



Pillar#2D: Disinvestment to Deficit to Budget & Scheme Types

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26 BUDGET → CAPITAL → RECEIPTS

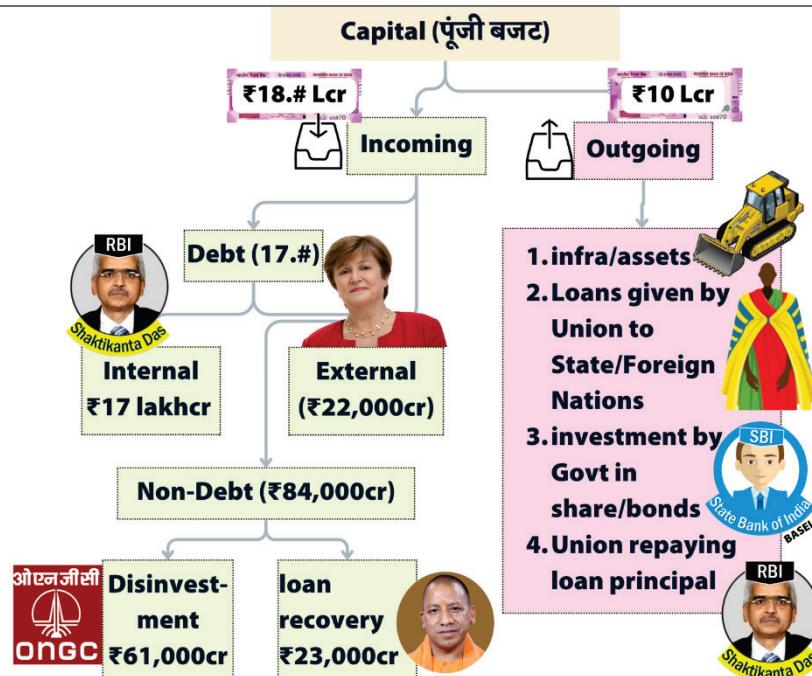


Table 1: बजट → पूँजी भाग → प्राप्तियां: Sub-classified into two parts

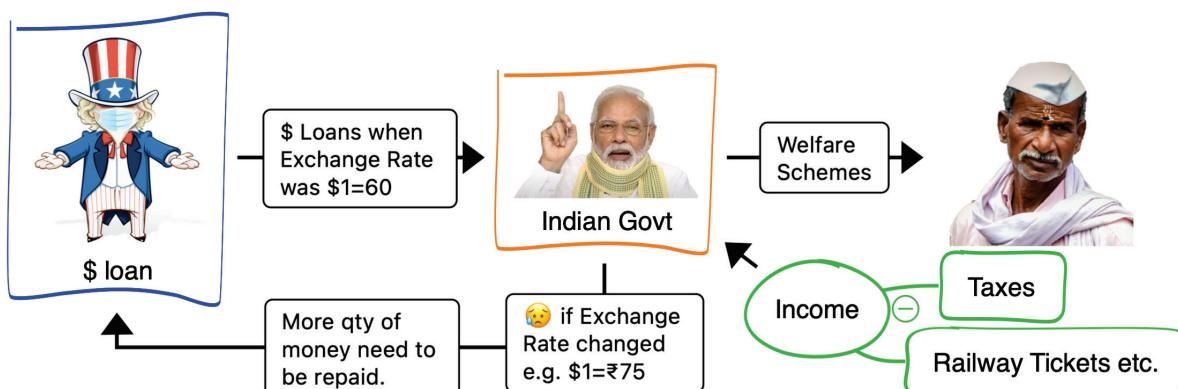
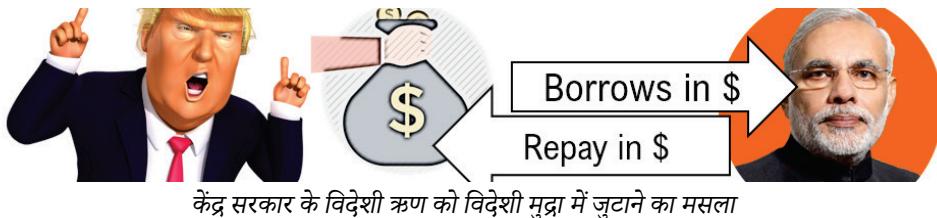
Capital Debt Receipts पूँजीगत ऋण प्राप्तियाँ	Capital Non-Debt Receipts: गैर-ऋण पूँजी प्राप्तियाँ
   Internal Borrowing: आंतरिक ऋण <ul style="list-style-type: none"> -  From RBI, - From market (Banks, NBFCs) - From small savings (Post-Office Savings Accounts, Kisan Vikas Patra, etc), - From Provident Funds (EPFO, PPF) 	Loan Principal recovered (i.e. Union government would have given loans to state governments, foreign countries, public sector companies etc.) so when they return Principal amount back that is counted here. (मूलधन की बरामदगी)
   External borrowing: from foreign countries & international institutions like IMF World Bank, BRICS bank etc. बाह्य / विदेशी ऋण	Disinvestment (विनिवेश) i.e. Union selling its shares from Public Sector Undertakings (PSUs) / Central Public Sector Enterprises (CPSEs).
Bigger portion of Capital Receipts from this side	Smaller portion

CAPITAL RECEIPTS पूँजीगत प्राप्तियाँ (₹ करोड़) (In ₹ crores)	2021-2022 वास्तविक Actuals	2022-2023 बजट अनुमान Budget Estimates	2022-2023 संशोधित अनुमान Revised Estimates	2023-2024 बजट अनुमान Budget Estimates
A. Non-debt Receipts ऋण-भिन्न प्राप्तियाँ	39375	79291	83500	84000
B. Debt Receipts* ऋण प्राप्तियाँ	1581978	1660444	1758560	1798604
Total Capital Receipts (A+B)	1621353	1739735	1842061	1882603

Q ? MCQ. Which of following is not a component of 'Capital Receipts'? (IEnggS-2018)

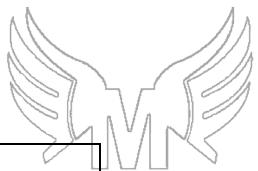
- (a) Market borrowings including special bonds
- (b) External loans raised by the Central Government from abroad
- (c) Receipts from taxes on property and capital transactions
- (d) Provident Funds (State Provident Funds and Public Provident Fund)

26.1.1 📂 ₹ 🌎 Foreign Borrowing in Foreign Currency



Introduction (Origin): In the (Full) Budget-2019, FM Nirmala S. announced, "India's sovereign external debt to GDP is among the lowest (~5%). The Govt would start raising a part of its borrowing programme in external markets in external currencies."

Arguments in favor (समर्थन)	Against (प्रस्ताव के विरुद्ध)
<ol style="list-style-type: none"> In domestic market, the '<i>crowding out of private corporate borrowers'</i> will decline. (📝 more in 2D:Fiscal Deficit) Corporates will be able to mobilize more funds from local market → factory expansion, jobs, GDP growth 🚀 In the advanced economies such as USA, EU: the loan interest rates are very low, so our Indian govt may be able to get cheaper loans. सस्ते ब्याज पर 	<ol style="list-style-type: none"> Exchange Rate Risk (विनिमय दर का जोखिम): If rupee weakens against the dollar during the bond's tenure ($\\$1: ₹ 60 \rightarrow ₹ 70$), the government would have to return more rupees to pay back the same amount of dollars. Then the loan may turn out to be 'more expensive' than originally anticipated. It's true that presently Indian Govt's external borrowing is very low, but once this 'door' is opened, subsequent govts may get tempted to borrow more and more from the foreign sources to finance their (populist) welfare schemes, ultimately it can result into crisis when rupee gets weaker. लोकलुभावन योजनाओं के लिए विदेशी ऋण लेने की सरकार को लत लग सकती है



Arguments in favor (समर्थन)	Against (प्रस्ताव के विरुद्ध)
4. If we borrow a little more from external sources it won't harm. थोड़ा सा ऋण अगर विदेशी से विदेशी मुद्रा में ले लिया तो कुछ जोखिम नहीं	3. Better to ↑ the foreigners' investment limit in G-Sec (in ₹ currency) and attract them to come to India, rather than we going 'abroad' to get their money in \$ currency.

Conclusion: whether we should borrow in foreign currency or not?

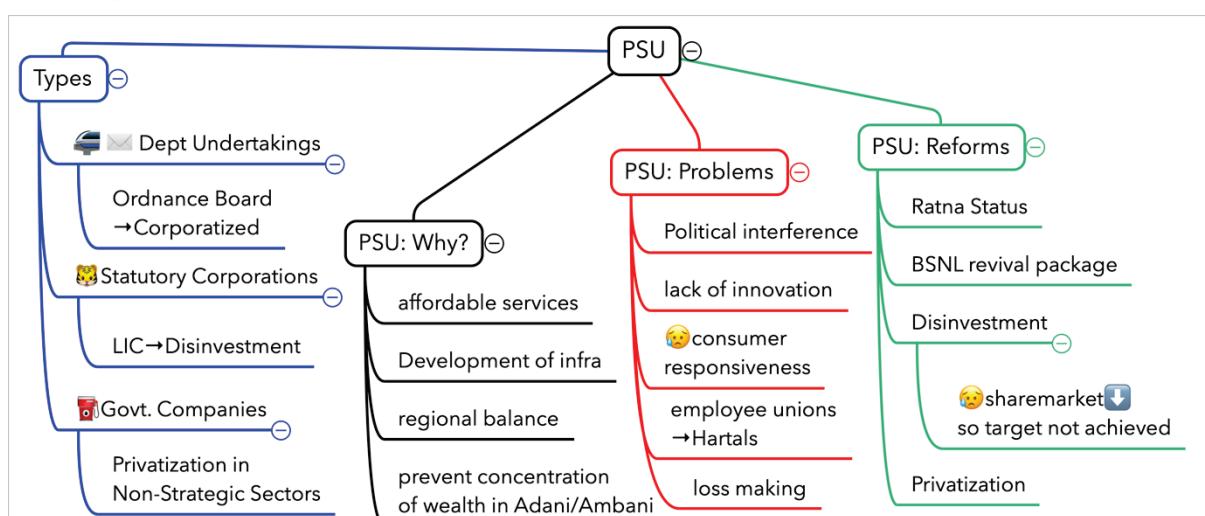
- ⇒ **👎 (Against)** From the aforementioned analysis, it's evident that challenges outweigh the potential benefits. Noted economists such as Dr. Raghuram Rajan are apprehensive about sovereign borrowing from external markets in foreign currency. Therefore, this idea, though well-intended, requires more deliberation. (इस प्रस्ताव में फायदे कम नुकसान ज्यादा दिख रहे हैं इसलिए इरादा नेक है लेकिन इस पर ज्यादा विमर्श की आवश्यकता है)
- ⇒ **💼 📈 🚩 = 👍 💪 (In favor)** Considering above points, sovereign borrowing from external markets in foreign currency may not be a bad idea, provided that it's done in a judicious and prudential manner. (यह प्रस्ताव बुरा नहीं है, विवेक पूर्ण रूप से लागू करना चाहिए)

26.1.2 📁 ₹ 📈 Budget-2023: Foreign Borrowing

विदेशी ऋण (₹ करोड़) (In ₹ crores)	2021-2022 वास्तविक Actuals	2022-2023 बजट अनुमान Budget Estimates	2022-2023 संशोधित अनुमान Revised Estimates	2023-2024 बजट अनुमान Budget Estimates
External Debt	36147	19251	23874	22118

- ⇒ **🟠** ES23: most of our foreign debt denominated in ₹ Currency. So need not worry much.

26.2 📈 🚩 🚫 BUDGET → CAPITAL RECEIPTS → DISINVESTMENT: विनिवेश



There are THREE types of Commercial or industrial undertaking owned by the govt:



Departmental Undertakings विभागीय उपक्रम	Statutory Corporations वैधानिक निगम	Govt. Companies सरकारी कंपनिया
Directly part of a ministry e.g. Postal, Railways, They can be created easily because, no laws required, no Companies Act registration required	Created by an act of Parliament or state legislature. E.g. RBI Act, SBI Act, LIC Act, FCI Act, EPFO Act. etc, SIDBI, NABARD, NHB, EXIM etc.	Registered under the Companies Act, Govt's shareholding is 51% or more. Coal India ltd, GAIL, SAIL, NTPC, IOCL, BHEL & various Public Sector Banks and NBFCs which are not statutory corporations.
High level of ministerial interference (मंत्री की दखल ज्यादा)	Middle of both sides	More operational flexibility, less interference by Ministers
CAG will audit directly [भारत के नियंत्रक और महालेखा परीक्षक स्वयं विभागीय उपक्रम के हिसाब किताब का लेखा परीक्षण करेंगे]	Some of these Acts provide for internal audit & exclude CAG from auditing the Corporation. E.g. RBI, LIC.	Companies Act requires them to produce audited reports. CAG will empanel the (private) auditors for them.
Their earning will go directly in Public Account / CFI	Their earning → profit → dividend goes to shareholders.	
All three types of org are Answerable under the Right to Information Act, 2005 सूचना अधिकार कानून/ अधिनियम के अंतर्गत इन सभी संस्थानों ने जानकारी देनी होगी		
Their employees are considered government employee-subjected to service and discipline rules framed by the government.	Not considered govt employees. Their service / discipline conditions are governed by the respective organizations' internal manuals. सरकारी कर्मियों वाले सेवा और अनुशासन/शिस्त के नियम इनके कर्मियों को लागू नहीं होते.	

⇒ **Objective:** Public interest & welfare through affordable services, Development of infrastructure, regional balance, prevent concentration of economic power in the hands of Corporates /MNCs.

(उद्देश्य: जन हित में सस्ती सेवाएं, बुनियादी ढांचा, विकास में क्षेत्रीय संतुलन, बहुराष्ट्रीय कंपनियों के हाथों में आर्थिक शक्ति की केन्द्रीकरण रोकना)

⇒ **Challenges?** Political interference, lack of innovation & consumer responsiveness, employee unions, loss making business. (राजनीतिक हस्तक्षेप, नवाचार की कमी, उपभोक्ता के प्रति जवाबदेही कम, कर्मचारीओं को काम से ज्यादा यूनियनों-बाजी और हड़ताल में लिप्त रहेना, घाटे में चलना)

26.2.1 CPSE vs PSU vs PSB

⇒ **PSB:** Public Sector Banks = Banks wherein Govt has majority shareholding.

⇒ **Central Public Sector Enterprises (CPSEs: केंद्रीय सार्वजनिक क्षेत्र के उपक्रम):** Registered in Companies act & Union Government has 51%/> shareholding. Commonly known as 'Govt companies'. The word CPSE is mainly used to denote "govt companies other than Public Sector Banks, Public Sector Insurance Companies and Public Sector NBFCs".



⇒ Public sector Undertaking (PSU: सार्वजनिक क्षेत्र के उपक्रम) = collective term for all the govt companies owned by Union Govt + State Government + Local Bodies.

Note: Some book/internet may differ in this definition. But we need not loose sleep over pedantry.
शब्द-भेद में पाइत्य वाली बाल की खाल निकालने की कोई जरूरत नहीं है।

26.2.2 Ratna Companies = freedom to govt companies based on performing

⇒ Ministry of Heavy Industries & Public Enterprises-> its Department of Public Enterprises (DPE) decided Ratna Status. 2021: DPE shifted to Finance Ministry (REF: Handout #2A for more).

⇒ This is NOT for private owned companies like Tata, Infosys or Adani.

⇒ “Ratna” status-*walli* Govt Companies are given for the flexibility in their operations e.g. hiring more professionals, acquisition of other companies etc. without requiring government approval for every small decision. (अच्छा प्रदर्शन करने वाली सरकारी कंपनियों को अपनी कार्य रीति के लिए स्वतंत्रता देना। हर छोटी चीज के लिए सरकार से अनुमति लेना जरूरी नहीं)

Category	Condition and examples
Miniratna Cat-I and Cat-II	<ul style="list-style-type: none"> ✓ made profits in the last 3 years continuously, further subdivision in Category-I & Category-II depending on how much profit is generated. ✓ Examples: National Film Development Corporation ltd, Mazagaon Dock ltd, Airports Authority of India, Mishra Dhatur Nigam ltd, NHPC ltd, WAPCOS ltd, ONGC Videsh ltd, Rail Vikas Nigam ltd,
Navratna	<ul style="list-style-type: none"> ✓ A Mini Ratna company fulfilling “x” conditions OR ✓ Non-Mini Ratna Govt companies fulfilling “y” conditions such as Manpower cost to total cost of production etc. ✓ Examples: Rashtriya Ispat Nigam ltd, Rural Electrification Corporation ltd, Shipping Corporation of India ltd, Oil India ltd, National Aluminum Company ltd, Neyveli Lignite Corporation ltd, Mahanagar Telephone Nigam ltd, Hindustan Aeronautics ltd, Container Corporation of India ltd, Bharat Electronics ltd,
Maharatna	<ul style="list-style-type: none"> ✓ Already a Navratna Company+ fulfilling “z” conditions such as min. ₹ 5000 crore profit per year in last 3 yrs, listed at a Stock exchange, significant global presence ✓ Very few here: 1)Bharat Heavy Electricals, 2)Bharat Petroleum Corporation, 3)Coal India , 4)GAIL (India) , 5)Hindustan Petroleum , 6)Indian Oil Corporation, 7)NTPC , 8)Oil & Natural Gas Corporation (ONGC), 9)Power Grid Corporation, 10) Steel Authority of India (SAIL)

Above Ratna examples are taken on 1/1/2020. List may change afterwards. Some companies get privatized. We need not lose sleep over it too much, unless preparing for their specific recruitment exam.# थोड़ा-पढ़ो-आगे-बढ़ो

- ✓ FAQ. Are Public Sector Banks (PSB) given Ratna Status? Ans. No. While PSBs are a sub-set of Government companies but Ratna status is for CPSEs who are NOT PSBs.

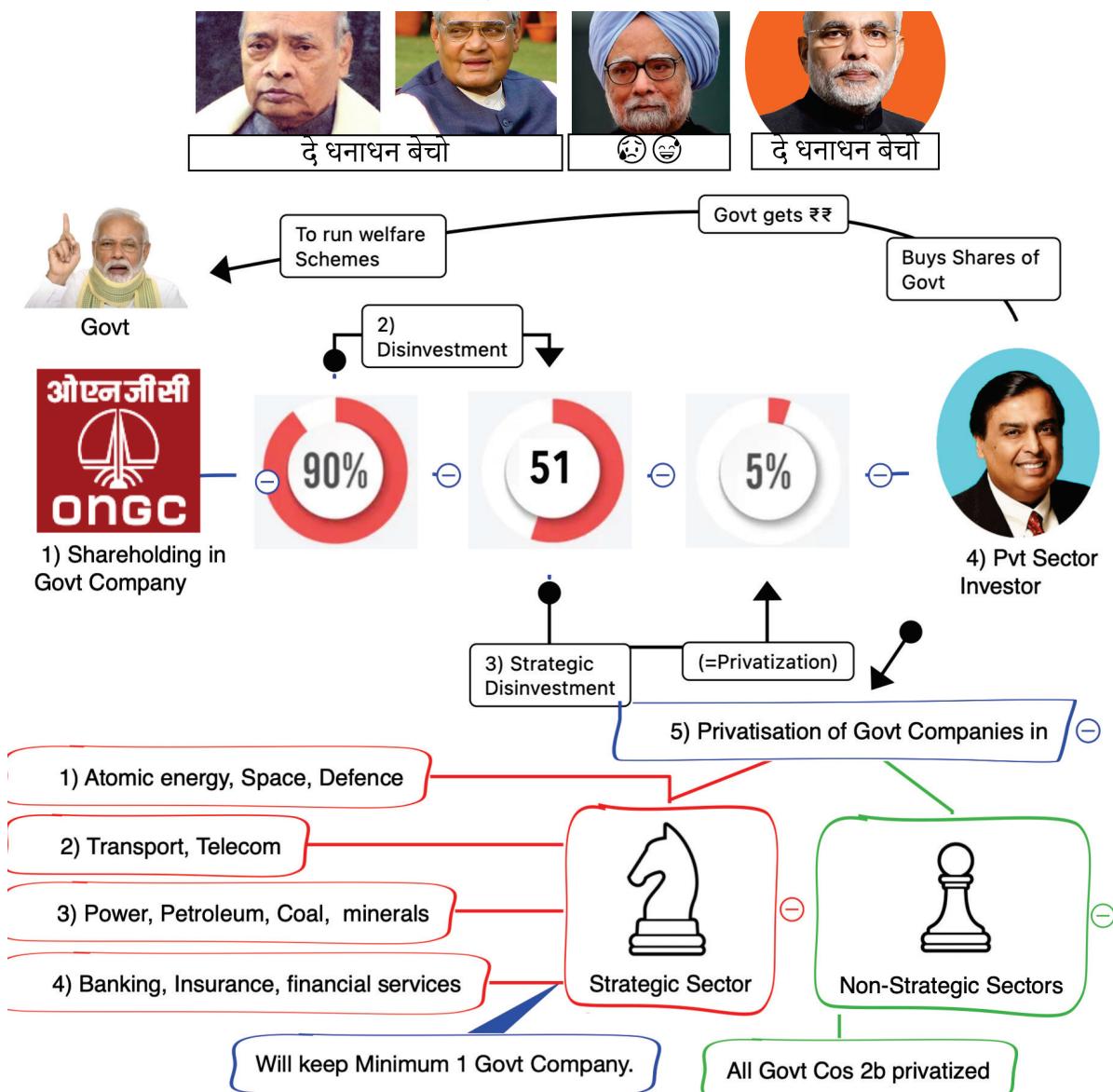


- ✓ **FAQ. Are Statutory Corporation like LIC, EPFO etc given Ratna Status? Ans. No.** It's for Central Govt's companies only. It is not for statutory corporation.
 - ✓ **FAQ. Are State Govt's Govt Companies given Ratna Status? Ans. No.** It is for Central Govt owned companies only. ये सिर्फ केंद्र सरकार की सरकारी कम्पनियों के लिए है
 - ✓ **FAQ. Are Private sector Companies like Tata/Reliance given Ratna Status? Ans. No.** It is for Central Govt owned companies only. भाई ये सिर्फ केंद्र सरकार की सरकारी कम्पनियों के लिए है. इतनी आसान और सीधी सी बात को आप क्यों जटिल कर रहे है!?

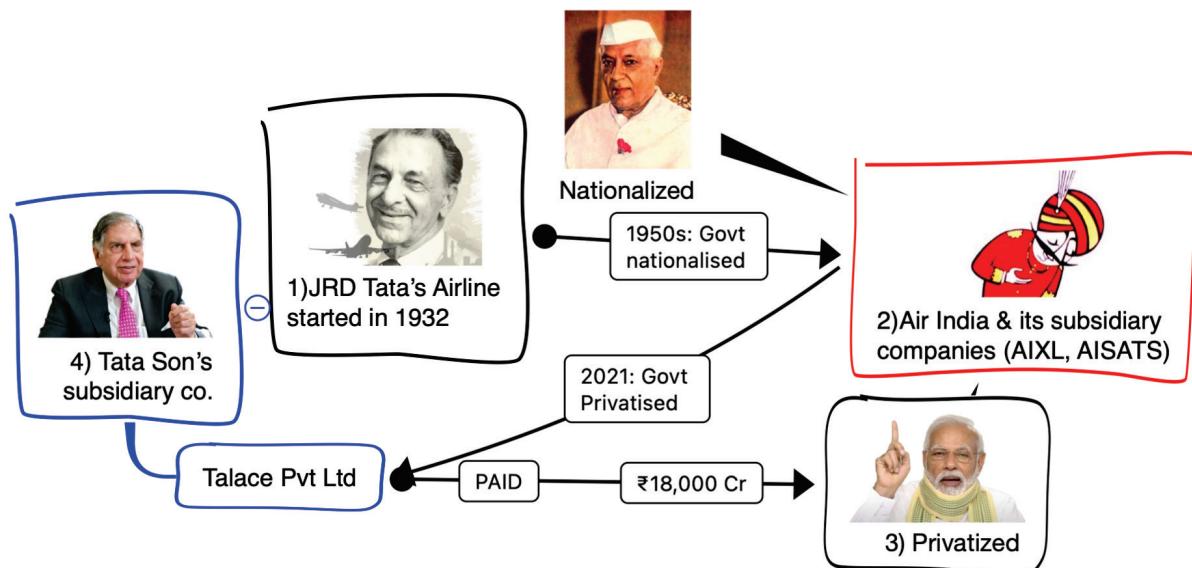
**AB
CD** ? MCQ. Which among the following is designated with 'Navratna' status? (CDS-2021-i)

- (a) Indian Oil Corporation Limited (b) Gas Authority of India Limited
(c) Bharat Petroleum Corporation Limited (d) Bharat Electronics Limited

26.2.3 Government policy towards disinvestment before 2021



- ⇒ **Disinvestment:** govt shareholding in a Government company but govt keeps atleast 51% shareholding with itself.
- ⇒ **Privatization / Divestment / Strategic Disinvestment (निजीकरण/रणनीतिक विनिवेश):** When govt sells upto 50 per cent or more shareholding, alongwith transfer of management control. (Definition as per [DIPAM Dept](#))
- ⇒ **Arguments in favour:** govt shareholding → Private investors will enter in the board of directors → efficiency, innovation and autonomy. दक्षता, नवाचार स्वायत्तता
- ⇒ Disinvestment proceeds can be used for welfare schemes, and fiscal deficit.
- ⇒ **Argument Against:** MNC monopolies, exploitation of worker, job loss.



Year	Nationalization and Disinvestment related developments
1951	<ul style="list-style-type: none"> ✓ First Constitution Amendment Act: While 19(1)(g) gives citizen's right to practice any profession. But Government can impose reasonable restrictions on it for interests of general public → this allowed for nationalization of pvt industries e.g. Bank nationalization in Pillar#1B1 (सरकार जन हित में निजी कंपनीयों का राष्ट्रीयकरण कर सकती है.) ✓ (<input checked="" type="checkbox"/> NOTE: first amendment act also contain some other provisions for SEBC, 9th Schedule etc, but we are only focusing on the parts that are related with nationalization/disinvestment)
1953	<ul style="list-style-type: none"> ⇒ 1953: Air Corporations Act: Govt nationalised nine airlines—Air India, Air Services of India, Airways (India), Bharat Airways, Deccan Airways, Himalayan Aviation, Indian National Airways, Kalinga Airlines, and Air India International



	⇒ Above private sector companies were nationalised into two Public sector Enterprises I) Indian Airlines II) Air India International.
1991's Industrial Policy	The term 'disinvestment' was used first time in Interim Budget 1991. "We will reduce shareholding in all Govt Companies" - said PM Narasimha Rao.
1998's Vajpayee	<ul style="list-style-type: none"> - In strategic sector (Railways, Defense, Atomic Energy) - we'll not do disinvestment - In Non-strategic sector = <input checked="" type="checkbox"/> we'll do disinvestment in a phased manner (गैर-रणनीतिक क्षेत्र में चरणबद्ध तरीके से विनिवेश करेंगे). - 1999: PM Vajpayee set up Department of Disinvestment → privatisation of Maruti Udyog, Hindustan Zinc, Bharat Aluminum and Videsh Sanchar Nigam Limited (VSNL) etc. 12 govt companies.
UPA-1 (2004-09)	Due to pressure from Leftist/Marxist coalition parties = No Disinvestment from any government companies. If a government company is sick, we will try to revive it. वामपंथी / मार्क्सवादी गठबंधन दल के चलते विनिवेश नहीं
UPA-2 (2009-14)	<ul style="list-style-type: none"> ✓ All Govt Companies can be disinvested upto 49% = Govt will keep 51% minimum and sell remaining shares. ✓ ₹ will goto National Investment Fund (NIF, in Public Account) → used for Bank recapitalization, metro rail, nuke energy, EXIM-NABARD-RRB etc. राष्ट्रीय निवेश कोष ✓ Also launched CPSE-Exchange Traded funds (ETF): Ref Pill#1C:SEBI

26.2.4 Disinvestment & Privatization in the Modi Raj (2014-19)

- ✓ Various methods of Disinvestment, depending on the Company
 1. **Converting Private Limited Company** to public limited company and issuing Initial Public Offers (IPOs) e.g. *Indian Railway Catering and Tourism Corporation (IRCTC) and Rail Vikas Nigam Ltd (RVNL)*
 2. **Exchange Traded Funds (ETFs):** CPSE-ETF, Bharat-22-ETF (*Ref: Pillar#1C*)
 3. **Institutional placement Programme (IPP):** offer shares only to non-retail investors.
 4. **Offer for sale (OFS):** Govt sells its existing shares to both retail and non-retail investors
 5. **Share Buyback** i.e. Govt company itself buys the shares owned by Govt, thereby decreasing Government's shareholding portion viz a viz private sector's shareholding.
- ✓ Modi govt **shut down many sick** Govt companies such as HMT watches, Hindustan Photo Film etc. (जिसे कोई निजी क्षेत्र का उद्योगपति खरीद कर चलाना नहीं चाहता था उन बीमार सरकारी कंपनियों को बंद कर दिया.)
- ✓ Budget-2016 renamed FinMin's Dept of Disinvestment into Dept. of Investment & Public Asset Management (DIPAM: निवेश और सार्वजनिक संपत्ति प्रबंधन विभाग).

26.2.5 Privatization / Strategic Disinvestment in Modi Raj

- ⇒ **Strategic Disinvestment** (रणनीतिक विनिवेश): it means selling a substantial portion of Government shareholding in a CPSEs along with transfer of management control to a private party.



- ⇒ For this action, NITI Aayog prefers to use the term ‘strategic disinvestment’, ‘strategic sale’ instead of ‘privatization’, lest the opposition parties create uproar about it.
- ⇒ Sometimes, press statement also uses the word “Divestment” for it.
- ⇒ Budget-2022: NINL (Neelanchal Ispat Nigam Limited) will be privatised
- ⇒ ES23: Govt has done privatisation of 10 CPSEs - HPCL, REC, DCIL, HSCC, NPCC. NEEPCO, THDC, Kamrajar Port, Air India and NINL.

26.3 → NEW PUBLIC SECTOR ENTERPRISE (PSE) POLICY (2021)

	Strategic sectors (महत्वपूर्ण क्षेत्रों)	Non strategic sectors
Example	1) Atomic energy, Space, Defence (परमाणु ऊर्जा, अवकाश, रक्षा) 2) Transport, Telecom (परिवहन, दूरसंचार) 3) Power, Petroleum, Coal, other minerals (ऊर्जा, पेट्रोलियम, कोयला, खनिज) 4) Banking, Insurance and financial services (बैंकिंग बीमा वित्तीय सेवाएं)	All the other sectors. (बाकी तमाम क्षेत्रों = गैर-महत्वपूर्ण क्षेत्रों = में जितने भी सरकारी कंपनियां हैं उन सब को या तो निजीकरण कर देंगे या बंद कर देंगे)
Will there be a government company here?	Minimum one government company will be kept. Remaining will be merged/ privatized/shutdown (महत्वपूर्ण क्षेत्रों में सिर्फ एक सरकारी कंपनी को रखा जाएगा, बाकी सभी अन्य सरकारी कंपनियों को उस में विलीन/निजीकरण/बंद कर दिया जाए)	No government company will be kept. All the Existing government companies will be privatized/shutdown.

✓ Disinvestment targets previous budgets:

Budget	2017	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Target (Lakh cr)	1Lcr	80,000 cr	1.05 Lcr	2.10 lcr	1.75 lcr	65,000 cr	51,000/61,000**
Target Achieved?	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	65,000 cr*	37000 Cr	14,638 cr	60,000 cr	We'll see

⇒ *51,000cr as per News Website like <https://economictimes.indiatimes.com>, and [LiveMint](#)

⇒ *61,000 cr as per Budget Excel file: indiabudget.gov.in/doc/Budget_at_Glance/bag5.xls

⇒ Then which number is right? Ans. I'd tick answer as per the Budget excel file (61,000).

26.3.1 National Monetisation Pipeline (NMP 2021)

⇒ Govt initiative for selling/renting/leasing the land/building/machine/assets of CPSE/National Highways/Railways to mobilise ₹6 lakh crore by 2025. (राष्ट्रीय मौद्रिकरण पाइपलाइन = इस मुहिम के अंतर्गत सरकारी कंपनी/हाईवे/रेलवे की संपत्तियों को बेचना/किराये पर देना- इसकी मदद से ६ लाख करोड़ रुपये बटोरने हैं)



⇒ More about this topic in Pillar#5- along with other associated topics like 1) National Investment and Infrastructure Fund (NIIF) 2) National Infrastructure Pipeline / GATI Shakti initiative etc.

26.3.2 National Land Monetization Corporation (NLMC-2022)

Refer to Handout Pillar2A1- Departments of Finance Ministry.

? MCQ. Why is Govt disinvesting its equity in the Central Public Sector Enterprises (Pre'11)

1. The Government intends to use the revenue earned from the disinvestment mainly to pay back the external debt.
2. The Government no longer intends to retain the management control of the CPSEs.

Ans Codes: (a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2

26.3.3 BSNL MTNL Merger & VRS (विलीनीकरण)

Outdated/Faded. Removing from handout.

26.4 BUDGET → CAPITAL PART → EXPENDITURE (पूँजीगत व्यय)

बजट → पूँजीगत भाग → व्यय: Its notable components in decreasing order are:

1. Capital assets for various schemes, ministries, departments (Building, vehicles..)
2. Giving debt/equity finance to PSUs & foreign institutes, giving loans to State Govt & Foreign Govt.
 - a. **Note:** FinMin: Dept of Economic Affairs (DEA)'s Indian Development and Economic Assistance Scheme (IDEAS) gives such ₹ to foreign nations.
3. Union repaying loan principal for Internal Debts (आंतरिक क्रण का मूलधन वापस देना)
4. Union repaying loan principal for External Debts (बाह्यक्रण का मूलधन वापस देना)

26.4.1 State CAPEX Loans

⇒ Special Assistance to States for Capital Expenditure'/CAPEX scheme

⇒ 2020: Union to loan interest-free 50-year loan to states. Total amount approx. ₹12,000 cr for capital expenditure like, health, rural development, water supply, irrigation, power, transport, education, urban development. (स्वास्थ्य, ग्रामीण- शहरी विकास, जल आपूर्ति, सिंचाई, बिजली, परिवहन, शिक्षा के पूँजीगत खर्चों के लिए केंद्र द्वारा राज्य सरकारों को बिना ब्याज के लोन)

⇒ Budget-2022:- State govts to be given 1 lakh crore CAPEX loans with 50 year tenure, 0% interest.

⇒ Budget-2023: we'll give capex loans & Some of these CAPEX loans will be linked to:

- o - Scrapping old government vehicles (पुराने सरकारी वाहनों को स्कैप/कबाड़ी में भेजना)
- o - Urban planning reforms (शहरी नियोजन सुधार)



- - Financing reforms in urban local bodies reform so they can become financially strong enough to issue municipal bonds (शहरी स्थानीय निकायों में सुधार)
 - - Housing for policemen (पुलिसकर्मियों के लिए आवास)
 - - Constructing Unity Malls- Ref Pillar#3A (एकता मॉल का निर्माण)
 - - Children adolescents' libraries and digital infrastructure (बच्चे किशोरों के पुस्तकालय और डिजिटल बैनियादी ढांचा/अवसंरचना)

26.5 BUDGET → CAPITAL PART → EFFECTIVE CAPITAL EXPENDITURE

सरकार का प्रभावी पूँजीगत व्यय Effective Capital Expenditure of Government (₹ करोड़) (In ₹ crores)	2021-2022	2022-2023	2022-2023	2023-2024
	वास्तविक	बजट	संशोधित	बजट
	Actuals	अनुमान Budget Estimates	अनुमान Revised Estimates	अनुमान Budget Estimates
पूँजीगत व्यय	Capital Expenditure	592874	750246	728274
पूँजी परिसंपत्तियों के सृजन हेतु	Grants in Aid for creation of	242646	317643	325588
सहायता अनुदान	capital assets (from Revenue Budget)			369988
जोड़	Total	835520	1067889	1053862
				1370949

 What does above chart mean? Ans. Explained in the video lecture.

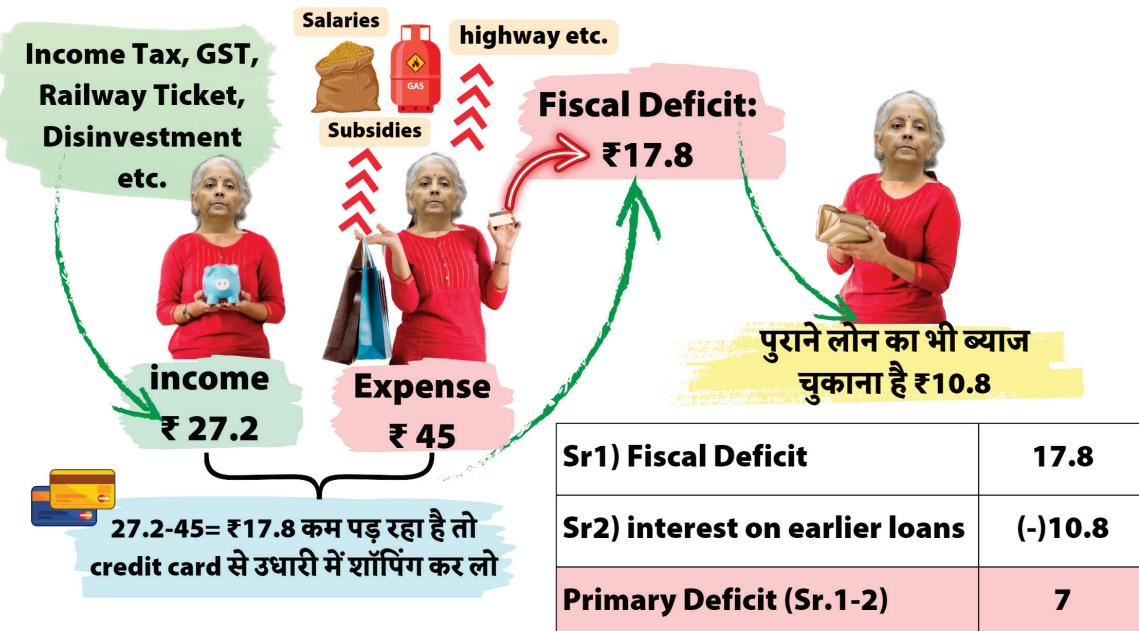
MCQ. With reference to the expenditure made by an organisation or a company, which of the following statements is/are correct ? (कंपनी द्वारा किए गए खर्च के बारे में सही वाक्य ढूँढो) (Prelims-2022)

1. Acquiring new technology is capital expenditure. (नई प्रौद्योगिकी को खरीदना पूँजीगत स्वर्त है)
 2. Debt financing is considered capital expenditure, while equity financing is considered revenue expenditure. (ऋण-द्वारा वित्तपोषण को पूँजीगत स्वर्त माना जाता है जबकि इकिटी/सेयर द्वारा किए गए वित्तपोषण को राजस्व स्वर्त माना जाता है।)

Codes: (a) 1 only (b) 2 only, (c) Both 1 and 2, (d) Neither 1 nor 2

27 TYPES OF DEFICITS: घाटे के प्रकार

- If government's income >> its expenditure it will have a **surplus budget**/ अधिशेष बजट
 - If government's expenditure == its income, it will be a **balanced budget**/ संतुलित बजट
 - If government's expenditure >> its income, it'll be a **deficit budget**/ घाटे का बजट



Budget Deficit बजट घाटा	Total expenditure minus Total receipt
Fiscal Deficit	Budget Deficit + Borrowing
Primary Deficit	Fiscal Deficit minus interest to be paid on previous loans राजकोषीय घाटे में से पुराने ऋण/कर्ज पर जो ब्याज चुकाना है उसे हटा दीजिए
प्राथमिक घाटा	

27.1 FISCAL DEFICIT: राजकोषीय घाटा

Three formulas: all are correct-

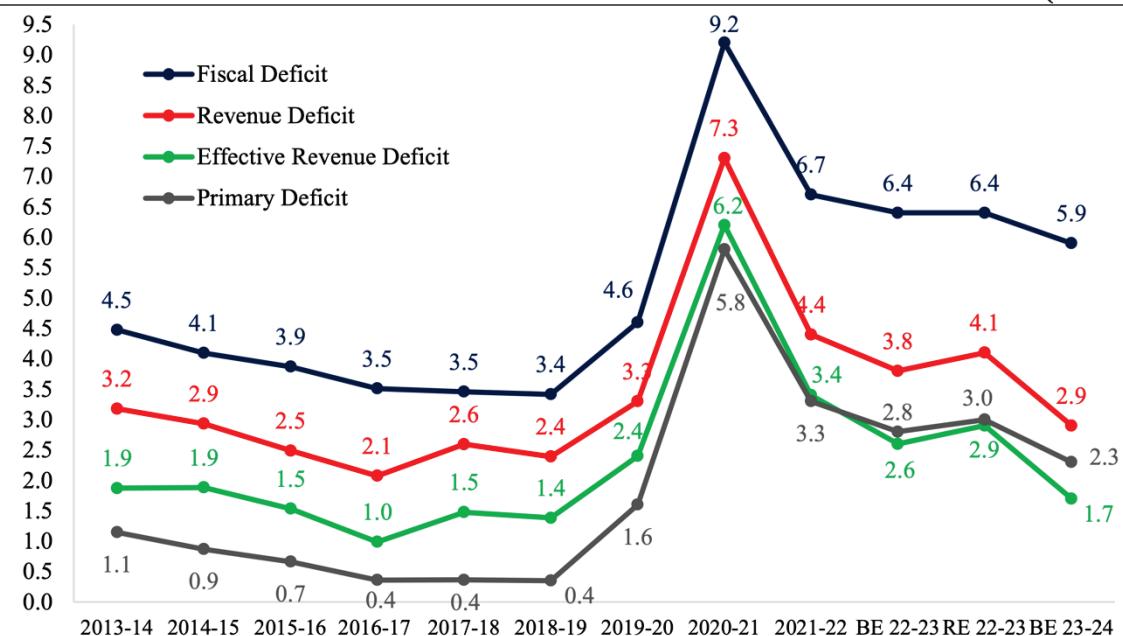
- 1) Budget Deficit plus Borrowing. *This borrowing includes internal borrowing [such as through Small Savings Scheme, and the G-Secs subscribed by Banks/NBFCs] + Borrowing from RBI] + External Borrowing.* (as per Tamilnadu TextBook & government's official calculation method)
- 2) Total expenditure – (Revenue receipts + Non-debt creating capital receipts). (as per NCERT)
- 3) Fiscal Deficit is the difference between the government's total expenditure and its total receipts excluding borrowing (as per NCERT)
- 1997-98: Fiscal Deficit calculation started as per **Sukhmoy Chakravarti Committee report.**

27.1.1 Fiscal glide

Fiscal glide refers to the gradual adjustment/decrease in fiscal deficit over time to maintain economic stability. (होल होल घाटे को कम करना, ताकि देश की आर्थिक स्थिरता बनी रहे।)

Financial Year (FY)	FY20–21	FY21–22	FY22–23	FY23–24	FY24–25	FY25–26
Deficit (%)	9.2	6.7	6.4	5.9	6.4	Target below 4.5 (as per Budget-2023)

	2021-2022 वास्तविक Actuals	2022-2023 बजट अनुमान Budget Estimates	2022-2023 संशोधित अनुमान Revised Estimates	2023-2024 बजट अनुमान Budget Estimates
Target: the fiscal deficit below 4.5 per cent of GDP by 2025-26.				
1. Fiscal Deficit	1584521 (6.7)	1661196 (6.4)	1755319 (6.4)	1786816 (5.9)
2. Revenue Deficit	1031021 (4.4)	990241 (3.8)	1110546 (4.1)	869855 (2.9)
3. Effective Revenue Deficit	788375 (3.3)	672598 (2.6)	784958 (2.9)	499867 (1.7)
4. Primary Deficit	779021 (3.3)	720545 (2.8)	814668 (3.0)	706845 (2.3)
(% of GDP)				



Q. ? MCQ. Find Correct Statement(s) (Asked in UPSC-Pre-2017)

1. Tax revenue as a percent of GDP of India has steadily increased in the last decade.
2. Fiscal deficit as a percent of GDP of India has steadily increased in the last decade.

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

Q. ? MCQ. The excess of total expenditure of Govt over its total receipts, excluding borrowings, is known as ___ (CDS-2021-i)

- (a) Primary deficit (b) Fiscal deficit (c) Current deficit (d) Capital deficit



27.2 PRIMARY DEFICIT: प्राथमिक घाटा

- ⇒ 1993: Finance Minister Manmohan Singh's budget speech mentioned:
- ⇒ If the government continues to borrow year after year, it leads to accumulation of debt and the government has to pay more and more interest. These interest payments themselves add more burden to borrow next year. (पुरानी लोन पर जो ब्याज चुकाना है उस रकम को घाटे की गिनती में नहीं लेना चाहिए)
- ⇒ So, to get a clearer picture of how much is the government borrowing for new programs, they look at another indicator: (ताकि नए वर्ष में विकास के काम के लिए इतना वास्तविक कर्ज लिया जा रहा है उसका पता चले)

Primary Deficit = Fiscal deficit minus the interest to be paid on the previous loans.

27.3 REVENUE DEFICIT (राजस्व घाटा)

- ⇒ When govt spends more than its income in revenue account, it incurs ...
- ⇒ Revenue deficit = Revenue expenditure – Revenue receipts. (व्यय ज्यादा आमदनी कम)
- ⇒ Since most of revenue expenditure is 'committed' (like Interest repayment on previous loans, staff-salaries & pensions which Govt can't 'avoid'), so difficult to the revenue deficit.
- ⇒ So, when revenue deficit , govt forced to borrow more money or expenditure in the capital part (= less new schools, bridges and hospitals) → human dev, and lower economic growth (less new bridges → demand of steel/ceements → growth in those sectors).

Deficit	Formula
Revenue Deficit राजस्व घाटा	Revenue expenditure – Revenue receipts जब राजस्व खर्च राजस्व आय से ज्यादा
Effective Revenue Deficit प्रभावी राजस्व घाटा	Revenue Deficit minus Grants for creation of capital assets

27.4 EFFECTIVE REVENUE DEFICIT (प्रभावी राजस्व घाटा)

- We've counted Grant-in-Aid to States / Local Bodies as 'Revenue Expenditure', but some portion of that ₹ may have been spent by the States / Local Bodies for building Panchayat-Bhavans, Disaster Management Training Institutes, Cranes & Bulldozers for Disaster rescue operations etc. which are actually "Capital Assets". (पूँजीगत संपत्तियां)
- Therefore, Budget 2011 (Chidambaram) introduced a new concept:
- **Effective Revenue Deficit** = Revenue Deficit MINUS Grants to various bodies which were spent for creation of Capital Assets

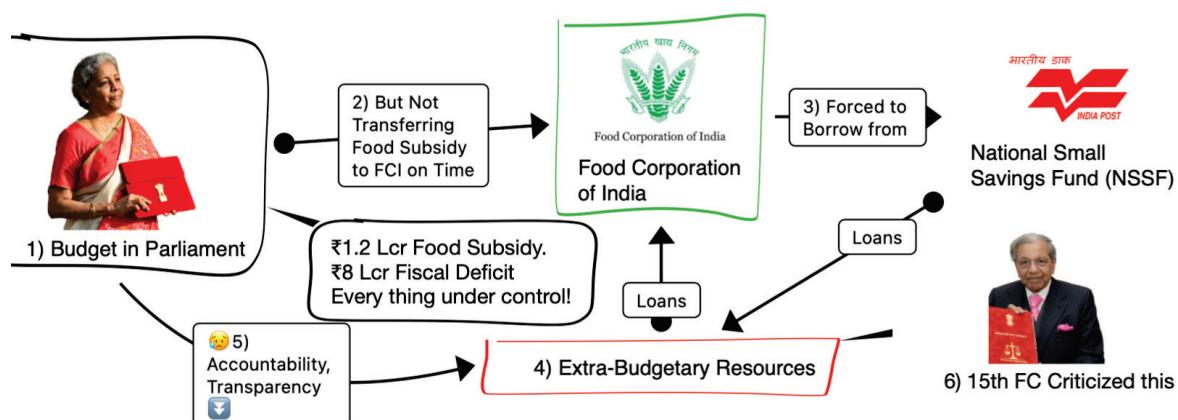
27.5 EXTRA-BUDGETARY RESOURCES (बजटेतर संसाधन)





'Extra Budgetary Resources' (EBR) or 'Off-budget resources' are loans taken by public sector undertakings and Government organizations. (सरकारी निगम संस्थानों द्वारा कर्ज लिया जाना) For example,

- ✖ Govt not releasing food subsidy to Food Corporation of India (FCI) & (thereby forcing) FCI to borrow money from National Small Savings Fund (NSF) for its food schemes. [Although Budget-2021 announced to stop this practice].
- ⇒ Here repayment of the entire principal and interest is done from the Central Government Budget eventually, behind the curtains. (पर्दे के पीछे सरकार देरी से पैसा देगी)
- ✖ EBR measures are announced after passing of budget so, they may escape the same general level of media-reporting, parliament debate or audit = bad for financial transparency & accountability. मीडिया-रिपोर्टिंग, संसद बहस या ऑडिट से छिपना = वित्तीय पारदर्शिता और जवाबदेही के लिए बुरा।



- ✖ 15th FC has termed "EBR" as 'off-budget borrowings through para-statal entities' and asked Government to avoid it. (15वें वित्त आयोग ने भी इन हरकतों को बंद करने की सलाह दी है)
- ✖ ES20 also criticised this practice (आर्थिक सर्वेक्षण ने इन हरकतों की आलोचना/निंदा की है)
- ⇒ These EBRs are not taken into account while calculating the Fiscal Deficit but they're counted while calculating Government debt or public debt.

FISCAL YEAR	EXTRA-BUDGETARY BORROWINGS (IN CRORES)
2020–21	1,48,000
2021–22	1,21,000
2022–23 & 2023–24	0

27.6 📁₹ DEBT COMPOSITION: AMOUNT-WISE

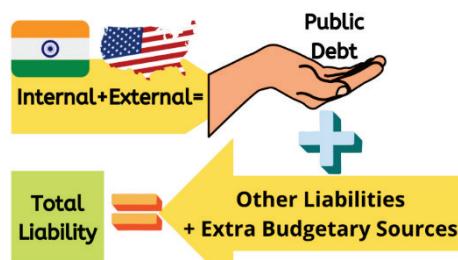




Table 2: Definition & DATA as per ES22 Vol1Ch2.

Outstanding Loan (बकाया कर्ज़)	2019-20	2020-21	2021-22
i) Internal Debt (आंतरिक क्रण)- all the pending loans total A. Marketable debt = Government's dated securities (G-Sec) and Treasury Bills, issued through auctions. Investor can be easily resell it in secondary market B. Non-marketable debt = special types of securities/bonds issued by Union Govt to EXIM Bank and other All India Financial Institutions (AIFI), State Govts etc. It's difficult/sometimes not possible to resell such securities/bonds in the secondary market. Majority of Govt's internal debt is marketable debt.	80 Lcr	99 Lcr	115 Lcr
ii) External Debt (बाह्य क्रण) ✓ Borrowed from other nations and multilateral institutions such as IMF, World Bank, ADB etc. ✓ At present Govt of India doesn't borrow directly from the International Capital Market.	5 Lcr	6.15 Lcr	6.59 Lcr
A) Public Debt (सार्वजनिक क्रण)= (i) + (ii)	85 Lcr	105 Lcr	121 Lcr
B) (Public Accounts): Other Liabilities such as Post Office Savings, Postal Insurance, Provident Fund etc. small savings schemes (लघु बचत योजना) (More in Pillar#1D3)	13 Lcr	12 Lcr	12 Lcr
C) Extra Budgetary Resources (बजेटेर संसाधन)	1.12 Lcr	1.39 Lcr	1.39 Lcr
Total Liability (कुल देयता) = A+B+C	99 Lcr	117 Lcr	134 Lcr

■ ■ ■ ES22: Total liabilities of the Central Govt ↑ sharply in 2020- because Corona : GDP ↓ → tax collection ↓ → govt's income ↓ → Govt had to borrow more money for Atma Nirbhar.

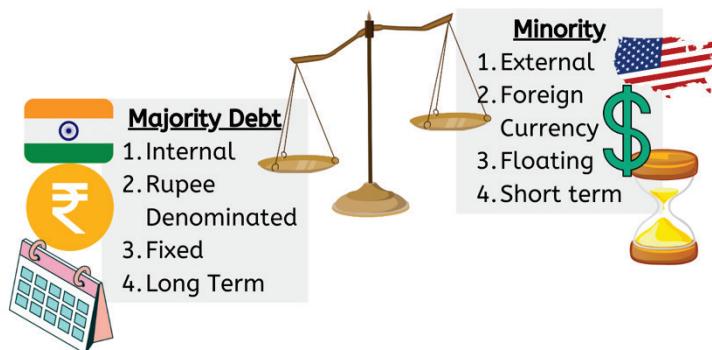
► FAQ: Why are above numbers not matching fiscal deficit numbers!!?? Ans. Fiscal deficit number only shows loan taken in a single financial year. Above is the cumulative (total) outstanding/unpaid loans of successive Govt (Vajpayee, Manmohan, Modi.....etc) (ये कुल बकाया कर्ज दिखा रहा है)

► FAQ: Why are above numbers not matching Extra Budgetary Resources numbers in previous section !!?? Ans. same as previous FAQ answer.

► FAQ: Is EPFO/NPS amount included in above? Ans. EPFO/NPS invests money in 1) Pvt sector company Shares, 2) private sector company Bonds and 3) G-Sec (=Loans to Govt). The G-Sec components is included.



27.6.1 📁 💵 Debt Composition: Type-wise



Out of loans	majority (अधिकतर कर्ज़ इस प्रकार के हैं)	minority(बहुत ही कम कर्ज़ इस प्रकार के हैं)
Total Public Debt	State Govt (70%)	Union (30%)
Union Debt → (Source)	Internal (94%)	external/foreign (6%)
Repayment Currency	Rupee	Foreign Currency (जो कर्ज विदेशी मुद्रा में वापस करने हैं)
Union Debt → (Type of Interest Rate)	👉 Fixed Interest (निश्चित ब्याज दर)	⌚ Hardly 5% of Govt loans are 'floating interest rate' (e.g. may be tied with LIBOR etc REF#1C). (चलायमान ब्याज दर वाले लोन बहुत कम हैं)
Tenure (अवधि के द्विसाब से)	📅 Long Term (दीर्घ अवधि)	⌚ Short Term (लघु अवधि)

- ⇒ Ratio of (External debt: GDP) = <3% (less than three percent)
- ⇒ India's "debt to GDP" ratio is lowest among following group of countries: 1) G20 2) OECD 3)
BRICS(📄 Ref: HDT-Pillar#3B: International Organisations)
- ⇒ Moreover, public debt for India has declined since 2003 and has been stable since 2011.

💡 ? MCQ. Find correct statements (Prelims-2022) :

1. A share of the household financial savings goes towards government borrowings.
 2. Dated securities issued at market- rates in auctions form a large component of internal debt.
- Codes: (a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2

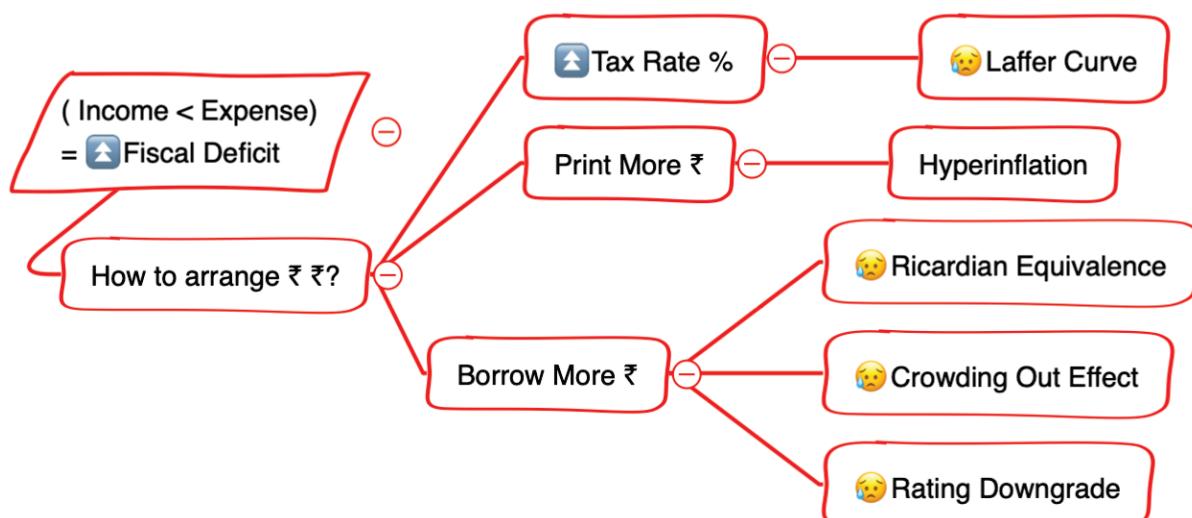
27.7 📁 💵 FINANCING THE DEFICIT: ITS NEGATIVE CONSEQUENCES ON ECONOMY:

घाटे का वित्तपोषण: अर्थव्यवस्था पे उसके नकारात्मक परिणाम

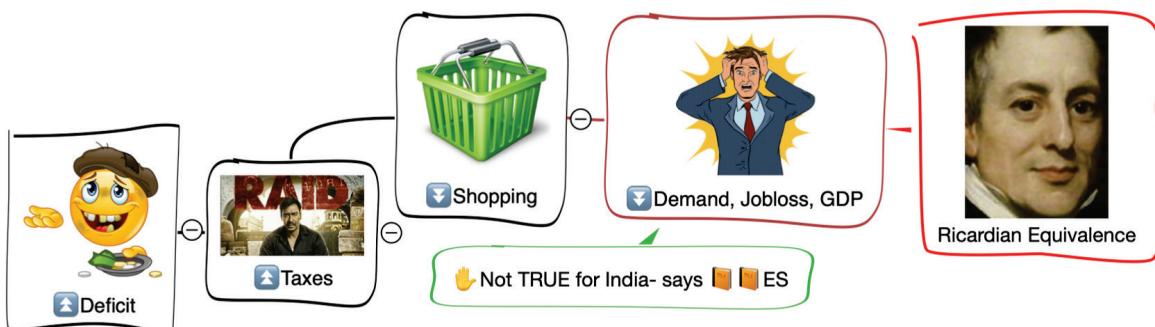
How to fill deficit?	⌚ Why problematic / impractical? क्या समस्याएं/व्यावहारिक क्यों नहीं हैं
⌚ 1) Demanding more taxes जनता पर ज्यादा कर लाडे जाएं	⇒ Taxes can't be ⚡ beyond a point because it may force people to evade taxes / discourage their motivation to work. (recall Laffer Curve). करो का स्तर बहुत बड़ा दिया तो लोग करचोरी करेंगे



How to fill deficit?	Why problematic / impractical? क्या समस्याएं/व्यावहारिक क्यों नहीं हैं
⌚⌚ 2) Borrowing more money सरकार द्वारा ज्यादा पैसा कर्ज में लिया जाए	<p>⇒ Ricardian Equivalence: ⬆️ Government borrowing → ⬇️ public shopping = bad for economy. Although 📊 ES21 says this will not happen in India.</p> <p>⇒ Crowding out of the private borrowers Although 📊 ES21 says this will not happen in India.</p> <p>⇒ Fall in the sovereign credit rating. Although 📊 ES21 says this will not happen in India.</p>
🖨️🖨️ 3) Printing More money	⇒ Although known as Monetising the deficit- it results in hyperinflation (दे दना दन नोट छाप दिया जाए तो महंगाई बहुत बढ़ जाएगी)



27.7.1 💳⌚️⬆️⬇️:💻️⬇️ Financing the Deficit: Ricardian Equivalence



- ✗ ⬆️ deficit → Government borrows ⬆️ money → @Maturity (also called 'Redemption') of G-Sec, Govt will have to return the principal and interest to the lenders.
- ✗ At that time, Govt may greatly increase taxes on people to arrange that amount.
- ✗ So, Economist David Ricardo argued that during high deficits, people save more, because they become cautious about future hike in taxes.



- It's called "Ricardian equivalence: रिकार्डियन तुल्यता" [& if people begin to spend less and save more, then companies will face unsold inventories = new problems for economy]

27.7.2 Ricardian Equivalence invalid for India says ES21

ES21 cited multiple Research about Indian Economy (1950s-80s) & found REP to be NOT valid for India Because...

Ricardian Equivalence Proposition (REP) Assumes that (निम्न धारणाएं आवश्यक हैं)	Why invalid for India? भारत में यह सिद्धांत गलत क्यों साबित हुआ?
Citizens are perfectly rational and perfectly capable to think about Future income, future tax liability, fiscal deficit when making their consumption decisions. डेविड रिकार्डों की तुल्यता सिद्धांत सभी साबित होने के लिए सभी नागरिकों का तर्कसंगत और बुद्धिमत्ता से सोच विचार के लिए सक्षम होना जरूरी- कि भविष्य में उनकी आमदनी, कर-दायित्व, राजकोषीय खाध, उपभोक्ता मांग कितनी होगी।	Shopping decisions also depend on emotional urges and psychological whims e.g. Marriage-DJ/iPhone/Foreign vacation. ग्राहक सभी निर्णय तर्कसंगत बनकर नहीं लेते। भावनात्मक आग्रह और मनोवैज्ञानिक सनक भी आप को खरीदारी के लिए उत्तेजित करती है
All citizens are paying taxes. डेविड रिकार्डों की तुल्यता सिद्धांत सभी साबित होने के लिए सभी नागरिकों का करदाता होना जरूरी	Tax Evasion, Black money, parallel economy. भरपूर माला में कर चोरी, काला धन

27.7.3 Financing the deficit: “Crowding Out” of private borrowers

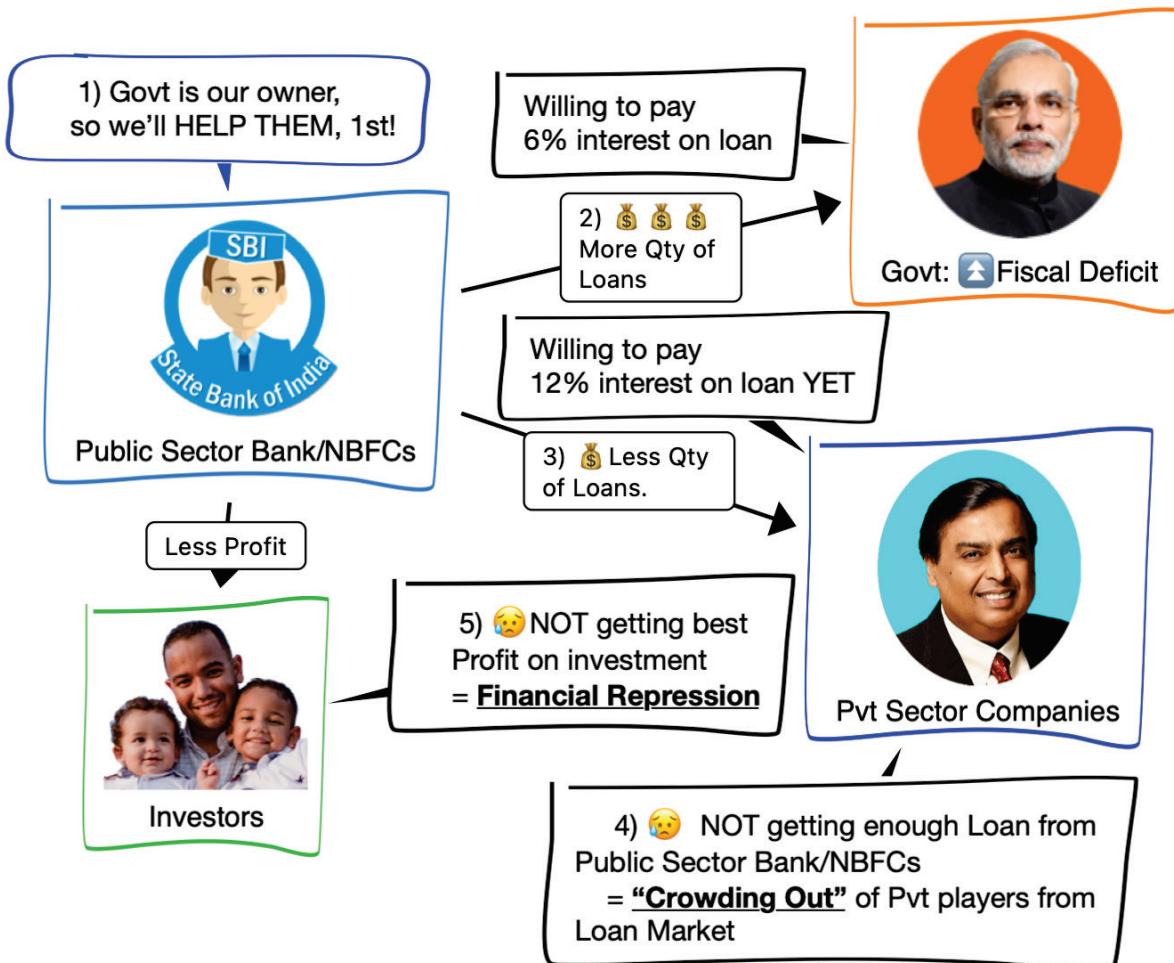
- If govt borrows money from households & financial intermediaries (LIC, EPFO, Banks via SLR), then that much less money will be available for loans to private corporate borrowers. = “Crowding Out Effect” on the private borrowers= harms factory expansion and job creation. (कॉर्पोरेट उधारकर्ताओं को ऋण बाजार से बाहर धकेल देना)
- If Govt forces SBI, LIC, EPFO to buy its G-sec using public deposits → depriving households of the optimal return (Had the same money been invested in the corporate sector) = “ Financial Repression of the households.” (घरों/ कुटुम्बों का वित्तीय दमन”.)
- Govt (forced) NABARD to buy its ₹ 15,000 crore Swachh Bharat Mission (Gramin) Bonds with maturity period of 10 years. Govt (forcing) RBI and others to pay higher dividend. → operational freedom of those organization is affected.

27.7.4 Crowding out of private investment? ES21 Observations

- ES21 found some evidence of "crowding out" of private companies in India during 1950s to 1990s. Mainly because (50 से 90 के दशक में निजी क्षेत्र की कंपनियों को रुण-बाजार से बाहर धकेले जाने के सबूत मिले क्योंकि:)
- ⇒ [1] CRR and SLR were very high therefore PSB banks loanable funds supply was very limited & due to politicized boards, they may have channeled most of the savings towards the govt. (डिपोजिट में से सीआरआर एसएलआर को हटाने के बाद कर्ज में देने योग्य रकम वैसे भी बहुत कम रहती थी)
 - ⇒ [2] Absence of large private sector banks (निजी क्षेत्र के बड़े बैंकों का आगमन अभी बाकी था)
 - ⇒ [3] Publics' earnings and savings were low. (लोगों के पास भी आमदनी और बचत कम ही थी)

⇒ [4) Capital market / share-bond Market was underdeveloped. (पूँजी बाजार, शेयर/बांड बाजार विकसित)

नहीं हुआ था → निजी कंपनियों के लिए पूँजी हासिल करना मुश्किल)



☒☒ ES21 find no evidence of crowding out in India from 1990-2019. Because

- the above factors have gradually faded. (90 के दशक में उक्त बाधाएं कमजोर हो गई थी)
- if Govt borrows money for Infra-development (Health, Education, Transport, electricity, Irrigation etc) → jobs & GDP ↑ → citizens' income ↑ → savings ↑ → more ₹₹ in banks, NBFC, mutual fund, shares/bonds etc. So, "crowding out" may not happen because 'size of dish' will become larger. (शिक्षा स्वास्थ्य परिवहन बिजली सिंचाई जैसी बुनियादी अवसंरचना के लिए अगर सरकार कर्जा लेती है → रोजगार और आर्थिक वृद्धि में बढ़ोतरी → नागरिक की आमदनी बढ़ेगी → उसकी बचत बढ़ेगी → अपने आप ही बैंक-बचत शेयर बांड द्वारा कंपनियों को ढेर सारा निवेश मिल जाएगा. अतः रुण बाजार से कंपनियों को बाहर नहीं धकेला जाएगा)
- 1990-2019: ↑ in the population of youth / working age people (demographic dividend) → income & savings & banking habits ↑ → Loanable funds ↑ so "Crowding out" chances ↘ (आबादी में नौजवानों की मात्रा बढ़ी → आमदनी और बचत की भावना भी बढ़ी → कर्ज में देने के लिए रकम भी बढ़ी है)



"Crowding out" assumes that the supply of savings is fixed. But in reality, economic growth → the size/quantity of savings (धारणा से विपरीत वास्तविकता में बचत की रकम का जस्ता स्थिर नहीं होता. आर्थिक वृद्धि के साथ-साथ बचत-जस्ते में भी बढ़ोतरी होती है)

27.7.5 Financing the deficit: Printing More Money



- ✗ High level of fiscal deficit → International Credit Rating Agencies will the sovereign rating for India → investors will demand interest from government for buying new G-Sec → G-sec remains unsold → RBI forced to buy it (and print more money to give to Govt)
- ✗ it's called "Monetizing the Deficit". It can result in hyperinflation and the purchasing power of currency (if there is not sufficient increase in the supply of onion, tomatoes & goods in the market. e.g. Germany, after Treaty of Versailles in 1919. (मुद्राकृत घाटा: सरकारी कर्ज के लिए रिजर्व बैंक द्वारा दे दना दन नोट छापे जाने पर महंगाई दर/मुद्रास्फीति को अप्रत्याशित रूप से बढ़ जाएगी)

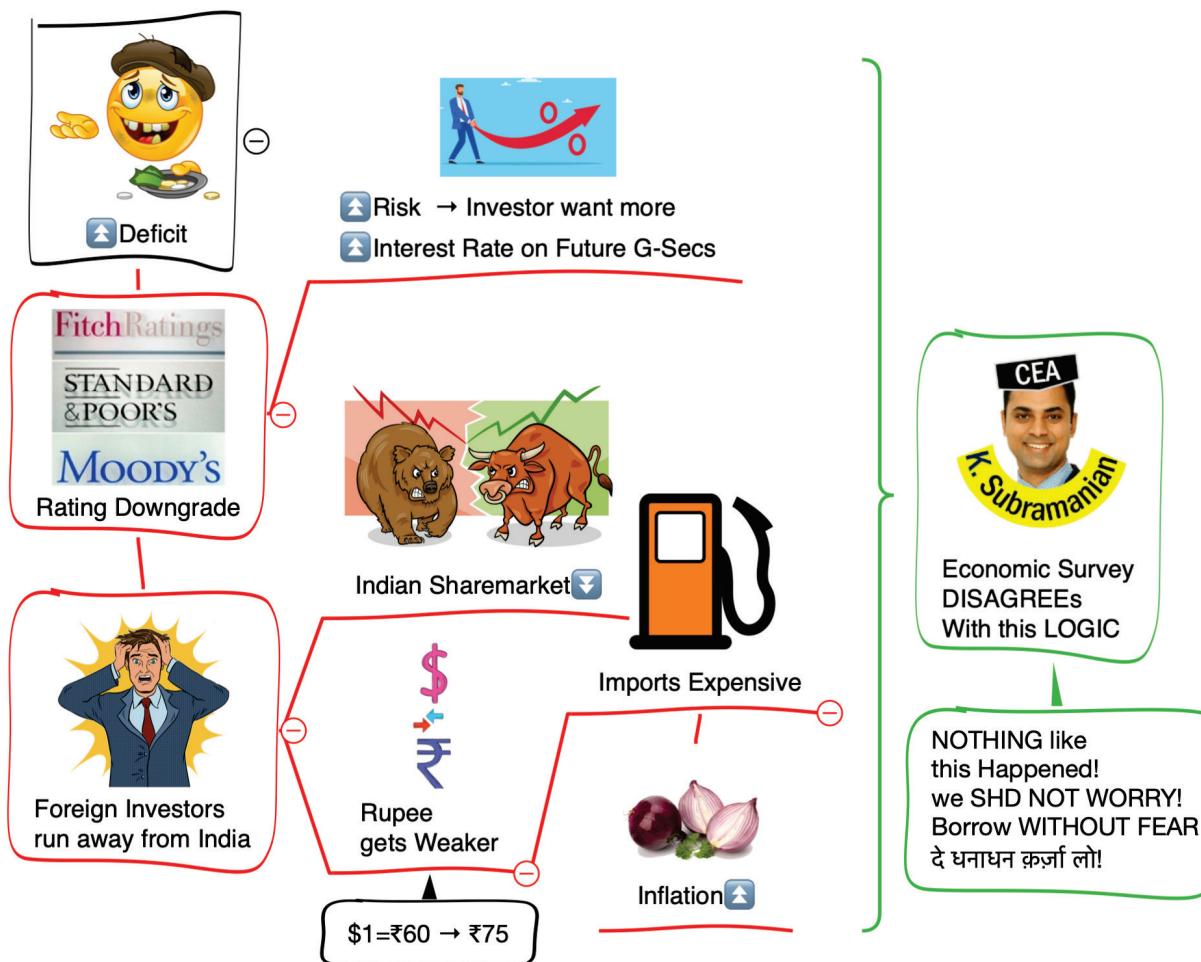
27.7.6 Fiscal Deficit = India sovereign rating

Table 3: classification not important, sufficient to know AAA=best.

Rating →	Moody's sovereign rating (सरकारी प्रतिभूतियों का रेटिंग/श्रेणीकरण)
Prime अग्रिम/उच्चतम दर्जे	Aaa (e.g. US Treasury Bonds)
High grade / उच्च	Aa1 to 3
investment grade: Upper medium / मध्यम	A1
investment grade: Lower medium	Baa1 to Baa3. 2020-June: India rating reduced to Baa3. because of weak fiscal position, rising fiscal deficit
Non investment grade (junk / रद्दी)	BA1 to lower ranks like "C".

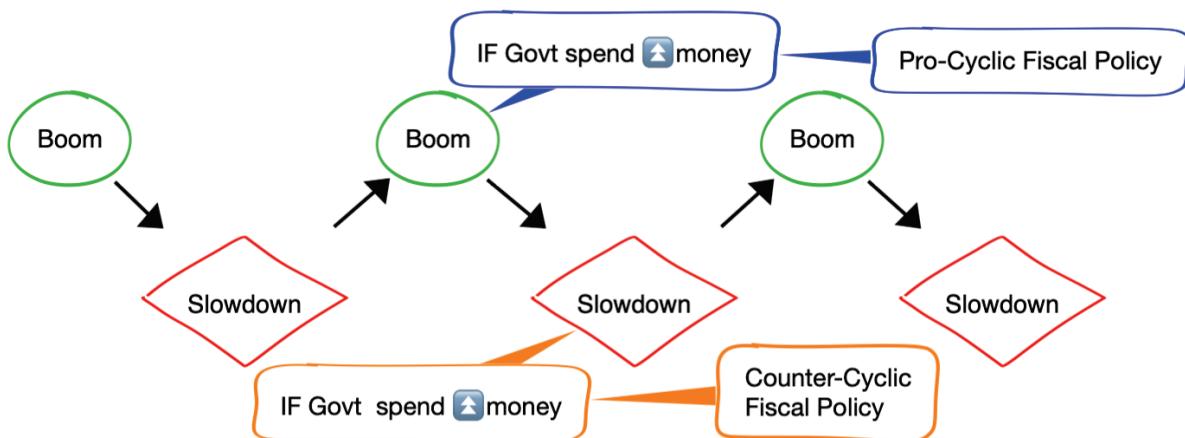
So, now if India's sovereign rating any step further= junk status= Implications?

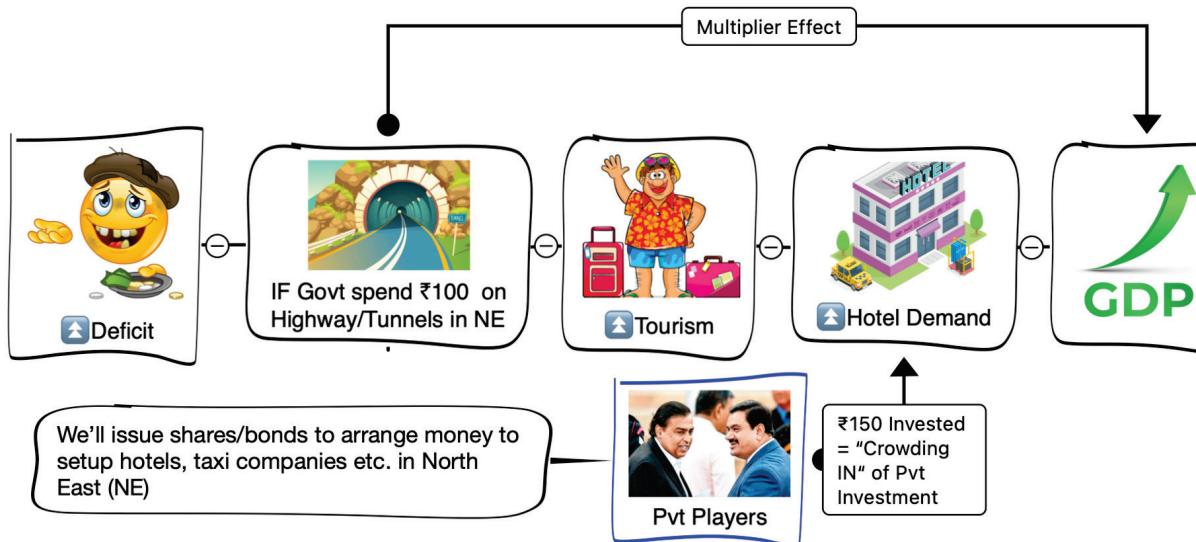
- ⇒ Govt will have to offer more interest to investors to lure them into buying g-sec
- ⇒ Flight of Foreign Capital from India (भारत से विदेशी पूँजी का उड़ायन/निर्गम):
- ⇒ Foreign investors may fear Indian govt will default in payment of previous G-Sec
- ⇒ So they'll dump it to other investors and run away from India.
- ⇒ =Flight of capital from India = \$ strengthen, rupee weakens. (Why? Ref: pillar3)
- ⇒ However, ES21 suggested we need not worry about it. मत डरो इनसे और दे दना दन कर्जा ले लो



27.8 COUNTERCYCLICAL POLICY (प्रतिचक्रीय राजकोषीय नीति)

(Introduction: Origin) Indian Kings used to build palaces, temples, mosques etc during famines to provide employment. Thus, during an economic slowdown, the Govt must spend more ₹₹ to achieve a similar objective. (अकाल के दिनों में राजा महाराजा महल मंदिर और मस्जिद बनवाते, ताकि लोगों को रोजगार मिले. आर्थिक मंदी के समय में सरकार ने भी कुछ ऐसा ही करना चाहिए)





Counter cyclical Fiscal policy प्रतिचक्रीय नीति राजकोषीय नीति	<ul style="list-style-type: none"> ⇒ During economic slowdown → Increase Fiscal expenditure to boost employment & GDP. ⇒ It helps in “Crowding-in” i.e. When govt spending increased → private investment e.g. Govt building highway in Arunachal → Private entrepreneurs building petrol pumps & hotels → jobs GDP. आर्थिक मंदी के दौरान सरकारी खर्च को बढ़ाया जाए-ताकि निजी क्षेत्र निवेश रोजगार आर्थिक वृद्धि में मदद. ⇒ During economic boost: Decrease govt spending (So as to build reserves for future emergency/future slowdown) आर्थिक तेजी में सरकारी खर्च को कम किया जाए ताकि सरकार भविष्य की मंदी के दौरान इस्तेमाल करने योग्य रकम को आरक्षित रख सके/जमा कर सके. ⇒ USA, UK, Chile have done this in the past, but India has not done it. <p> ES21 Suggested India to pursue this.</p>
Pro-Cyclical fiscal policy	<ul style="list-style-type: none"> ⇒ During economic Boom, Fiscal expenditure ⇒ चक्रीय-समर्थक राजकोषीय नीति आर्थिक तेजी के दौरान सरकार ज्यादा पैसा खर्च करें

Q ? MCQ. The increase in private investment spending induced by the increase in Government spending is known as (CDS-2021-i)

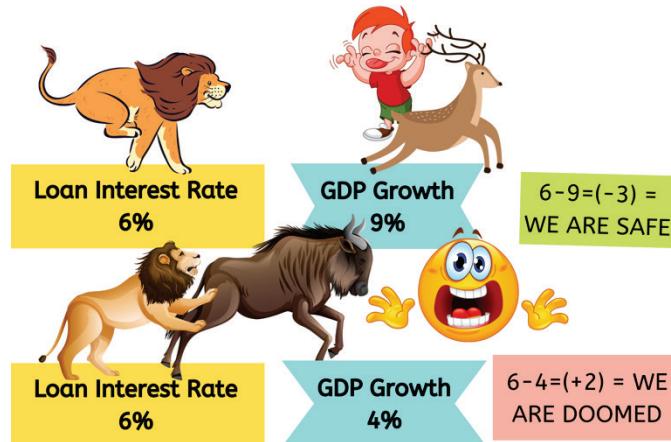
- (a) Crowding in (b) Deficit financing (c) Crowding out (d) Pumping out

27.8.1 Countercyclical: IRGD & Debt Sustainability

- ⇒ Interest Rate Growth Rate Differential (IRGD: रुण-ब्याज-दर वृद्धि-दर के बीच अंतर): It is the difference between (loan) interest rate (paid by Govt to investors) and GDP growth rate in an economy.
- ⇒ so if loan interest 6% - minus growth rate 9% = (-3)% negative IRGD figure basically hints that if GDP Growth rate is higher than the loan interest rate paid by the govt, then Govt need not worry much, because GDP → Tax collection → Enough ₹₹ to repay those loans. यदि सरकार ने जिस

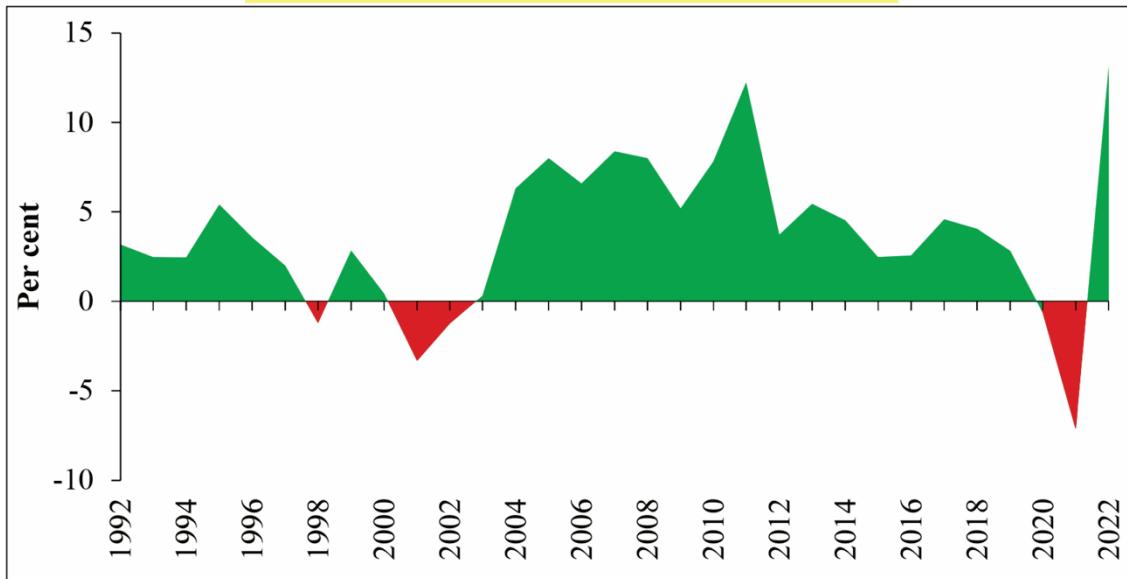


ब्याज दर पर कर्जा लिया है उसे आर्थिक वृद्धि दर ज्यादा हो तब तक सरकार ने चिंता करने की जरूरत नहीं क्योंकि आर्थिक वृद्धि के चलते कर-आमदानी में बढ़ोतरी होगी → कर्जा चुकाने के लिए सरकार के पास रकम आती रहेगी.



Title	Formula	Comment
Interest Rate Growth Rate Differential	Loan interest minus GDP growth: $6-9 = \text{Minus } 2$	Negative number is good for economy.
Growth Rate Interest Rate Differential	GDP growth minus Loan Interest: $9-6 = \text{Plus } 2$	Positive number is good for economy.

Figure III.18: Growth-interest rate differential for India



⇒ ES23: our growth-interest rate differential positive. Our government debt to GDP is sustainable.

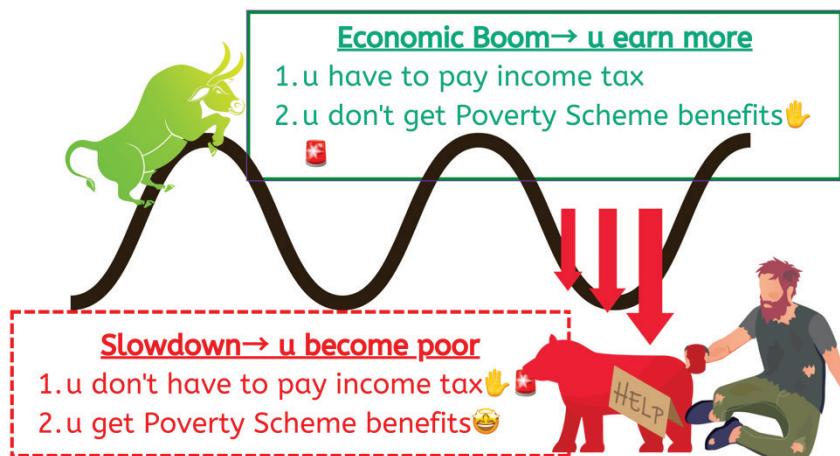
27.8.2 Countercyclical: Domar Condition of Debt Sustainability

⇒ Economist Evsey Domar (1944) stated that, “Public debt of a country will be sustainable, IF GDP growth is greater than the public debt growth rate.”

⇒ Otherwise government may default on loan-repayment.” (यदि देश का आर्थिक वृद्धिदर, उस देश के सार्वजनिक कर्ज वृद्धिदर से ज्यादा होगा तो सार्वजनिक कर्ज वहनीय हो पाएगा, वरना तो सरकार दिवालियापन दिखा देगी/ कर्ज नहीं चुका पाएगी।)

More on GDP Growth =  Ref: HDT-Pillar#4C: GDP

27.9 SIDE NOTE: AUTOMATIC STABILIZERS (स्वचालित-स्थिरीकारी)



- ⇒ Automatic stabilizers are mechanisms built into govt budget to address economic slowdown automatically- by automatically increasing govt's spending and/or decrease public's tax liability.
[“स्वचालित-स्थिरीकारी” - आर्थिक मंदी के दौरान अपने आप सरकारी खर्च को बढ़ाता है या जनता की कर-देयता को कम करता है]
- ⇒ Automatic stabilizer does not require any change in the existing tax law or voting in the Parliament- because it starts working automatically during slowdown. [उन्हें क्रियान्वित करने के लिए अलग से नया कानून/ संसद की अनुमति लेने की ज़रूरत नहीं होती. वो अपने आप ही क्रियान्वित हो जाता है]
- ⇒ Examples of **Automatic Stabilisers**: Income tax, Corporation tax, unemployment allowance, food subsidy and other Government schemes that are meant only for poor /lower middle class people. [आयकर, निगम कर, गरीब के लिए लक्षित खाद्य सब्सिडी और दूसरी कल्याणकारी योजनाएं- “स्वचालित-स्थिरीकारी” हैं]

Note: Countercyclical fiscal policy / fiscal stimulus = it requires the government to pass a new budget / new law / permission of Parliament for some new initiatives. So, they are not automatic stabilisers. They are **discretionary stabilisers**. [प्रति चक्रीय राजकोषीय नीति तथा राजकोषीय प्रोत्साहन पैकेज के लिए सरकार ने अलग से विशेष रूप से नए बजट में ज़िक्र करना होगा कोई कानून पास करवाना होगा इसलिए वे विवेकाधीन स्थिरीकारी हैं।]

 ? MCQ. Which one of the following functions as an automatic stabilizer in the context of fiscal and monetary policies of an economy? (UPSC-CAPF-2021)

- (a) Personal income tax (b) Reverse repo rate of bank (c) Open market operation (d) Bond price

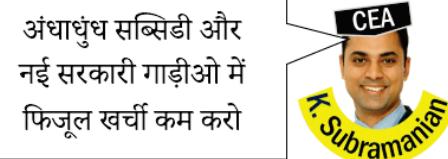


27.10 MISCELLANEOUS TERMS RELATED TO DEFICIT FINANCING

Table 4: need not do PHD on it unless Optional Subject=Public Administration

Methods	for repaying debt (ऋण चुकाने के अलग अलग तरीके)
Redemption (भुगतान)	Repay the loan principal and interest at regular interval. Also known as Terminal Annuity. अनुशासन पूर्वक मूलधन और ब्याज धीरे-धीरे वापस चुकाना
Sinking Fund (निक्षेप निधि)	Govt creates a special fund & keeps depositing money in it regularly. So at the time of G-sec maturity, it has enough 'buffer' money to honor the loan repayment. First introduced in England.
Conversion / restructuring	पुनर्गठन : Converting old loan into new loan with modifications in interest / tenure. (पुरानी लोन के ब्याज दर या अवधि में बदलाव करना) 2020-Nov: Zambia became Africa's 1st nation to default on its Euro loans due to Corona. Experts believe some restructuring may be done.
Evergreening	Taking new loan to repay the old loan (पुरानी लोन चुकाने नया कर्ज लेना)
Repudiation (परित्याग / बहिष्कार) कर्ज चुकाने से मना कर देना	Govt does not recognize its obligation to repay the loan. E.g. After Russian Revolution (1917) Lenin's Government refused to pay the loans taken by the previous Czar regime from Britain & France. Although, in modern times not a sound strategy because next time, no one will give you loans.

27.11 FISCAL CONSOLIDATION / PRUDENCE: राजकोषीय एकलीकरण / विवेक



It involves reduction in government expenditure to control its Fiscal Deficit. Such as

1. the leakages (रिसाव) by targeted delivery of schemes and subsidies through direct benefit transfer (DBT) through JanDhan- Aadhar- Mobile (JAM) trinity.
2. the quantum (मात्रा) of subsidies: e.g.
 - a. Deregulation of Petrol prices (2010), Diesel (2013) (दामो को नियंत्रण मुक्त)
 - b. 2016: Oil Ministry began to block LPG-Pahal subsidies to persons with annual taxable income of ₹ 10 lakh />
 - c. 2017: Oil Ministry asked oil companies to keep raising prices of subsidised kerosene by 25 paise every fortnight until the subsidy is eliminated.
3. Shutting down loss making PSU. E.g. Hindustan Photo Films, HMT Bearings, HMT Chinar Watches, Tungbhadrak Steel, Hindustan Cable & HMT Watches (2014).
4. Privatization of loss making Govt companies (निजीकरण) e.g. IDBI, Air India.
5. 2014-16: Government setup an Expenditure Management Commission (व्यय प्रबंधन आयोग) under Bimal Jalan to suggest ways to reduce its Expenditure.



6. Austerity Measures (मितव्ययिता के उपाय) e.g.

- 2018- W.Bengal govt issued directives to its departments banning flower bouquets and mementoes in public functions, banning officials meetings at private hotels, frequent installation of AC, car purchases, office renovations etc. & restricting the no. of foreign tours by Ministers / IAS etc., More use of video-conferencing instead of physical travel.
- 2019: PM's Cabinet Committee on Investment and Growth (CCIG: निवेश और विकास की कैबिनेट समिति) ordered all Union ministries to reduce wasteful expenditure on travel, food and conferences by 20% (यात्रा, भोजन और सम्मेलन की फिजूल खर्ची में कटौती करो).
- 2021: Parliament canteen subsidy ended e.g. Masala Dosa will no longer be sold at ₹6 etc. This will help saving ₹8cr

MCQ ? MCQ. There has been a persistent deficit budget year after year. What can be done by the government to reduce the deficit? (Asked in UPSC-Pre-2015)

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

Answer Codes: (a) 1 and 3 only (b) 2 and 3 only (c) 1 only (d) 1, 2, 3 and 4

MCQ ? MCQ. In India, the price of petroleum products has been deregulated to _ __. (CDS-2013-II)

- (a) reduce the burden of subsidies given to the oil companies
 (b) discourage the exploration of oil reserves in the country
 (c) discourage the demand for private vehicles
 (d) curb the use of black money in the economy

27.12 FISCAL STIMULUS (राजस्व प्रोत्साहन पेकेज)



When govt taxes and/or public procurement (सरकारी खरीद) to demand & growth in economy, it's called "Fiscal Stimulus" (राजस्व प्रोत्साहन पेकेज).

27.12.1 Manmohan's Fiscal Stimulus (2008-)

⇒ Post-subprime crisis in USA, PM Manmohan announced Fiscal Stimulus (2008) such as

- (1) in the Excise duty & Custom Duty on exports
- (2) Businessmen were given additional benefits in Income Tax & Corporation Tax, if they purchased new commercial vehicles.
- (3) Hiked the Minimum Support Prices (MSP) for farmers. More in Pillar#4A

⇒ However, the economic surveys observed that such Fiscal Stimulus create new set of problems by fiscal deficit in the subsequent years.



27.12.2 📈 🗂️ 💡 🎯 Modi's Atma-Nirbhar Bharat Economic Stimulus Package (2020)

- ⇒ (Origin) 2020-March: Government of India initiated nationwide lockdown to prevent the spread of Corona/COVID-19 pandemic. (कोरोना महामारी के चलते देशव्यापी तालाबंदी)
- ⇒ This lockdown affected the income and livelihood of everyone from corporate companies to common citizens of India. (सबकी आजीविका को हानी हुई)
- ⇒ Therefore, to revive the economy, Prime Minister of India launched Atma Nirbhar Bharat stimulus package in 2020-May to revive the Indian economy. (अर्थव्यवस्था को पुनर्जीवन / प्रोस्ताहन का आर्थिक पैकेज)
- ⇒ It's centred on five pillars of – Economy, Infrastructure, System, Demand and Vibrant Demography (स्फूर्तिली जनसांख्यिकी).

Table 5: (DATA) 📈 Atma Nirbhar Bharat consists of

DATE	.Components of Atma Nirbhar Bharat	Amt in lakh cr (Originally)	As per ES21
2020-Mar to May	1) RBI's monetary policies → (Ref#1A2)	₹8 lakh cr	₹13 Lcr
2020-Mar	2) PM GARIB KALYAN (PMGKY): Covid Relief Package →	₹1.70-1.90 lcr	₹17 Lcr
2020-May	3) FM Nirmala.S made new announcements made like Credit guarantee for MSME, TDS rates, PM Matsya Samda Yojana, Agri infra fund etc.	₹11 lakh cr	
ATMANI = 1+2+3=Total कुल मिलाकर जोड़ी गयी रकम		= ₹20 lcr approx. (10% of GDP)	₹30 Lcr = 15% of GDP

Note: Salient features of Atma-Nirbhar is spread across 6 pillars of Handout. Its criticism, how useful in reviving economy & GDP growth, Nehru vs Modi's ideas of self-reliance etc. = Ref: 📈 Pillar#4C

27.12.3 💡 Frontloading of Stimulus and Overheating in Economy

Refer to Pillar 4D: GDP

QUESTION: MCQ. Which one of the following describes the “fiscal stimulus”? (UPSC-Pre-2011)

- 1) 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
- 2) It is an intense affirmative action of the Government to boost economic activity in the country
- 3) 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
- 4) It is an extreme affirmative action by the Government to pursue its policy of financial inclusion

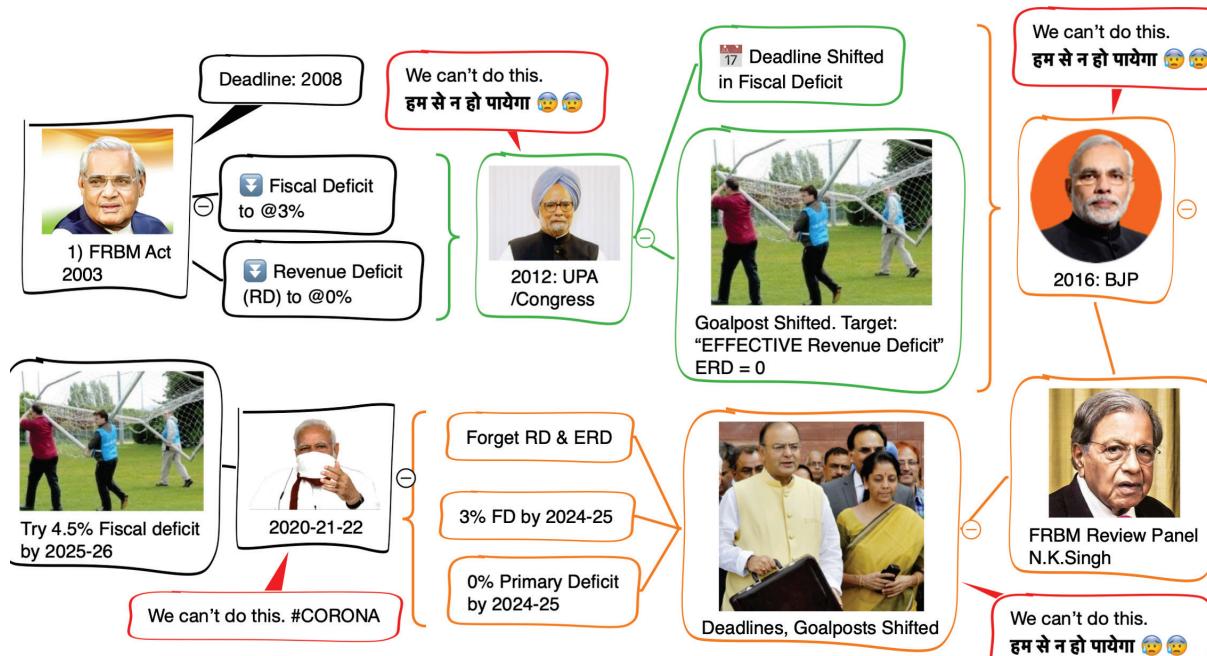
27.13 🗂️ 💡 FISCAL RESPONSIBILITY & BUDGET MANAGEMENT ACT, 2003

FRBM Act: राजकोषीय उत्तरदायित्व और बजट प्रबंधन अधिनियम, 2003



Originally it required Union and States to control their deficits with following targets:

- By 2008: Fiscal Deficit
 - For Union: 3% of GDP (GROSS DOMESTIC PRODUCT: सकल घरेलू उत्पाद)
 - For States: 3% of GSDP (GROSS STATE DOMESTIC PRODUCT)
- By 2008: Eliminate Revenue deficit (=make it 0%) of their respective GDP or GSDP.



While some of the state govts achieved them, but successive union govts struggled to meet these targets so they kept amending the act to extend the deadlines and targets. (लक्ष्यों की समयसीमा को पीछे धकेलते रहे). E.g. Amendment 2012: No need to have 0% Revenue deficit. Instead it required 0% Effective Revenue Deficit by 2015. These deadlines were extended even further in subsequent Finance Bills.

27.14 ⚡ FRBM: TRIGGER MECHANISM (TO) ESCAPE (DEFICIT CONTROL) CLAUSE

FRBM Act Section 4(2): provides for a trigger mechanism to escape the deficit control related clauses in the act i.e. Government can overrule the targets in following situations (चुनिन्दा 'ट्रिगर' परिस्थितियों में, घाटे-नियंत्रण संबंधी धाराओं से बच सकते हैं)

1. National Security / Act of War (राष्ट्रीय सुरक्षा / युद्ध)
2. National Calamity (राष्ट्रीय आपदा)
3. If agriculture output and farm incomes collapse (कृषि उत्पादन, आय में पतन)
4. Fall in real output/ GDP growth rate beyond x% (विकास दर में अत्याधिक गिरावट)
5. Structural reforms in the economy with unanticipated fiscal implications (अर्थव्यवस्था में संरचनात्मक सुधारों की राजकोष पे अप्रत्याशित असर हो.)

👉 ⚡ During above 'trigger conditions' (उक्त 'ट्रिगर' परिस्थितियों में)



- ⇒ **FRBM Act Section 4(2):** Govt may overcross/deviate the fiscal deficit target by upto 0.5% of GDP, as recommended by NK Singh's FRBM review Committee. (घाटे की मर्यादा/लक्ष्यांक को लाञ्च देना).
- ⇒ Individual State Governments may also do similar (e.g. overcross by 0.5% of GSDP), but they've to amend their state FRBM Act accordingly with this provision.
- ⇒ **💼 Budget-2020:** FM cited trigger#5 (structural reforms....) to escape the FRBM targets for 2019-20 and 2020-21.

Table 6: यानि की घाटा से कठौती हमसे ना हो पाएगी'

Fiscal deficit →	Original target (मूलतः)	Overcrossed After Trigger Mechanism
2019-20	3.3%	3.8%
2020-21	3%	3.5%

- Primary deficit target 0% (2020-21): shifted to 2022-23.
- Revenue Deficit and ERD also over crossed but anyways FRBM Act has abandoned targeting them since 2018's amendment.
- **2020-Corona crisis:** Govt's income and expenses so deficit rose to unprecedented level.
- **💼 Budget-2021:** FRBM amended to provide fiscal deficit 6.8% (2021-22) and 4.5% (2025-26)- because 4.5% target is recommended by 15th FC.

27.14.1 FRBM: Misc. Concepts

- 1) in 2018, instead of immediately reducing the Fiscal deficit to 3.0% FM Jaitley promised to reduce it to 3% in 2020-21 like a glider gradually descending on its landing target. Hence subsequent Finance Ministers keep reiterating that we'll continue on that 'Fiscal Glide' (राजकोषीय सरकाव) path. Although **💼 Budget-2020** FM Nirmala.S used FRBM-trigger to escape it, temporarily.
- 2) **Fiscal Profligacy** (अंधाधुंध राजकोषीय खर्च/आवारगी/ऐयाशी): This phrase is used to denote reckless extravagance/wasteful expenditure of public money.
- 3) If government has targeted to keep the fiscal deficit within 3.3% percent of GDP, but if it crosses that limit, it's called 'Fiscal Slippage' (राजकोषीय फिसलन).

27.14.2 FRBM Act: Documents (दस्तावेज़)

FRBM Act requires the Union Govt to present following documents along with the budget:

- 1) **Macroeconomic Framework Statement** (व्यापक आर्थिक ढाँचा विवरण): to show economic data - GDP, growth rate, import-exports, and government's receipts,expenditure etc.
- 2) **Medium Term Fiscal Policy Statement** (मध्यम अवधि की राजकोषीय नीति विवरण)
- 3) **Fiscal Policy Strategy Statement** (राजकोषीय नीति कार्यनीति विवरण): To explain how Govt. is controlling the deficits, and whether there is going to be any deviation from the target. **Note:** In real life,



Doc#2 and Doc#3 are published together as "*Medium Term Fiscal Policy cum Fiscal Policy Strategy Statement.*" (दूसरा और तीसरा दस्तावेज वास्तव में एक साथ, एक ही फाइल में दे देते हैं)

- 4) Medium-term **Expenditure** Framework (मध्यम अवधि व्यय ढाँचा विवरण) →  Budget-2021, 2022, 2023 Government not presented this document in Parliament, due to Corona. 

	Revised Estimates 2019-2020	Budget Estimates 2020-2021	(Projections)	
			2021-2022	2022-2023
1. Fiscal Deficit	3.8	3.5	3.3	3.1
2. Revenue Deficit	2.4	2.7	2.3	1.9
3. Primary Deficit	0.7	0.4	0.2	0.0
4. Gross Tax Revenue	10.6	10.8	10.7	10.7
5. Non-tax Revenue	1.7	1.7	1.5	1.5
6. Central Government debt	50.3	50.1	48.0	45.5
7. Of which				
Liabilities on account of EBR ¹	0.7	0.8	0.9	0.9

Note: above DATA Table from Budget-2020. Later in Budget-2021 and Budget 2022, govt not given such table because Nirmala.S said “*fiscal projections for the years 2022-23 and 2023-24 will NOT be presented. We will amend the FRBM Act to allow this exemption.*”

**AB
CD** ? MCQ. According FRBM Act, the Govt is under obligation to present three statements before the parliament along with the Annual Budget. Which one of the following is not one of them? [CDS-2008-I]

Q MCQ. Along with the Budget, the Finance Minister also places ‘The Macro Economic Framework Statement’. The aforesaid document is presented because this is mandated by (UPSC-Prelims-2020)

- [a] Long standing parliamentary convention
 - [b] Article 112 and Article 110(1) of the Constitution of India
 - [c] Article 113 of the Constitution of India
 - [d] Provisions of the Fiscal Responsibility and Budget Management Act, 2003

27.15 🧑‍🤝‍🧑 35 FISCAL FEDERALISM: HELPING THE STATES IN ATMANIRBHAR





27.15.1 📈 ₹ Helping States → Tax devolution and grants

Corona = Union's tax income ↓ ↓ but still Union has given the Tax Devolution and grants (कर अंतरण व अनुदान) to the states, as per the figures announced in the Budget and Finance Commission report.

27.15.2 📈 ₹ Helping States → States' Fiscal deficit limits 🏛

- ⇒ Constitution Article 239: States require union govt permission before borrowing money.
- ⇒ Before: Union had kept states net borrowing ceiling @3% of Gross State Domestic Product (GSDP) (राज्यों के सकल घरेलू उत्पाद के 3% से ज्यादा कर्ज राज्य सरकार नहीं ले सकती)
- ⇒ 🌟 After ATMANI: 3% → ↑ to 5% for 2020-21. राज्य सरकार की राजकोषीय घाटे की मर्यादा को बढ़ाया गया।

Sr	if State Government does following reform	State can borrow extra ₹ upto __ % of GSDP
1	No conditions /un-tied (बिना शर्तों के)	0.50%
2	a) One Nation One Ration Card System(📈 Ref: HDT-Pillar#)	0.25%
3	b) Ease of doing business reform; (📈 Ref: HDT-Pillar#)	0.25%
4	c) Urban Local body/ utility reforms; (शहरी स्थानीय निकायों गटर पानी व्यवस्था इत्यादि में सुधार)	0.25%
5	d) Power Sector reforms(📈 Ref: HDT-Pillar#5)	0.25%
6	if any 3 of the above (a-b-c-d) reforms done ***	0.50%
	Total extra borrowing limit (sum of above six rows)	2% of GSDP. Total for all States=₹4.27 Lcr

*** However, States who opt for GST compensation Option#1 Back2Backloans, will get unconditional relaxation. (गैर शर्त छूट) (Ref: More in 📈 Pillar#2A: GST compensation)

27.16 📈 ₹ FISCAL DEFICIT TARGET FOR STATES

State Govt	2020-21	2021-22	2022-23	2023-24
Fiscal Deficit as % GSDP	3% (increased to 5% as given above)	4% + extra 0.5% depending on some conditions (=total 4.5%)	3.5% + extra 0.5% for power sector reforms. (=total 4%)	3% + extra 0.5% for power sector reforms. (=total 3.5%)

⇒ GSDP = Gross State Domestic product.

⇒ What are power sector reforms? Ref: Pillar:5- Energy infrastructure.

27.17 💼 💳 🔧 FISCAL RESPONSIBILITY: NK SINGH FRBM REVIEW PANEL

⇒ Budget-2016: Finance Minister Jaitley felt FRBM Act targets were too rigid and did not allow any room for the government to address any crisis. (लक्ष्य बहुत ही सख्त थे, उन्हें लचीला बनाने की जरूरत)



- ⇒ e.g. farm loan waivers during drought period or unemployment allowance during global financial crisis are not possible if government strictly wants to control fiscal deficit at 3% of GDP.
(अकाल में किसानों को ऋण-माफी, या नौजवानों को बेरोजगारी भत्ता देना असंभव)
- ⇒ So, FinMin constituted a panel under NK Singh to review the FRBM act.
- ⇒ I've deleted its recommendations / numbers because too outdated / NOT followed after corona.
- ⇒ While UPSC asked some PYQ from NK Singh Report but WE'll NOT solve it. For same reason.

27.17.1 📈 💰 ↘️ 🚗 : 🎯 Budget marksmanship is Poor, says 15th FC



- ⇒ marksman = gunman who is skilled in shooting targets. (निशानेबाज)
- ⇒ budget marksmanship = ability to keep income & expense within the budget targets/estimates. however in reality...

2019-20	Budget estimate (presented on 1/2/2019)	revised estimate (presented on 1/2/2020)	Actual (finalized after 31/3/2020)
Receipt → Taxes	16 Lcr	15 Lcr	13 Lcr 😞
Expenditure → Revenue (subsidies, loan interest repayment etc)	24.47 Lcr	23.49 Lcr	23.50 Lcr 😞

- ⇒ Thus the union government is poor in budget marksmanship. (बजट निशानेबाजी में कमज़ोर). Why?
- ⇒ Because generally the income is overestimated in budget presentation to show a rosy picture (मीडिया और विषय के सामने गुलाबी चिल प्रस्तुत करने के लिए आमदनी के आंकड़ों को वास्तविक परिस्थितियों की अपेक्षा ज्यादा बढ़ा चढ़ा कर दिखाया जाता है)
- ⇒ but, when the tax collection target is missed → it results in:

/problem#1) Tax authorities engaging in tax terrorism / litigation (कर आतंकवाद और मुकदमे बाजी)

Year	2012	2020
Direct Tax dispute amount	less than 3 lakh cr	nearly 10lakh cr

/problem#2) prediction error leads to ad-hoc expenditure management → A) excessive Reliance on extra budgetary resources B) randomly cutting the scheme expenditure → not paying the contractors on time → substandard quality of construction. (अनुमान में ऐसी गलतियों के चलते व्यय प्रबंधन



तदर्थ/अस्थाई रूप से किया जाता है, परिणाम स्वरूप योजनाओं के खर्च में कटौती कर दी जाती है, ठेकेदारों को पैसा वक्त पर नहीं चुकाया जाता → वे कमज़ोर गुणवत्ता की सड़क मकानों का निर्माण करते हैं इत्यादि)

27.18 FISCAL RESPONSIBILITY: FREEBIES / REVDI CULTURE

- ⇒ ‘Revdi Culture’ is a term used by PM Modi to denote the bad habit of political parties to announce freebies to win elections even if they are not financially sustainable.
- ⇒ Supreme Court also criticised this & asked the union govt to take action. Topic is still developing, we will revisit it for Mains-2023 course in 2023-June onwards.
- ⇒ Until then you can listen to this Mains Quality Enrichment Program (QEP) lecture:
<https://unacademy.com/class/mains-economy-qep2-budget-taxation-gdp-subsidy-deficit-disinvestment/A7YOHAUO>

27.19 FISCAL RESPONSIBILITY: FISCAL FEDERALISM CHALLENGES

- ⇒ listen to this Mains Quality Enrichment Program (QEP) lecture:
<https://unacademy.com/class/mains-economy-qep2-budget-taxation-gdp-subsidy-deficit-disinvestment/A7YOHAUO>

27.20 FISCAL RESPONSIBILITY: MISC BODIES



27.20.1 Expenditure Management Commission (2014)

- ⇒ FinMin setup under Dr. Bimal Jalan. (व्यय प्रबंधन आयोग)
- ⇒ Gave suggestions on how to fiscal deficit, how to subsidy bill etc.

27.20.2 Public Debt Management Agency (PDMA): सार्वजनिक क्रण प्रबंधन एजेंसी

Shifted to Mains handout. Experts had suggested to set up this organisation, but it is not yet set up.

27.20.3 Fiscal Council (राजकोषीय परिषद्)

Shifted to Mains handout. Experts had suggested to set up this organisation, but it is not yet set up.

27.20.4 Public finance challenges: Corona ex-gratia Yojana

- ⇒ Disaster Management Act 2005’s Section 12: requires National Disaster Management Authority (a statutory body headed by PM) to recommend minimum standards of relief to person affected



in a disaster. (आपदा प्रबंधन कानून की धारा 12 में ये लिखा है कि राष्ट्रीय आपदा प्रबंधन प्राधिकरण ने आपदा से प्रभावित लोगों के लिए न्युनतम सहायता घोषित करनी होगी।)

- ⇒ Home Ministry has notified Corona as a disaster. So, PIL in SC asking Govt to pay compensation to the family of every dead person. (गृह -मंत्रालय पहले ही कोरोना महामारी को आपदा घोषित कर चुका है, तो कुछ लोगों ने सुप्रीम कोर्ट में जनहित याचिका दायर की कि कोरोना में मरे सभी लोगों के परिजनों को मुआवज़ा दिया जाए)
 - ⇒ 2021-Oct: SC ordered Rs.50,000 for family of every person who died in Corona. This is posing challenges to Govt's fiscal capacity.

28 TYPES OF BUDGET: बजट के प्रकार

28.1 REVENUE VERSUS CAPITAL BUDGET: राजस्व बनाम पूँजीगत बजट

 Revenue budget: राजस्व बजट	 Capital Budget पूँजीगत बजट
<p>It is associated with the income and expenditure that are of temporary in nature (1 year or less), and/or do not result into creation of permanent / capital / physical / financial assets.</p>	<p>associated with the income and expenditure that are of long term nature and/or results into creation of permanent / capital /financial assets, such as land, buildings, machinery, equipment, shares, bonds, G-sec.</p>
<p>Taxation, revenue from selling goods and services, interest payment on previous loans, salaries, pension, subsidies and other non-developmental expenditure</p>	<p>Borrowings, disinvestment, and expenditure on assets creation.</p>

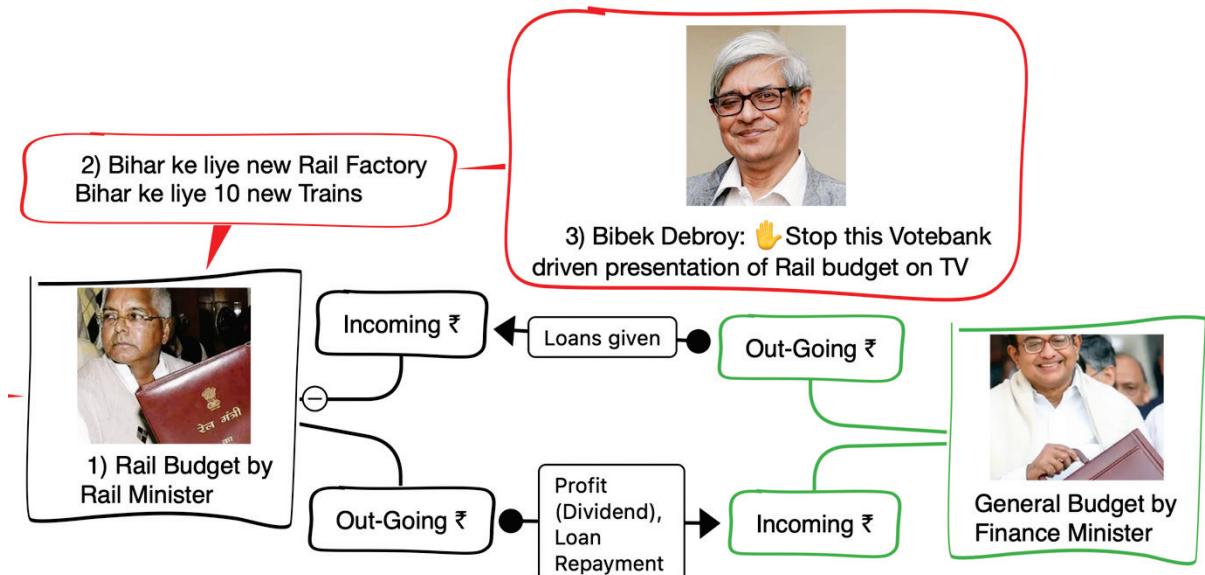
**AB
CD** ? MCQ. Which is/are included in the capital budget of India? (UPSC-Pre-2016)

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

Ans Codes: (a) 1 only (b) 2 and 3 only (c) 1 and 3 only (d) 1, 2 and 3

28.2 GENERAL BUDGET VERSUS RAILWAY BUDGET (आम बजट बनाम रेलवे बजट)





- 1920-21: Acworth Committee recommends separate Railway Budget. This practice continued even after Independence, first the railway minister would present the Railway budget in parliament, and after a few days finance minister will present General Budget.
- NITI Aayog's Bibek Debroy committee recommends its abolition because
 - 1) No constitutional requirement (संवैधानिक रूप से यह अनिवार्य नहीं है)
 - 2) During Coalition Governments, Rail budget was used for populism, cheap fares which eroded the profitability of Railways. (गठबंधन सरकारों में लोकलुभावन, भारी घाटा)
 - 3) during the British time, railway revenue used to be quite large compared to other sources of revenue, but after independence, Railway revenue is quite small compared to overall General budget- So it does not deserve a special presentation.

Therefore, Modi govt merged Railway budget with General budget from 2017 (विलीनीकरण).

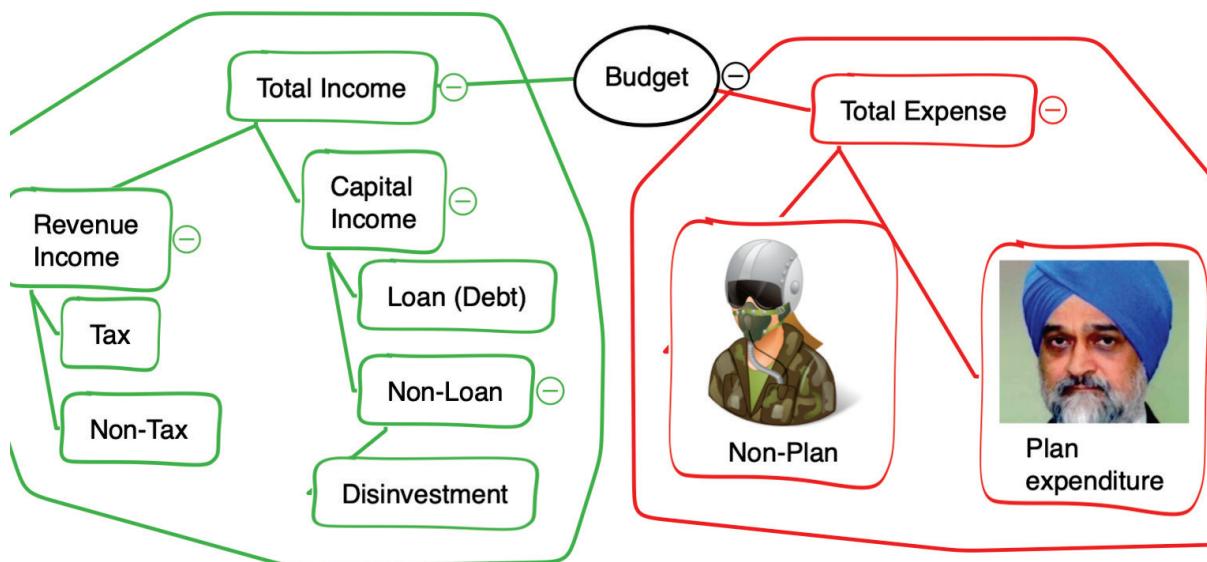
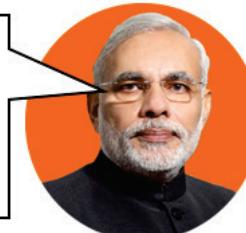
28.3 PLAN VS NON PLAN EXPENDITURE BUDGET:

योजना बनाम गैर योजना व्यय बजट: is a method of classifying the expenditure side

Plan (expenditure) budget: योजना	Non-Plan (Expenditure) Budget: गैर योजना
<ul style="list-style-type: none"> ⇒ Central Plans (the Five-Year Plans) ⇒ Central assistance for State Five Year Plans. ⇒ It is further subdivided into <ul style="list-style-type: none"> 1) revenue expenditure (e.g. teachers salary under Sarva Shiksha Abhiyan) 2) capital expenditure (e.g. new school buildings to be constructed under Sarva Shiksha Abhiyan) 	<ul style="list-style-type: none"> - Expenditure related to general, economic and social services of the government; Interest payments, defence services, subsidies, salaries and pensions. - It is also further subdivided into revenue expenditure (e.g. soldier salaries) and capital expenditure (e.g. Building new aircraft carrier).



जब प्लानिंग कमीशन ही खत्म हो
गया तो Plan:Non-Plan
अलग से नहीं दिखाएंगे



Since Budget-2017, Modi govt stopped the practice of displaying the plan and non plan expenditure separately because (1) No such constitutional requirement (2) Government had dissolved the planning commission in 2014-15 (3) 12th Five Year Plan (FYP:2012-17) was ending in 2017 anyways.

(More about PC & FYP in Pillar#4C)

28.4 BUDGETING (बजट निर्माण की प्रक्रिया/ रणनीति)

It is the process / strategy with which the budget is created.

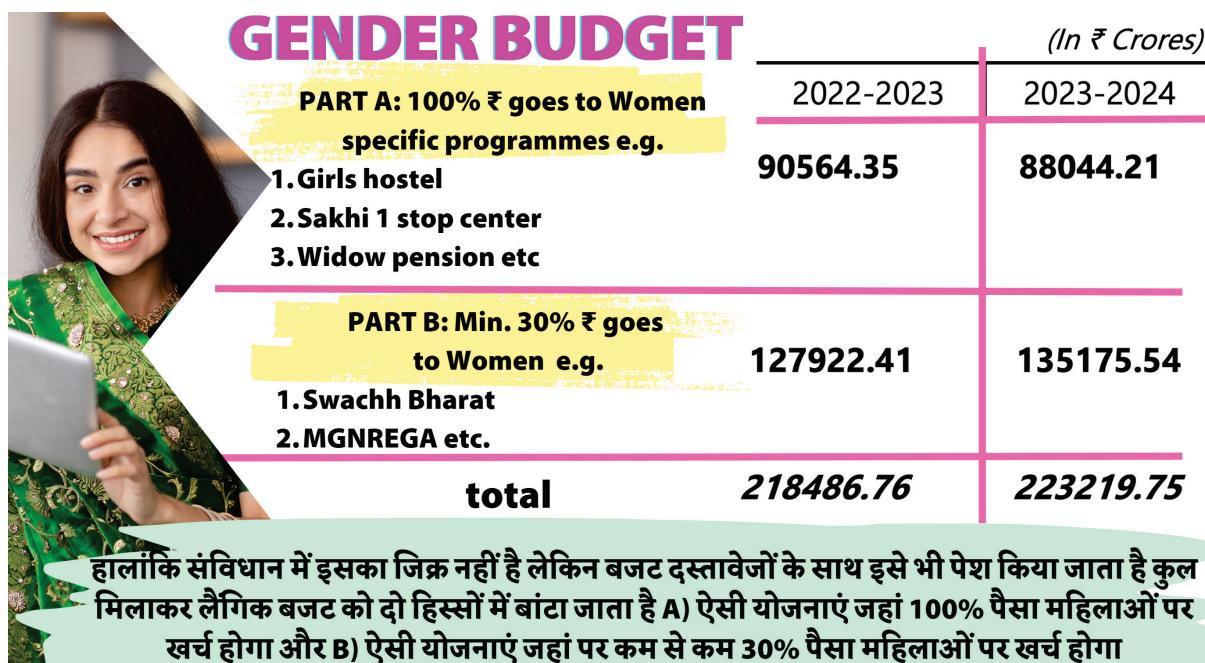
Traditional / Line-item Budgeting	<p>पारंपरिक / लाइन-आइटम बजट: Simply calculating the income and expenditure without measuring the underlying benefit or performance</p> <ul style="list-style-type: none"> - Allot ₹ 10,000/- to buy a new bed in government hospital - Allot ₹ 50,000 to buy a new computer in government department
Performance budgeting प्रदर्शन बजट	<p>calculating income and expenditure tied with underlying benefit or performance</p> <ul style="list-style-type: none"> - Allot ₹ 50,000 to buy a new computer with target that it should result in 30% the faster clearance of RTI-applications compared to pen and paper - Such budgeting helps measuring cost:benefit and efficiency.
Zero based budgeting शून्य आधारित बजट	<ul style="list-style-type: none"> - In a traditional budgeting, the approach is “automatic and incremental e.g. “Last year we allotted ₹ 50,000 crore to educational schemes, so this year we should allot 55,000 crores, lest the opposition parties create controversy.” - Whereas in Zero Based Budgeting the budget is viewed as a fresh exercise from zero base. So, each department has to justify its budget demands to finance ministry. E.g. if last year ₹ 50,000 crores given to education schemes but still 60% of class 5 kids cannot read class 2 books, then we'll delete /



	modify that scheme.
💡 Sunset Budgeting सूर्योस्तः/ समयसीमा का बजट	<ul style="list-style-type: none"> - In a traditional budgeting, once a scheme is launched it runs perpetually, even after regime change e.g. MNREGA, Mid-day Meal. - In a Zero Based Budgeting, schemes are reviewed every year and then they may get discontinued or continued (with or without modifications). - In Sunset Budgeting, scheme are announced with deadline. e.g. "X" subsidy for a period of two years starting from 1/1/2018. Thus, this scheme will self-destruct after deadline just like the sun will set after the sunset.

28.5 💼 GENDER BUDGET (लैंगिक बजट)

Not required in Constitution / any law. But within general budget, this data presented since 2005.



28.6 💼 🖊️ 📁 TRIBAL SUB PLAN & SCSP

From 70s, Govt required individual ministries to earmark funds for SC/ST within their overall funds:

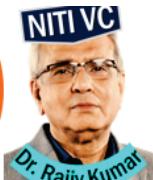
- “Scheduled Castes Sub-Plan (SCSP: अनुसूचित जाति उप-योजना)” → Social Justice Ministry monitors via e-utthaan.gov.in
- “Tribal Sub plan (TSP: आदिवासी उप योजना)” → Tribal Affairs Ministry monitors via stcmis.gov.in which is not a fancy name so we need not memorize unlike e-utthaan.

Sidenote: Although not required by the Constitution, but Government also tables separate documents showing 1) allocation for children 2) allocation for NORTH EASTERN AREAs.

28.7 💼 🖊️ 📈 OUTPUT OUTCOME FRAMEWORK FOR SCHEMES:



सरकारी योजना में सिर्फ हवाबाजी नहीं। नाप सके ऐसे वास्तविक लक्ष / टारगेट रखेंगे eg 5 cr लोगों को कॉम्प्युटर की तालिम देनी है।





योजनाओं के लिए उत्पादन परिणाम ढाँचा

Started from Budget-2017 onwards, the FinMin uploads a document showing outlay output and outcomes for each ministry and department. These are monitored by NITI Aayog. For example,

<i>Ministry & Scheme</i>	<i>Outlay</i>	<i>Output (Deliverables)</i>	<i>Outcome</i>
MEITY → Pradhan Mantri Gramin Digital Saksharta Abhiyan (PMGDISHA)	₹ 400 crores	Give computer training to 5 crore persons in rural area	Increased number of digitally literate persons in rural areas

28.8 CASH VS ACCRUAL BUDGETING: नगदी बनाम उपचय बजट

Outdated/Faded technical topic. I am deleting it from latest handout.

28.9 LAPSABLE FUNDS & MARCH RUSH: व्यपगत निधि और मार्च व्यस्तता

Appropriation act allows the government to spend funds from consolidated fund of India for a period of one year (ending in 31st March).

- If any allotted funds remain unutilised, then by the ‘ rule of lapse ’, they must be returned (& govt will have to again seek Parliament approval for the next financial year using next appropriation bill). So, in March, there is a rush among the Govt orgs to spend money (in a haphazard / reckless manner) lest they’ve to return it back.
- 2017-18: Finance ministry issued directive that in “*In the fourth quarter (Jan to March) and in the March-Month, Govt organizations shall not spend more than “x%” & “y%” of funds*”. This helps controlling the March Rush.

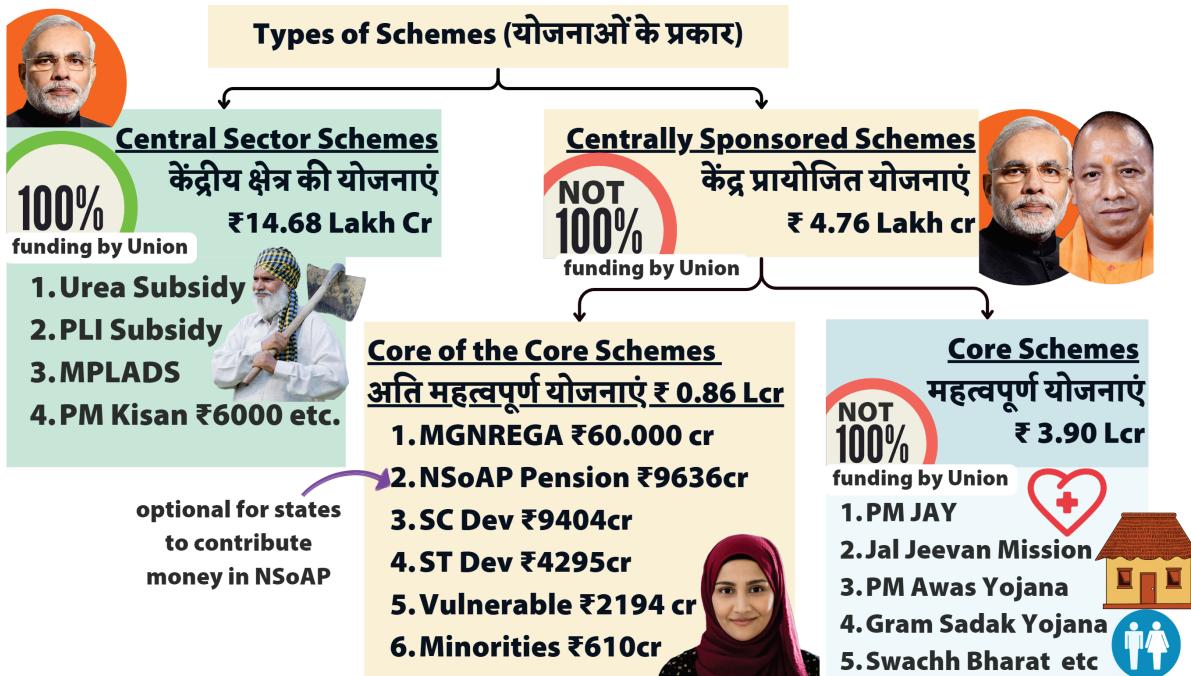
28.10 NON LAPSALE FUNDS & NO RUSH: बिनव्यपगत निधि

The money in such fund will not lapse on 31st March, so it can be used in future without getting another approval from parliament. e.g. Dept of Economic Affairs → Nirbhaya fund → women safety related projects.

- **Criticism?** Since fund is non lapsable, Departments become very lax in utilising it. Budget 2013 started Nirbhaya fund in the aftermath of Dec-2012 Gangrape @Delhi. The successive budgets kept adding ₹ into it. By 2018: ~3000 crore but not even 50% utilized
- 2018: Defence ministry demands “ non lapsable defence modernization fund”, but Finance ministry rejected for similar same reason. (money will remain unspent.) Although later 15th FC has recommended Modernisation Fund for Defence and Internal Security (MFDIS) ₹ 2.38 Lcr (total for 2021-26). (More in Pillar#2B: 15th FC)



28.11 ₹ TYPES OF SCHEMES (योजनाओं के प्रकार)



- ⇒ For any Union Territory without Legislature: 100% funding by Union for any scheme in any category. 🗺 We will look at the schemes' features in the respective pillars.
- ⇒ To disburse scheme ₹ & monitor it effectively, FinMin → Dept of Expenditure Controller General of Accounts (CGA) → Public Financial Management System (PFMS) webportal.

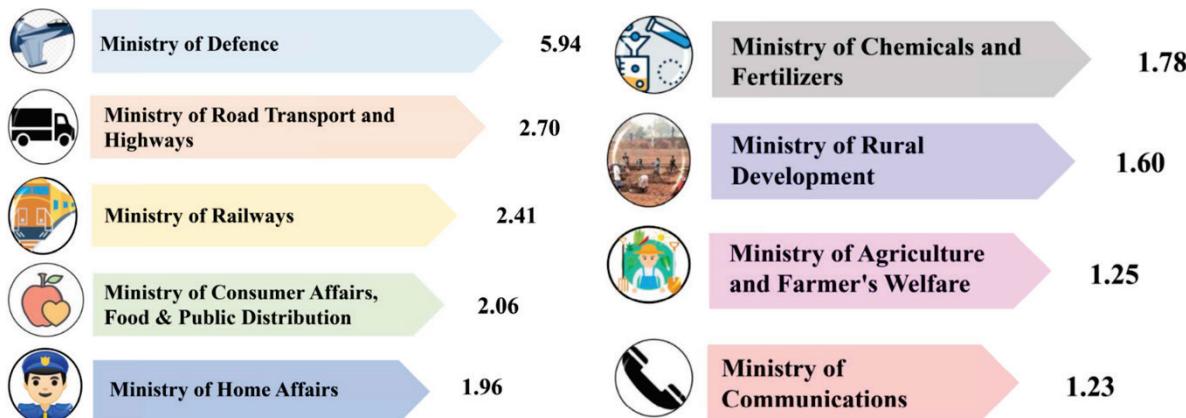
28.11.1 💼 Budget-2022: CSS rationalisation

Govt has reduced the number of CSS from 130 → 65. (योजनाओं की संख्या में कटौती)

- ✓ Some schemes are Stopped e.g. Dairying Through Cooperatives, National Dairy Plan-II and National Dairy Plan. (बंद कर दिया)
 - ✓ some schemes are merged: e.g. (एकीकरण)
 - ✓ I] previously Woman Child development Ministry was running 19 scheme is now they are compressed into just 3 viz A) Mission Shakti B) Mission Vatsalya C) Saksham Anganwadi and POSHAN 2.0. (More in 📄 Pillar#6)
 - ✓ ii] Ministry of Agriculture running 20 CSSs have been rationalised into three schemes: A) Krishionati Yojana B) Integrated Scheme on Agricultural Cooperative C) Rashtriya Krishi Vikash Yojana. (More in 📄 Pillar#4A)
- ⌚ effective monitoring, duplication of efforts ↘ → subsidy bill & deficit ↘ (प्रभावी रूप से निगरानी, योजनाओं में प्रयत्नों का व्यर्थ दोहराव न हों, ताकि सब्सिडी और सरकारी घाटे का बोझ कम हो जाए.)



28.11.2 ⚒ Ministry-wise Highest Allocation (amt in ₹ lakh crore)



28.11.3 ⚒ 🔧📊 Govt Schemes: Result Based Financing instead of input based financing

INPUT-BASED FINANCING	RESULT-BASED FINANCING
<ul style="list-style-type: none"> ⇒ Government will pay money for purchase of inputs. ⇒ Then officials/contractor will built road/college, provide skill training etc. 	<ul style="list-style-type: none"> ⇒ Govt will define results e.g. daily 15km road constructed, minimum 80% of skill trainees must get job placement etc. ⇒ if result not achieved then govt may not pay full amount / cut penalty.

💡 Budget-2023: for selected government schemes, we'll shift from 'input-based financing' to 'result-based financing'. (कुछ चुनिंदा सरकारी योजनाओं के लिए, हम 'इनपुट-आधारित वित्तपोषण' की जगह, 'परिणाम-आधारित वित्तपोषण' का अमल करेंगे. यानि कि सरकार द्वारा तय परिणाम/सूचकांकों को ठेकेदार/अफसर हांसिल नहीं कर पाया तो पैसा नहीं मिलेगा/काट दिया)

28.11.4 🖊 Mains Questions

Mostly centred around the – Challenges in public finance, how to curb black money, features of GST, problems in GST, significance of disinvestment, how to reduce subsidy burden, how to control fiscal deficit, how to increase the impact of government schemes etc.

Next Handout: Pillar3A: Balance of Payment