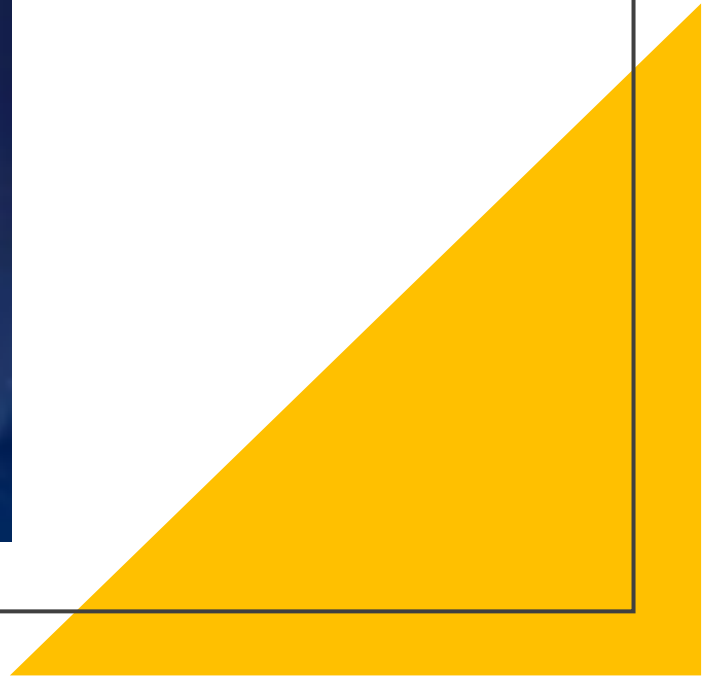


Government Accounts



All revenues received by the Union Government by way of taxes and other receipts for the conduct of Government business is credited to the?

- (a) Contingency Fund of India
- (b) Public Account
- (c) Consolidated Fund of India
- (d) Deposits and Advances Fund



What is Union Budget?

"Union Budget is the most comprehensive report of the Government's Finances in which revenues from all sources and outlays for all activities are consolidated. The Budget also contains estimates of the Government's accounts for the next fiscal year called Budgeted Estimates."

Which one of the following is responsible for the preparation and presentation of Union Budget to the Parliament?

- (a) Department of Revenue
- (b) Department of Economic Affairs
- (c) Department of Financial Services
- (d) Department of Expenditure

- Vote on Account Budget
- Interim Budget
- Recent Changes in Budget

What is the difference between "vote-on-account" and "interim budget" ?

1. The provision of a "vote-on-account" is used by a regular Government, while an "interim budget" is a provision used by a caretaker Government
2. A "vote-on-account" only deals with the expenditure in Government budget, while an "interim budget" includes both expenditure and receipts

Which of the statements given above is/are correct?

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

**Annual financial
statement, 112**

Budget

**Finance bill,
265**

**Appropriation
bill, 266**



Capital
Receipts

VS



Revenue
Receipts

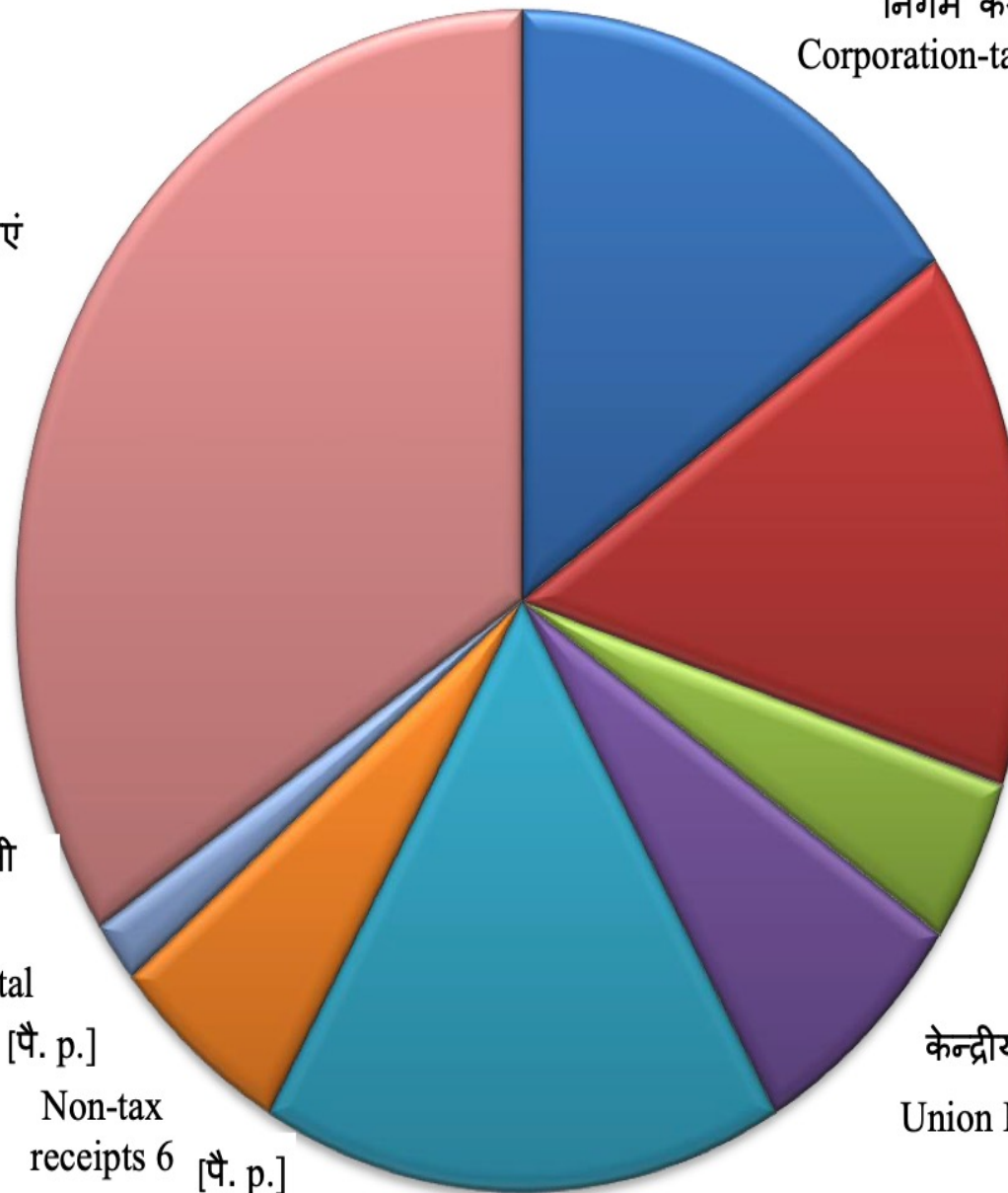
Rupee Comes From (Budget 2023-24)

उधार और अन्य देयताएं
Borrowings & Other liabilities 34 [पै. p.]

ऋण-भिन्न पूंजी प्राप्ति
Non-debt Capital receipts 2 [पै. p.]

कर-भिन्न प्राप्ति
Non-tax receipts 6 [पै. p.]

माल और सेवा कर और अन्य कर
Goods & Service Tax & Other taxes 17 [पै. p.]



निगम कर
Corporation-tax 15 [पै. p.]

आय कर
Income-tax 15 [पै. p.]

सीमा-शुल्क
Customs 4 [पै. p.]

केन्द्रीय उत्पाद-शुल्क
Union Excise Duties 7 [पै. p.]

Which of the following is/are included in the capital budget of the Government of India?

(1) Expenditure on acquisition of assets like roads, buildings, machinery, etc.

(2) Loans received from foreign governments

(3) Loans and advances granted to the States and Union Territories

Select the correct answer using the code given below.

(a) 1 only

(b) 2 and 3 only

(c) 1 and 3 only

(d) 1, 2 and 3

With reference to the Indian economy, consider the following statements:

1. A share of the household financial savings goes towards government borrowings.
2. Dated securities issued at market-related rates in auctions form a large component of internal debt.

Which of the above statements is/are correct?

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

**Capital
Expenditure**

**Revenue
Expenditure**

CENTRALLY SPONSORED SCHEMES

Funding by both center and state in pre-determined ratio such as 90:10, 70:30, 60:40 etc.

Normally formulated on subjects placed under the State List

Implementation Agency: State Government

Eg. MGNREGA, National Social Assistance Program, PM Krishi Sinchai Yojana

CENTRAL SECTOR SCHEMES

Funding entirely borne by center Government

Normally formulated on subjects placed under the Union List.

Implementation Agency: Central Government

Ex. Mudra Yojana, Bharat Net etc.

Central Schemes

1. Crop Insurance Scheme
2. Interest Subsidy for Short Term Credit to Farmers
3. Pradhan Mantri Kisan Sampada Yojana
4. Pradhan Mantri Swasthya Suraksha Yojana

Core of the Core Schemes

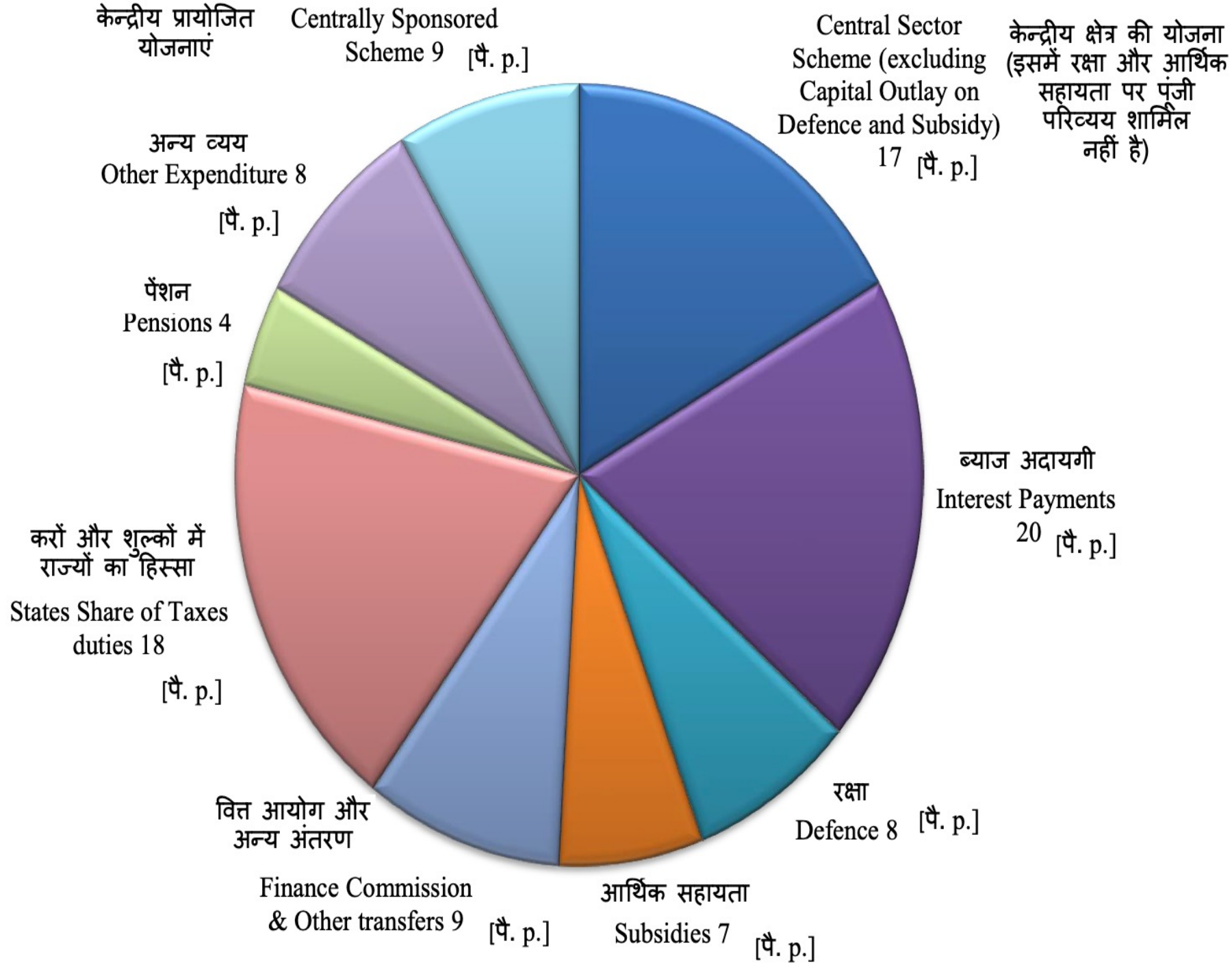
1 National Social Assistance Program

2 Mahatma Gandhi National Rural Employment Guarantee Program

3 Umbrella Scheme for Development of Scheduled Castes

- **Core schemes** are those that are essential for national development and require uniform implementation across the country.
 - They include schemes such as Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), National Health Mission (NHM), Sarva Shiksha Abhiyan (SSA), etc.
- **Optional schemes** are those that are based on local needs and preferences and allow flexibility to the states in choosing and implementing them.
 - They include schemes such as Rashtriya Krishi Vikas Yojana (RKVY), National Rural Livelihoods Mission (NRLM), Integrated Child Development Services (ICDS), etc.

Rupee Goes To (Budget 2023-24)





Which of the following is/are included in the capital budget of the Government of India?

1. Expenditure on acquisition of assets like roads, buildings, machinery, etc.
2. Loans received from foreign governments
3. Loans and advances granted to the States and Union Territories.

Select the correct answer using the code given below.

- (a) 1 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1,2 and 3

With reference to the expenditure made by an organisation or a company, which of the following statements is/are correct?

1.Acquiring new technology is capital expenditure.

2.Debt financing is considered capital expenditure, while equity financing is considered revenue expenditure.

Select the correct answer using the code given below:

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

PUBLIC EXPENDITURE

PLAN
EXPENDITURE

NON-PLAN
EXPENDITURE

With reference to Union Budget, which of the following is/are covered under Non-Plan Expenditure?

- (1) Defence expenditure
- (2) Interest payments
- (3) Salaries and pensions
- (4) Subsidies,

Select the correct answer using the code given below.

- (a) 1 only
- (b) 2 and 3 only
- (c) 1, 2, 3 and 4
- (d) None

Distinguish between Capital Budget and Revenue Budget. Explain the components of both these Budgets

Government's estimated Revenue
=
Government's proposed Expenditure.

TYPES OF BUDGET

DEFICIT
BUDGET



EXPENSE
>
REVENUE

BALANCED
BUDGET

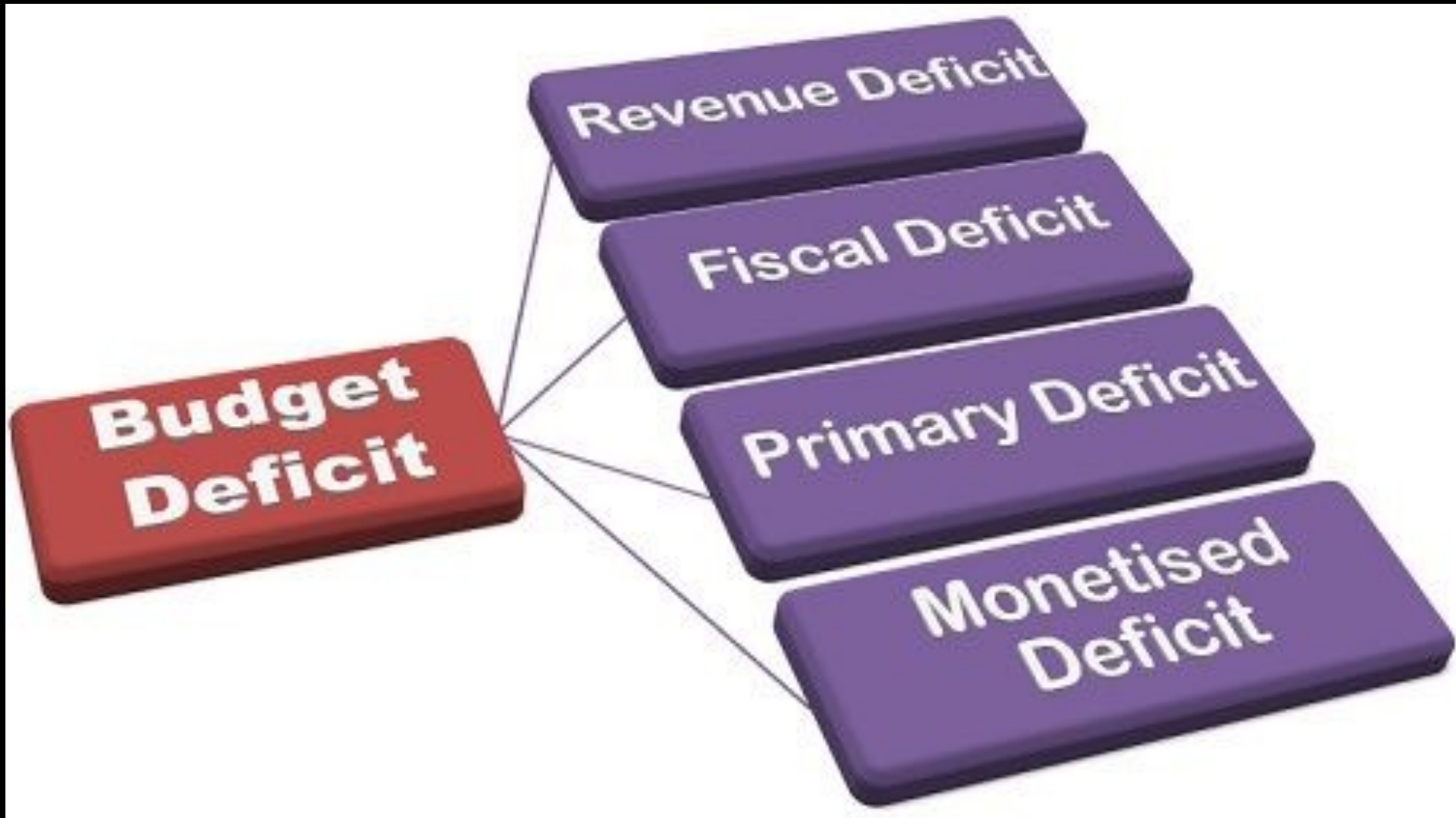


EXPENSE
=
REVENUE

SURPLUS
BUDGET



EXPENSE
<
REVENUE



What is Revenue Deficit?

"The difference between revenue expenditure and revenue receipt is known as revenue deficit. It shows the shortfall of government's current receipts over current expenditure."

What is Fiscal Deficit?

"When the government's non-borrowed receipts fall short of its entire expenditure, it has to borrow money from the public to meet the shortfall. The excess of total expenditure over total non-borrowed receipts is called the Fiscal deficit."

<https://t.me/econforum>



BUDGET DEFICITS

THE HARDER YOU DIG, THE DEEPER YOU SINK.

<http://t.me/ecooforum>

In the context of governance, consider the following:

1. Encouraging Foreign Direct Investment inflows
2. Privatization of higher educational Institutions
3. Down-sizing of bureaucracy
4. Selling, off-loading the shares of Public Sector Undertakings.

Which of the above can be used as measures to control the fiscal deficit in India?

- (a) 1,2 and 3
- (b) 2,3 and 4
- (c) 1,2 and 4
- (d) 3 and 4 only

What is Effective Revenue Deficit

What is Primary Deficit?

"The primary deficit is the fiscal deficit minus interest payments. It tells how much of the Government's borrowings are going towards meeting expenses other than interest payments."

Match List I with List II and select the correct answer using the codes given below the lists:

List-I (Term)

List-II (Explanation)

A. Fiscal deficit

1. Excess of Total Expenditure over Total Receipts

B. Budget deficit

2. Excess of Revenue Expenditure over revenue receipts

C. Revenue deficit

3. Excess of Total Expenditure over Total Receipts less borrowings

D. Primary deficit

4. Excess of Total Expenditure over Total Receipts less borrowings
and Interest Payments

Codes:

(a) A-3 ; B-1 ; C-2 ; D-4

(b) A-4 ; B-3 ; C-2 ; D-1

(c) A-1 ; B-3 ; C-2 ; D-4

(d) A-3 ; B-1 ; C-4 ; D-2

There has been a persistent deficit budget year after year. Which action/actions of the following can be taken by the Government to reduce the deficit?

- (1) Reducing revenue expenditure
- (2) Introducing new welfare schemes
- (3) Rationalizing subsidies
- (4) Reducing import duty

Select the correct answer using the code given below.

- (a) 1 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2, 3 and 4

There has been a persistent deficit budget year after year. Which of the following actions can be taken by the government to reduce the deficit?

- (1) Reducing revenue expenditure
- (2) Introducing new welfare schemes
- (3) Rationalizing subsidies
- (4) Expanding industries

Select the correct answer using the code given below.

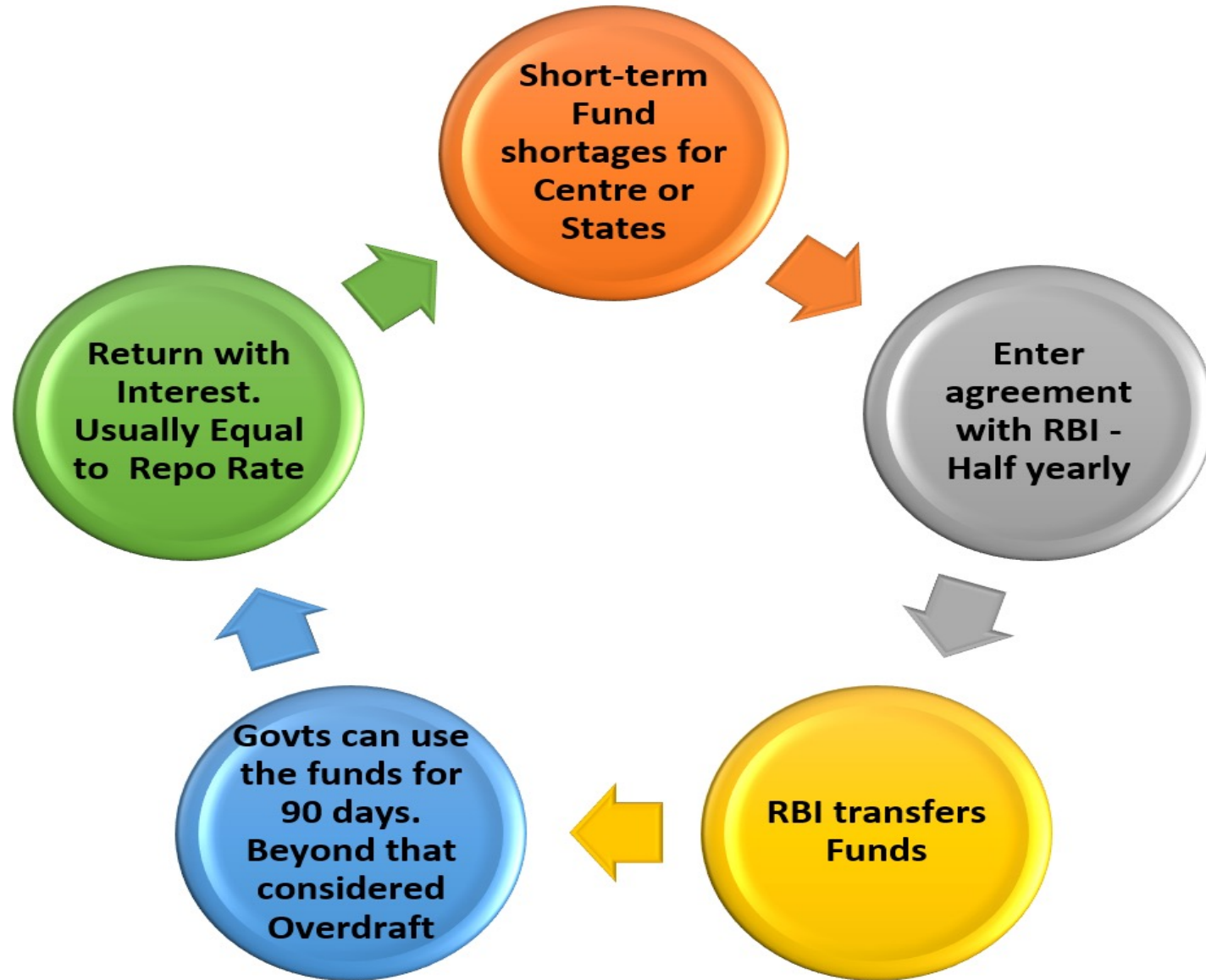
- (a) 1 and 3 only
- (b) 2 and 3 only
- (c) 1 only
- (d) 1,2,3 and 4

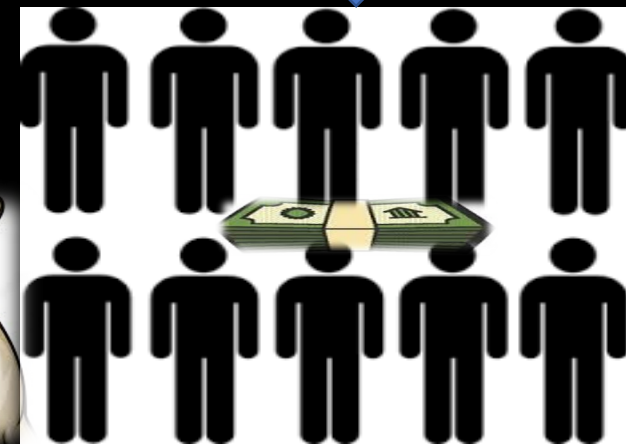
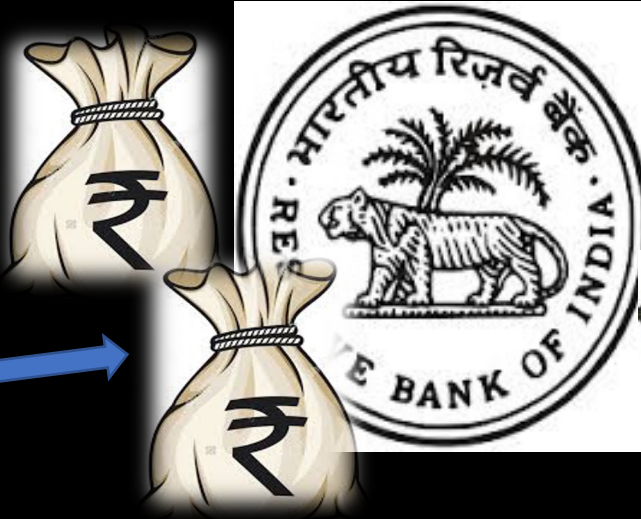
	2021-2022 वास्तविक Actuals	2022-2023 बजट अनुमान Budget Estimates	2022-2023 संशोधित अनुमान Revised Estimates	2023-2024 बजट अनुमान Budget Estimates
1. Revenue Receipts	2169905	2204422	2348413	2632281
2. Tax Revenue (Net to Centre)¹	1804793	1934771	2086662	2330631
3. Non Tax Revenue	365112	269651	261751	301650
4. Capital Receipts	1623896	1740487	1838819	1870816
5. Recovery of Loans	24737	14291	23500	23000
6. Other Receipts	14638	65000	60000	61000
7. Borrowings and Other Liabilities²	1584521	1661196	1755319	1786816
8. Total Receipts (1+4)	3793801	3944909	4187232	4503097
9. Total Expenditure (10+13)	3793801	3944909	4187232	4503097
10. On Revenue Account of which	3200926	3194663	3458959	3502136
11. Interest Payments	805499	940651	940651	1079971
12. Grants in Aid for creation of capital assets	242646	317643	325588	369988
13. On Capital Account	592874	750246	728274	1000961
14. Effective Capital Expenditure (12+13)	835520	1067889	1053862	1370949

15. Revenue Deficit (10-1)	1031021	990241	1110546	869855
	(4.4)	(3.8)	(4.1)	(2.9)
16. Effective Revenue Deficit (15-12)	788375	672598	784958	499867
	(3.3)	(2.6)	(2.9)	(1.7)
17. Fiscal Deficit [9-(1+5+6)]	1584521	1661196	1755319	1786816
	(6.7)	(6.4)	(6.4)	(5.9)
18. Primary Deficit (17-11)	779022	720545	814668	706845
	(3.3)	(2.8)	(3.0)	(2.3)

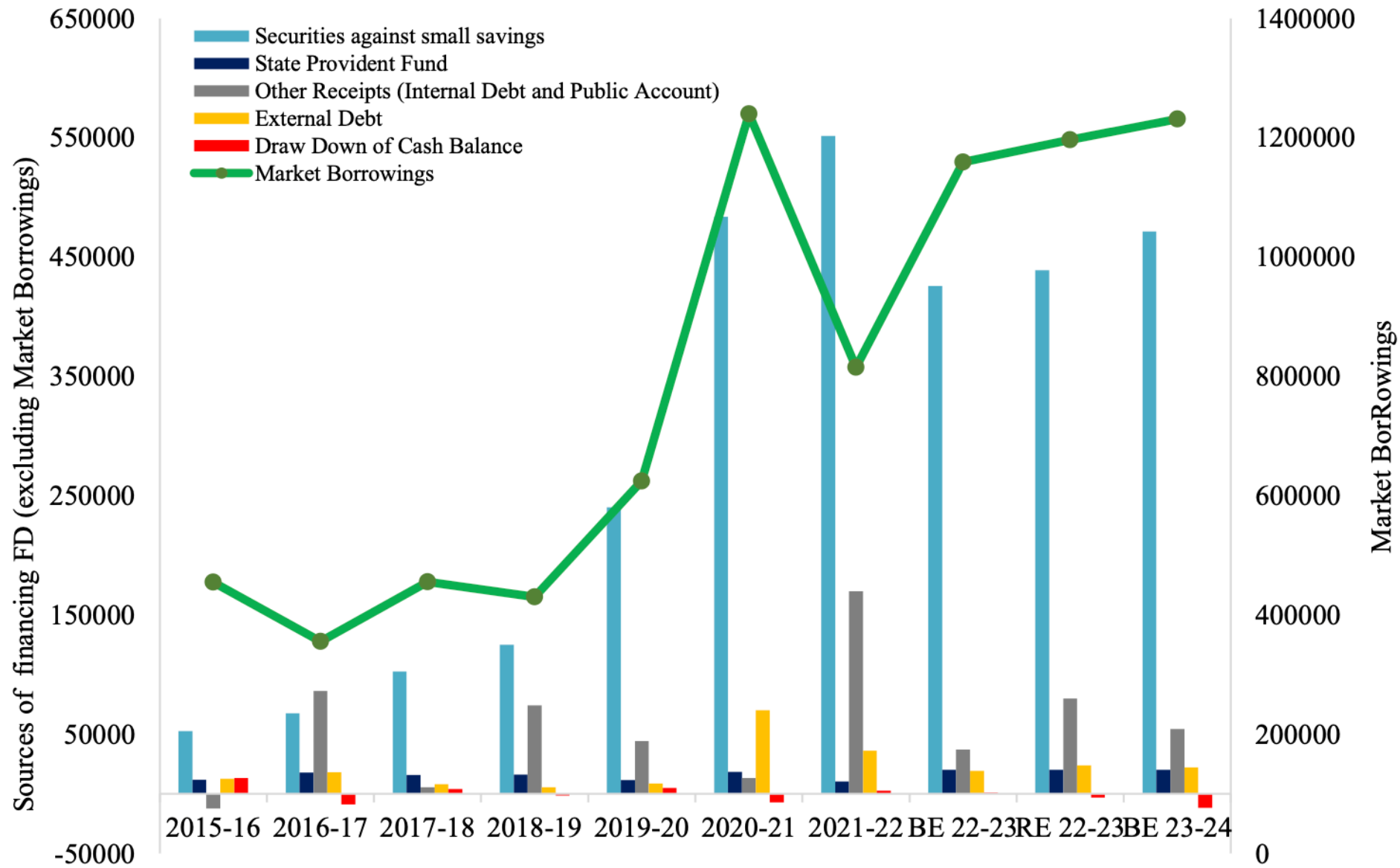


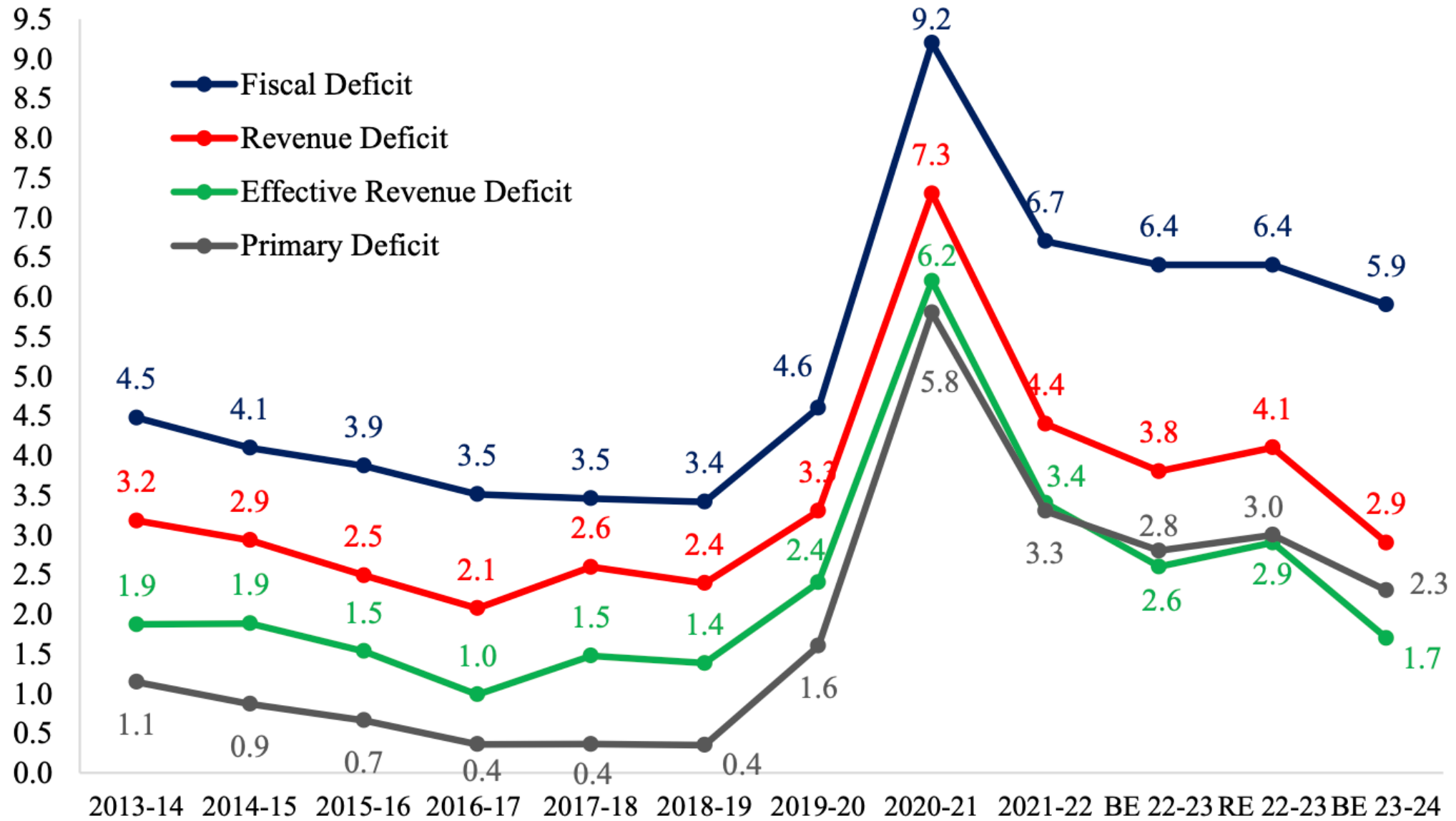






	2021-2022 वास्तविक Actuals	2022-2023 बजट अनुमान Budget Estimates	2022-2023 संशोधित अनुमान Revised Estimates	2023-2024 बजट अनुमान Budget Estimates
1. Debt Receipts (Net)	1581978	1660444	1758561	1798603
2. Market Borrowings (G-sec +T Bills)	814567	1158719	1195866	1230911
3. Securities against Small Savings	551269	425449	438919	471317
4. State Provident Funds	10317	20000	20000	20000
5. Other Receipts (Internal Debts and Public Account)	169677	37025	79902	54258
6. External Debt	36147	19251	23874	22118
7. Draw Down of Cash Balance	2543	752	-3241	-11787
Grand Total	1584519	1661196	1755319	1786816





Which one of the following is likely to be one of the most inflationary in its effects?

- a) Repayment of public debt
- b) Borrowing from the public to finance a budget deficit
- c) Borrowing from the banks to finance a budget deficit
- d) Creation of new money to finance a budget deficit

In India, deficit financing is used for raising resources for

- (a) Economic development
- (b) Redemption of public debt
- (c) Adjusting the balance of payments
- (d) Reducing the foreign debt

There has been a persistent deficit budget year after year. Which of the following actions can be taken by the government to reduce the deficit?

1. Reducing revenue expenditure
2. Introducing new welfare schemes
3. Rationalizing subsidies
4. Expanding industries

Select the correct answer using the code given below.

- (a) 1 and 3 only
- (b) 2 and 3 only
- (c) 1 only
- (d) 1,2,3 and 4

Consider the following:

1. Market borrowing
2. Treasury bills
3. Special securities issued to RBI

Which of these is/are components(s) of internal debt?

- (a) 1 only
- (b) 1 and 2
- (c) 2 only
- (d) 1,2 and 3

Consider the following statements:

(1) Most of India's external debt is owed by governmental entities.

(2) All of India's external debt is denominated in US dollars.

Which of the statements given above is/are correct?

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

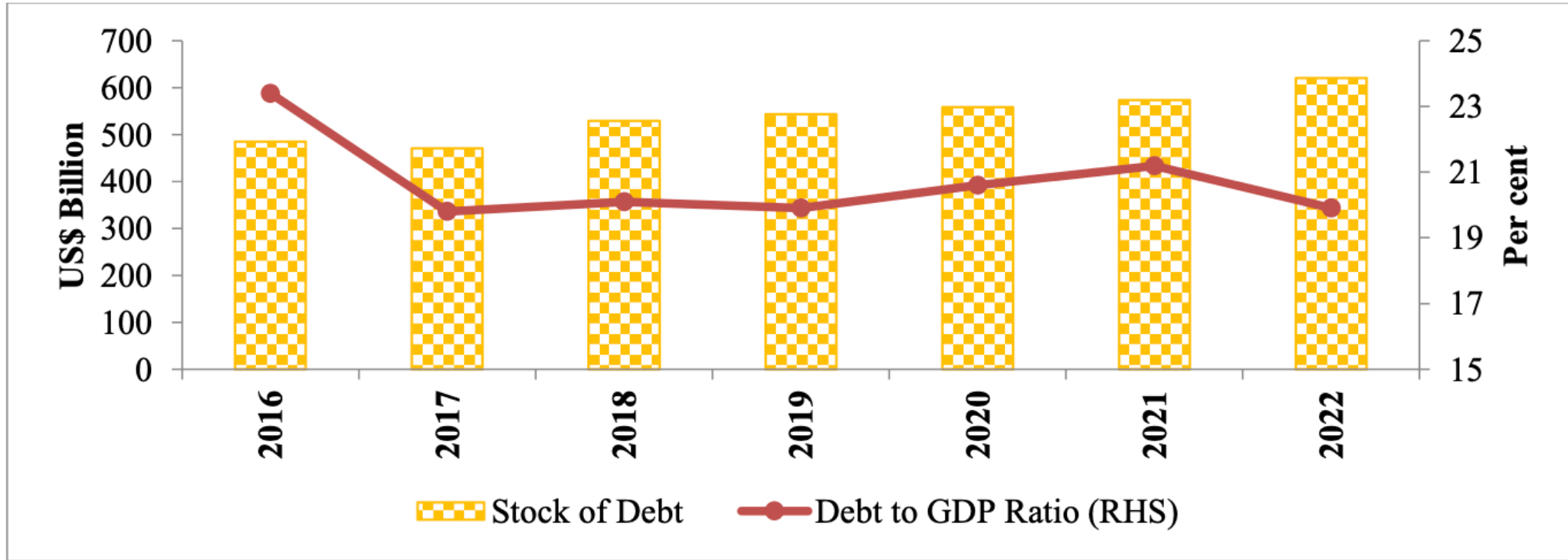
A country is said to be a debt trap if:

- (a) It has to borrow to make interest payments on outstanding loans
- (b) It has to abide by the conditionalities imposed by the International Monetary fund.
- (c) It has been refused loans or aid by creditors abroad
- (d) The World Bank charges a very high rate of interest on outstanding as well as new loans

Public Debt

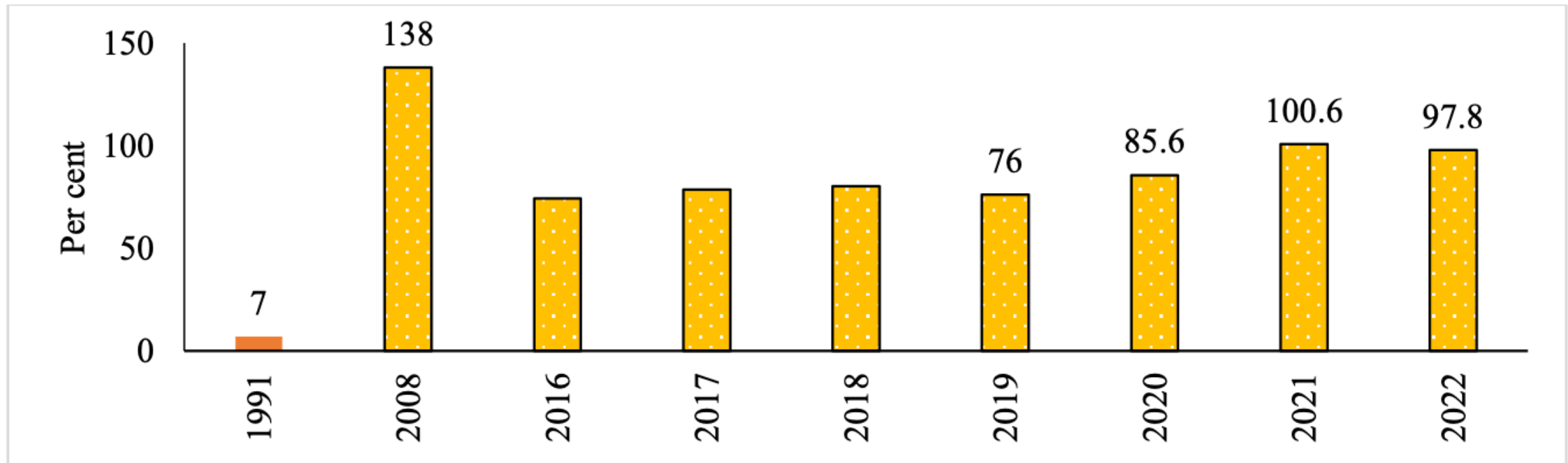


Figure 1.4: India's External Debt and GDP

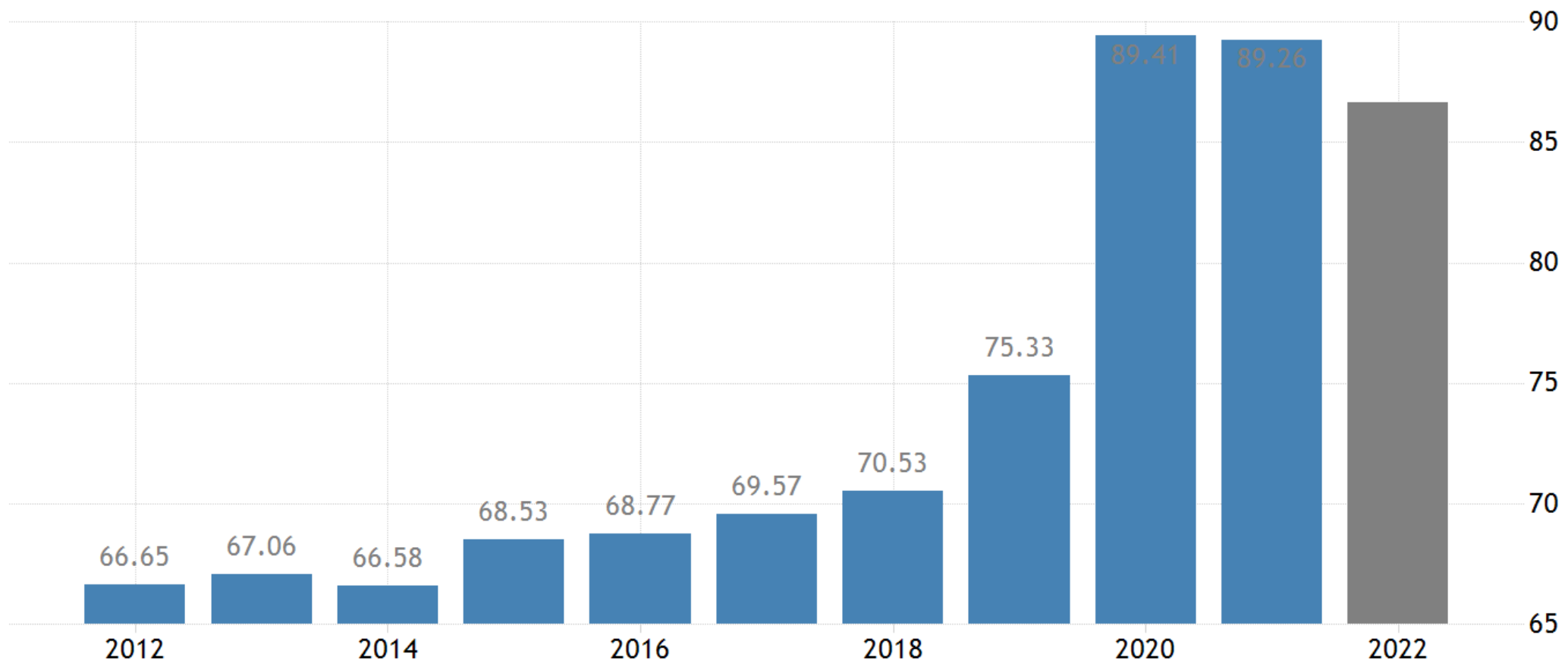


Source: RBI

Figure 1.6: Ratio of Foreign Exchange Reserves to External Debt



Source: RBI





Dealing with Debt

MoF sets up Public Debt Management Cell (PDMC) as an interim arrangement



It will be upgraded to independent & statutory body – Public Debt Management Agency (PDMA) – in 2 yrs



Avoiding the Conflict

PDMC to be set up in budget division of MoF



But to be housed in Delhi office of RBI

To avoid conflict with RBI, will only have advisory function till it gets statutory recognition

Middle Office of Budget Division in ministry will be subsumed into PDMC



The Transition

A joint implementation panel of RBI & MoF to oversee transition



The Functions



PDMC will plan govt borrowings

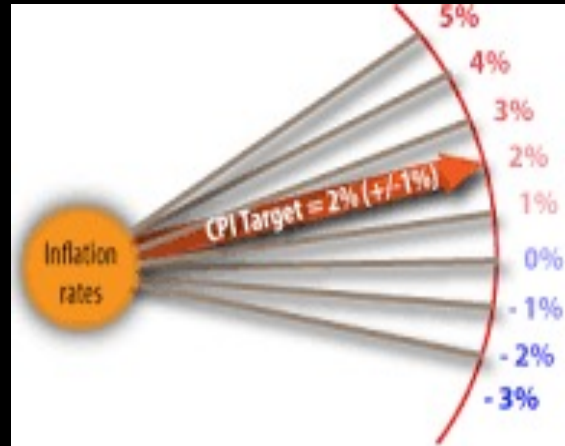
Develop an Integrated Debt Database System for all liabilities of govt

It will monitor cash balances, improve cash forecasting & foster a liquid & efficient market for G-secs

Monetary Policy Framework Agreement



Inflation Targeting

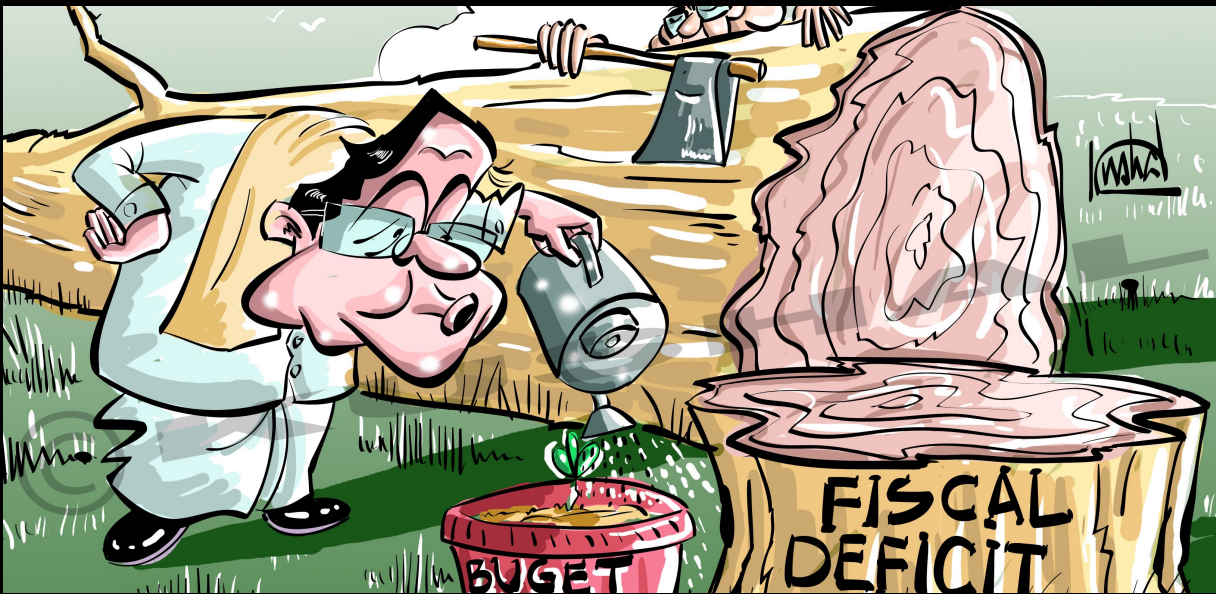




FRBM Act, 2003

Expenditure Management Commission

FRBM Review Committee



Which one of the following statements is correct? Fiscal Responsibility and Budget Management Act (FRBMA) concerns:

- (a) Fiscal Deficit only
- (b) Revenue deficit only
- (c) Both fiscal deficit and revenue deficit
- (d) Neither fiscal deficit nor revenue deficit

Consider the following statements

- (1) The Fiscal Responsibility and Budget Management (FRBM) Review Committee Report has recommended a debt to GDP ratio of 60% for the general (combined) government by 2023, comprising 40% for the Central Government and 20% for the State Governments.
- (2) The Central Government has domestic liabilities of 21% of GDP as compared to that of war of GDP of the State 2 Governments.
- (3) As per the Constitution of India, it is mandatory for a State to take the Central Government's consent for raising any loan if the former owes any outstanding liabilities to the latter.

Which of the statements given above is/are correct?

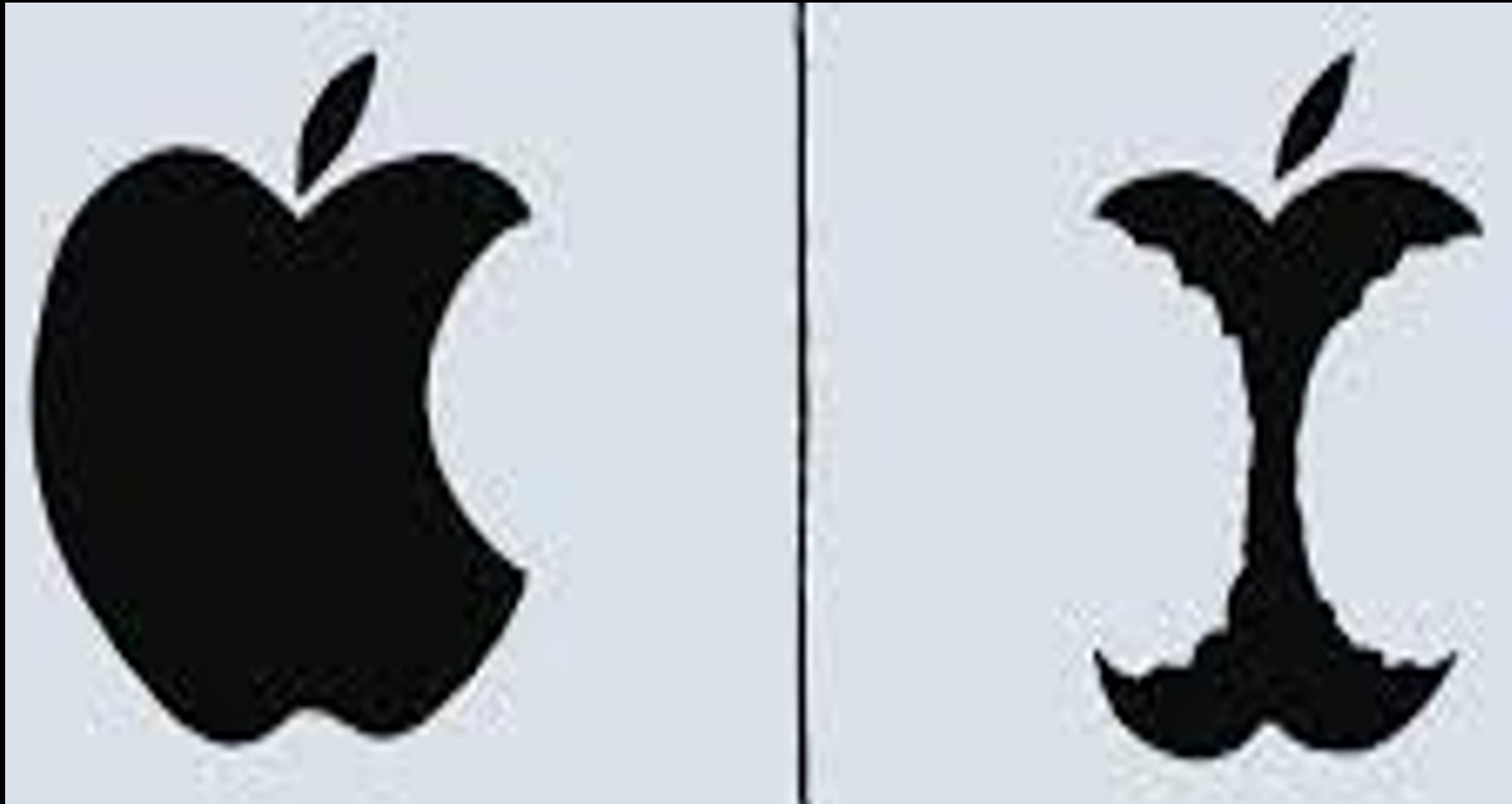
- (a) 1 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

The public expenditure management is a challenge to the Government of India in the context of budget-making during the post-liberalization period. Clarify it.

What were the reasons for the introduction of Fiscal Responsibility and Budget Management (FRBM) Act, 2013? Discuss critically its salient features and their effectiveness.







Thank You

