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Q2

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

UPSC Civil Services Mains 2021 · GS III · 10 marks · Government Budgeting

Government Budgeting.

Core demand of the question

- Distinguish between Capital Budget and Revenue Budget. Explain the components of both these Budgets
- Use the Annual Financial Statement split, not a lecture on the whole Budget speech
- Keep the explanation within a 10-mark length

Revision summary

Revenue Budget covers tax and non-tax receipts and spending that does not create assets.

Capital Budget covers borrowings, disinvestment, loan recoveries, and asset-creating outlays.

Salaries, interest, and subsidies sit on the revenue side; roads, equity, and loans sit on the capital side.

A revenue deficit means borrowing to consume, not only to invest.

FRBM reading needs both splits, not a single deficit number.

Introduction

The Union Budget's Annual Financial Statement splits government accounts into a Revenue Budget and a Capital Budget. The first is the cost of running the year. The second is borrowing, assets, and loans that change the government's balance sheet.

Body

The distinction

- The **Revenue Budget** records receipts that do not create a liability or reduce an asset, and spending that does not create an asset or reduce a liability.
- The **Capital Budget** records receipts that create a liability or reduce an asset, and spending that creates an asset or reduces a liability.
- A salary or subsidy is revenue expenditure. A highway, a defence capital store, or a loan to a State is capital expenditure.
- Tax collected is a revenue receipt. A market borrowing or a disinvestment receipt is a capital receipt.

Revenue Budget components

- **Revenue receipts** are tax revenue (income tax, corporation tax, GST, Union excise, customs) and non-tax revenue (dividends, interest, fees, spectrum in some years, external grants).

- **Revenue expenditure** is interest, salaries, pensions, subsidies, grants to States that are not for capital assets, and the running cost of schemes such as food and fertiliser support.
- A revenue deficit means the government is borrowing to run the household, not only to build assets.

Capital Budget components

- **Capital receipts** include market borrowings, other debt, recovery of loans, and non-debt receipts such as **disinvestment**.
- **Capital expenditure** includes creation of infrastructure and defence capital, equity in public firms, and loans and advances to States, Union Territories, and public enterprises.
- The **Fiscal Responsibility and Budget Management** debate watches whether capital spending is protected when revenue spending is sticky.

Why the split matters

- Mixing the two hides whether the deficit is buying a road or paying yesterday's interest.
- FRBM and Budget papers therefore print revenue deficit, fiscal deficit, and capital outlay as separate tests.

Flow diagram

Annual Financial Statement -> Revenue Budget

Annual Financial Statement -> Capital Budget

Revenue Budget -> Tax and non-tax receipts

Revenue Budget -> Salaries interest subsidies

Capital Budget -> Borrowing disinvestment loan recovery

Capital Budget -> Assets and loans given

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Conclusion

The Revenue Budget is recurring income and running cost. The Capital Budget is debt, disinvestment, assets, and loans. Good public finance keeps the first from eating the second.

Facts & figures

Article 112

Annual Financial Statement laid in Parliament; the constitutional name of the Union Budget accounts.

Revenue deficit

Gap between revenue expenditure and revenue receipts; a signal of borrowing for current cost.

Fiscal deficit

Excess of total expenditure over revenue receipts plus non-debt capital receipts.

Disinvestment

Non-debt capital receipt from sale of public equity; it finances the Capital Budget without new bonds.

Fiscal Responsibility and Budget Management Act (FRBM)

Law and later amendments that set deficit and, at times, capital-spending discipline for the Union.

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