Government Borrowings

Introduction

Borrowings refer to funds obtained from repayable sources, such as loans secured by the government from financial institutions and other sources, both domestic and foreign, to finance various government projects and activities. The government borrows to provide for the requirements of capital projects and to support priority programs and projects. Relying solely on domestic resources will limit government's capability to provide the needed support. Domestic resources are insufficient to finance priority programs and projects.

Public borrowing involves transfer of purchasing power from individual to government and a subsequent retransfer of the same to the individuals from the government.

Government borrowing is a fiscal method by which resources may be mobilized for economic development. In developing economies, the governments resort to borrowing in order to finance schemes of economic development. Government or what is also called public borrowing becomes necessary because taxation alone cannot provide sufficient funds for economic development. Besides, too heavy taxation has an adverse effect on private saving and investment.

It may be noted that when government increases its expenditure, it often results in budget deficit which is also fiscal deficit. This fiscal deficit can be financed in two ways. First, by borrowing by the government from the market and this borrowing leads to the increase in public debt. Borrowing as a means to finance the fiscal deficit is therefore called debt-financing of budget deficit. Second, budget or fiscal deficit can be financed by printing new money and therefore it is called money financing of fiscal deficit.

Government Budget

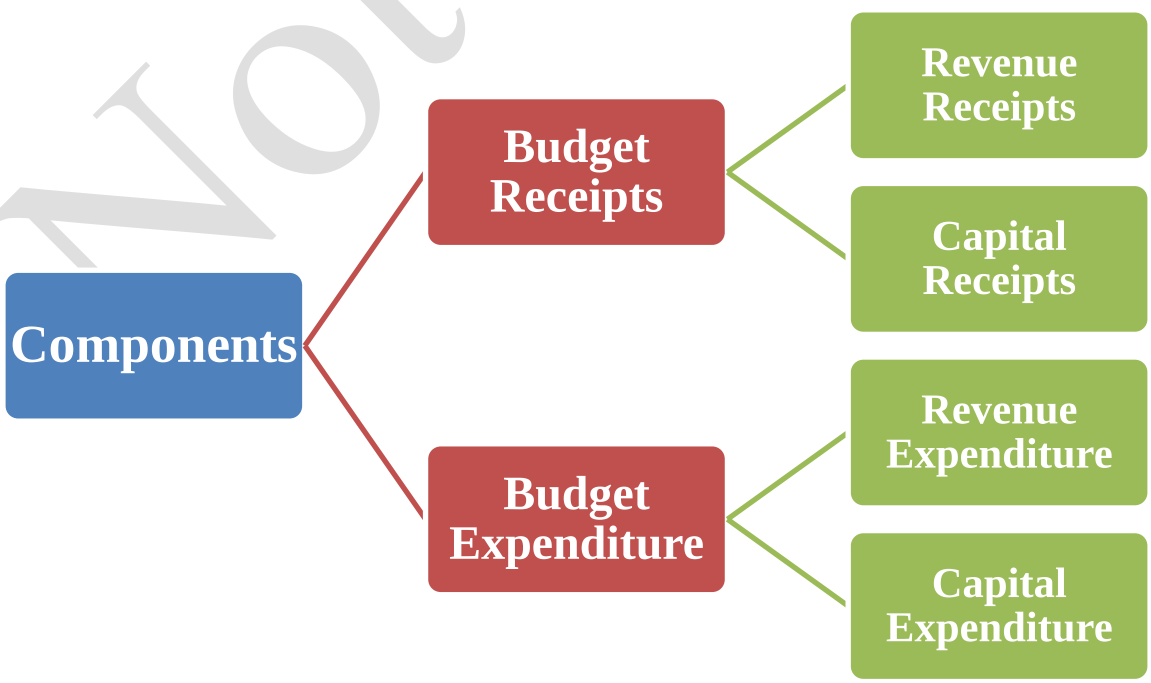
Government Budget is a statement of the estimates of the government receipts and government expenditure during the period of the financial year. It reveals fiscal policy of the government, focusing on growth and stability of the economy.

Just as your household budget is all about what you earn and spend, similarly the government budget is a statement of its income and expenditure. In the beginning of every year, government presents before the Lok Sabha an estimate of its receipts and expenditure for the coming financial year.

Objectives of Government Budget

- GDP growth
- Reduction of poverty and unemployment
- Balanced regional growth/Reduction of inequalities
- Allocation of resources
- Redistribution of income and wealth
- Generation of employment opportunities
- Economic Stability (reducing inflationary and deflationary gaps)

Components of the Budget



1) Budget Receipts

Budget receipts refer to estimated money receipts of the government from all sources during the fiscal year. Broadly, the budget receipts are classified as:

a. Revenue Receipts: All such money receipts of the government are classified as revenue receipts which show the following characteristics:

- **These receipts do not create any corresponding liability for the government.** Tax receipt, for example, is a revenue receipt because it does not involve any corresponding liability for the government. Tax is a unilateral or one-sided compulsory payment to the government.

- **These receipts do not cause any reduction in assets of the government.** For example, receipts of the government when it sells its shares of companies like Maruti Udyog, causes reduction in assets of the government. These are therefore, not to be treated as revenue receipts.

b. Capital Receipts: All such money receipts of the government are classified as capital receipts which show the following characteristics:

- **These receipts create a liability for the government.** For example, loans by the government are a liability. These are to be paid back. These are, therefore, the capital receipts of the government.

- **These receipts cause reduction in assets of the government.** As stated earlier, money received by the government by selling its shares (Maruti Udyog) cause reduction in assets of the government. These are therefore, to be treated as capital receipts.

2) Budget Expenditure

Budget expenditure refers to estimated expenditure of the government related to its 'development and non-development programmes' during the fiscal year. Like receipts, all expenditure of the government is broadly classified as:

a. Revenue Expenditure: Expenditure by the government showing the following characteristics is treated as revenue expenditure:

- **It does not create any asset for the government.** For example, expenditure by the government on old-age pensions, salaries and scholarships are to be treated as revenue expenditure. Because this does not lead to any type of asset formation.

- **It does not cause any reduction in liability of the government.** Expenditure by way of grants to the state government to cope with natural calamities (like floods and earthquakes) does not reduce financial liability of the central government in any manner. Accordingly, this is to be treated as revenue expenditure.

b. **Capital Expenditure:** Expenditure by the government showing the following characteristics is treated as capital expenditure:

- **It creates assets for the government.** Equity (or shares) of the domestic or multinational corporations purchased by the government may be cites as an example.

- **It causes reduction in liabilities of the government.** Repayment of loans certainly reduces liability of the government. Accordingly, this is to be treated as capital expenditure.