Important Terms related to Union Budget

Annual Financial Statement (AFS)

Annual Financial Statement is a document presented to the Parliament every year under Article 112 of the Constitution of India, showing estimated receipts and expenditures of the Government of India for the coming year in relation to revised estimates for the previous year as also the actual amounts for the year prior to it.

The receipts and disbursements are shown under three parts in which Government Accounts are to be kept viz**.,(i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account.**

Under the Constitution, Annual Financial Statement has to distinguish expenditure on revenue account from other expenditure. Government Budget, therefore, **comprises of 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.

The estimates of receipts and disbursements in the Annual Financial Statement are shown according to the **accounting classification prescribed by Comptroller and Auditor General of India under Article 150 of the Constitution**, which enables Parliament and the public to make a meaningful analysis of allocation of resources and purposes of Government expenditure.

Revenue Budget

Under Article 112 of the Constitution of India, the Annual Financial Statement has to distinguish expenditure of the Government on revenue account from other expenditures. **Government Budget, therefore, comprises of Revenue Budget and Capital Budget.**

Revenue Budget consists of the revenue receipts of Government (tax revenues and other revenues like interest and dividend on investments made by Government, fees, and other receipts for services rendered by Government) and the expenditure met from these revenues.

Revenue expenditure which results in the creation of capital assets is reduced from revenue deficit to arrive at the Effective Revenue Deficit (ERD). **Effective Revenue Deficit (ERD) = Revenue Deficit - Grants for Creation of Capital Assets**

Capital Budget

Under Article 112 of the Constitution of India, the Annual Financial Statement has to distinguish expenditure of the Government on revenue account from other expenditures. Government Budget, therefore, comprises of Revenue Budget and Capital Budget.

Capital Budget consists of capital receipts and capital payments.

Contingency Fund of India

Contingency Fund is created as an imprest account to meet some urgent or unforeseen expenditure of the government.

The Contingency Fund of India established under Article 267 (1) of the Constitution is in the nature of an imprest (money maintained for a specific purpose) which is placed at the disposal of the President to enable him/her to make advances to meet urgent unforeseen expenditure, pending authorization by the Parliament. Approval of the legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained to ensure that the corpus of the Contingency Fund remains intact. **The corpus for Union Government at present is Rs 500 crore (Rs 5 billion) and is enhanced from time to time by the Union Legislature**. The Ministry of Finance operates this Fund on behalf of the President of India.

Consolidated Fund of India

Consolidated Fund of India is the most important of all government accounts. Revenues received by the government and expenses made by it, excluding the exceptional items, are part of the **Consolidated Fund**.

Under Article 266 (1) of the Constitution of India, all revenues (**example tax revenue from personal income tax, corporate income tax, customs and excise duties as well as non-tax revenue such as licence fees, dividends and profits from public sector undertakings etc.**) received by the Union government as well as all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Union Government in repayment of loans shall form a consolidated fund entitled the **'Consolidated Fund of India'** for the Union Government.

Public Accounts

Public Account of India accounts for flows for those transactions where the government is merely acting as a banker.

Besides the normal receipts and expenditure of Government which relate to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which Government acts more as a banker***. Transactions relating to provident funds, small savings, other deposits, etc., are a few examples***. **The public monies thus received are kept in the Public Account set up under Article 266(2) of the Constitution** and the connected disbursements are also made there from.

Demand for Grants

According to Article 113 of the Indian Constitution, estimates of expenditure from the Consolidated Fund of India in the Annual financial Statement are to be voted in the Lok Sabha. **These expenditures are submitted in the lower house of Parliament in the form of Demand for Grants**. Conventionally, one Demand for Grant is presented in respect of one Ministry or Department, though more than one Demand may also be presented according to the nature of expenditure.

For Union Territories without Legislature a separate Demand is presented for each Union territory.

Each Demand gives the totals of "**voted**" and "**charged**" expenditure and also the grand total of the amount of expenditure for which the demand is presented. This expenditure is then given under different Major and Minor heads of account. **The break-up of expenditure is also provided in Plan and Non-Plan basis.**

Finance Bill or Finance Act

Finance Bill is a secret bill introduced every year in Lok Sabha (Lower chamber of the Parliament) immediately after the presentation of the Union Budget, to give effect to the financial proposals of the Government of India for the immediately following financial year. Rule 219 of the Rules of Procedure of Lok Sabha defines a Finance Bill to also include a Bill that gives effect to supplementary (additional) financial proposals for any period.

The Finance Bill is presented at the time of presentation of the Annual Financial Statement before Parliament, 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 is through the Finance Act that amendments are made to the various Acts like Income Tax Act 1961, Customs Act 1962 etc.

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.

Fiscal Responsibility and Budget Management (FRBM) Act

Fiscal Responsibility and Budget Management (FRBM) became an Act in 2003. **The objective of the Act is to ensure inter-generational equity in fiscal management, long run macroeconomic stability, better coordination between fiscal and monetary policy, and transparency in fiscal operation of the Government**.

The Government notified FRBM rules in July 2004 to specify the annual reduction targets for fiscal indicators. The FRBM rule specifies reduction of fiscal deficit to 3% of the GDP by 2008-09 with annual reduction target of 0.3% of GDP per year by the Central government. Similarly, revenue deficit has to be reduced by 0.5% of the GDP per year with complete elimination to be achieved by 2008-09. It is the responsibility of the government to adhere to these targets. The Finance Minister has to explain the reasons and suggest corrective actions to be taken, in case of breach.

N K Singh Committee Review of FRBM

In the Union Budget 2016-17 it was proposed to constitute a Committee to review the implementation of the FRBM Act and give its recommendations on the way forward. This was in view of the new school of thought which believes that instead of fixed numbers as fiscal deficit targets, it may be better to have a fiscal deficit range as the target, which would give necessary policy space to the Government to deal with dynamic situations.

Macro-economic Framework Statement

The Macro-economic Framework Statement is a statement presented to the Parliament at the time of Union Budget under Section 3(5) of the Fiscal Responsibility and Budget Management Act, 2003 and the rules made thereunder and **contains an assessment of the growth prospects of the economy with specific underlying assumptions.**

It contains an assessment regarding **the expected GDP growth rate, fiscal balance of the Central Government and the external sector balance of the economy.**

The statement is submitted annually.

Medium-term Fiscal Policy (MTFP) Statement

The Medium-term Fiscal Policy Statement (MTFP) is a statement presented to the Parliament under Section 3(2) of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003, which sets out three-year rolling targets for five specific fiscal indicators in relation to GDP at market prices, namely, (i) **Revenue Deficit** (ii) **effective revenue deficit**, (iii) **Fiscal Deficit**, (iv) **Tax to GDP ratio** and (v) **Total outstanding Debt** as percentage of GDP at the end of the year.

MTFP is a document which lays down the projected fiscal aggregates to arrive at the fiscal targets as prescribed in Fiscal Responsibility and Budget Management (FRBM) Act/Rules (say, keeping revenue deficit at zero and fiscal deficit at 3%) over the coming three year period.

The Statement includes the underlying assumptions, an assessment of sustainability relating to balance between revenue receipts and revenue expenditure and the use of capital receipts including market borrowings for generation of productive assets.

Outcome Budgeting

Outcome based budgeting is a practice of **suggesting and listing of estimated outcomes of each programmes or schemes designed.**

Tax to GDP Ratio

The tax-to-GDP ratio is the ratio of tax collected compared to national gross domestic product (GDP).

Fiscal Deficit

The difference between total revenue and total expenditure of the government is termed as fiscal deficit. It is an indication of the total borrowings needed by the government. While calculating the total revenue, borrowings are not included.

Revenue Deficit

A mismatch in the expected revenue and expenditure can result in revenue deficit. **Revenue deficit arises when the government's actual net receipts is lower than the projected receipts**. On the contrary, if the actual receipts are higher than expected one, it is termed as revenue surplus. A revenue deficit does not mean actual loss of revenue.

Effective Revenue Deficit

Effective Revenue Deficit is the difference between revenue deficit and grants for creation of capital assets. Effective Revenue Deficit signifies that amount of capital receipts that are being used for actual consumption expenditure of the Government. **Effective Revenue Deficit (ERD) = Revenue Deficit - Grants for Creation of Capital Assets**

Total outstanding Debt

It refers to the total money borrowed from a source outside the country. For eg. World Bank loans, ADB loans etc.

Poverty Trap

Poverty trap is a spiraling mechanism which forces people to remain poor. It is so binding in itself that it doesn't allow the poor people to escape it. Poverty trap generally happens in developing and under-developing countries, and is caused by a lack of capital and credit to people.

Regressive Tax

Under this system of taxation, **the tax rate diminishes as the taxable amount increases**. In other words, there is an inverse relationship between the tax rate and taxable income. **The rate of taxation decreases as the income of taxpayers increases.**

Appropriation Bill

Appropriation Bill gives power to the government to withdraw funds from the Consolidated Fund of India for meeting the expenditure during the financial year.