

# The Making of the Union Budget

The Union Budget of India, referred to as the Annual Financial Statement in Article 112 of the Constitution of India, is the annual budget of the Republic of India, presented each year by the Finance Minister of India in Parliament.

The Budget process is a massive exercise. The exercise has different stages and each stage kicks off at a different stage of Budget making process.

## The Two Sides of the Budget

Like our family budget, the nation's General Budget has two major parts: Revenue and Expenditure.

Assessing the revenues from different central taxes is the primary function of the Department of Revenue. The expenditure estimates for the current and the next year for various expenditure heads are assessed by the Department of Expenditure. The Department of Expenditure also assesses the resources of the Public Sector Undertakings (PSUs).

The Budget division is a part of the Department of Economic Affairs. The Finance

Secretary coordinates the overall Budget-making process. All of them keep the finance minister informed and seek directions from time to time. The Chief Economic Advisor assists the concerned departmental officer in this process.

## 1) Resources (Revenues) Side

Leaving aside the tax receipts, the other sources of revenue which go into the Budget are the dividends paid by the PSUs on the government shareholdings, including the interim dividends and the capital receipts on account of the divestment of the government share holdings.

Besides external receipts on account borrowing from international agencies like World Bank, ADB, etc, are also estimated and included in the assessment of the gross budgetary resources of various



*The creation of the Union Budget is a massive exercise in itself*

programmes under various ministries.

Resources of the public sector undertakings, including their operating surplus and the borrowings by them, also constitute an important component of the gross budgetary resources and goes to fund their plan.

The general policy is to fund the plans of the PSUs through their own resources except in some strategic and economically vital areas where the budgetary support is provided based on the recommendations of the Planning Commission.

This assessment of the Internal and External Budgetary Resources (IEBR) conducted by the Department of Expenditure forms part of the total plan resources and is also reflected in the budget documents.

To estimate the earnings of PSUs, the government invites CMDs or the finance directors of the PSUs to the North Block. A joint secretary level officer of the ministry of finance holds one-on-one meeting with the PSU chairmen and estimates revenue.

He passes on the information to Expenditure Secretary, who in turn, passes on the information to Finance Secretary. This exercise starts usually in the month of August/September. This revenue forms a part of plan expenditure.

Now comes the role of the ministries of the government. Each ministry has a financial advisor. The financial advisor is called by the ministry of finance

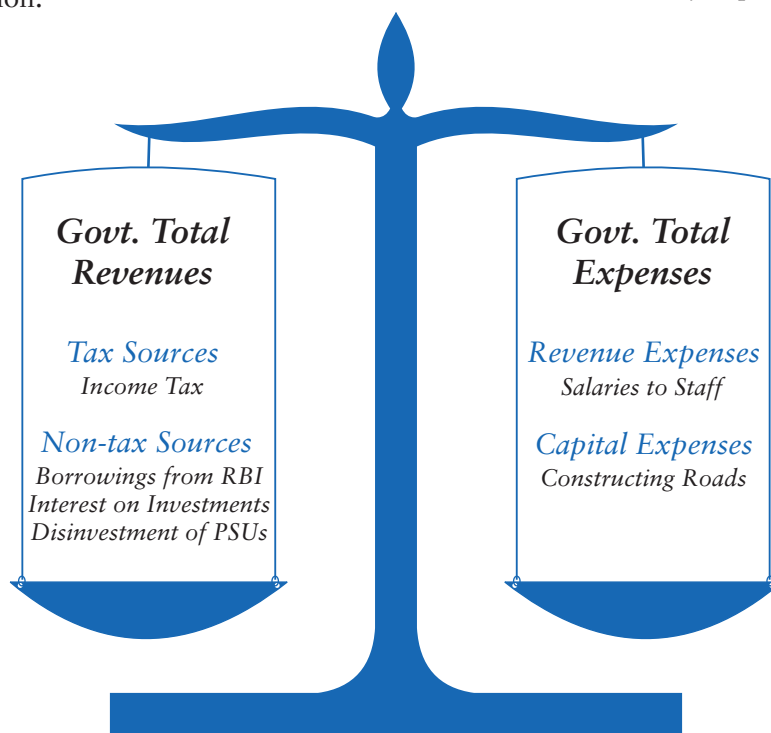
and asked about the expenditure of the amount allocated to his ministry.

Generally, ministries are not able to spend the allocated amount but some may overspend as well.

**didyouknow?**

R K Shanmukhan Chetty presented the first Budget of independent India on November 26, 1947.

Based on the inputs of different ministries Revised Estimate (RE) is prepared. Revised Estimate means as to how much is actually required by the ministry.



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As a part of the expenditure management, the government has issued instructions to various ministries to adhere to the quarterly expenditure schedule and to avoid bunching of the expenditure in the last quarter.

Additional funds are also provided in the RE stage. Important is the estimates of the non-plan require-

ment for the next year.

Plan allocations are to be provided by the Planning Commission later based on the total Gross Budgetary Support (GBS) indicated by the ministry of finance. This exercise starts in the month of October-December.

As is known, the Department of Revenue, the ministry of finance has two boards - Central Board of Direct Taxes (CBDT) and Central Board of Excise and Customs (CBEC). By mid-January, these boards give the figure of tax collection up to December 31. For the

remaining three months, tax collection is assumed on the basis of previous trends.

The boards also estimate the tax revenue expected in next financial year. The integrity of the budget making depends on the realistic nature of these estimates.

**2) Expenditure side**

Parallel to all this, the Planning Commission goes into stock-taking mode. It starts meeting with individual ministries in the month of September-October and reviews ongoing schemes of the ministries, considers allocation for them, etc. It may decide to stop some ongoing scheme or merge two similar schemes.

Thus, an estimate of Plan Budget is prepared. The Planning Commission conveys to the ministry of finance that it requires so and so amount to run planned schemes for next financial year.

The finance minister and the Deputy Chairman of Planning Commission discuss the demand in detail. This way Plan Expenditure is ready. Different ministries are also expected to inform their fund requirement, which forms a part of the budget estimate.

Side by side, Department of Economic Affairs meets representatives of trade unions, industry chambers, economists and other groups. In the Budget-making exercise, suggestions of different stakeholders are kept in mind.

**FM has to decide with his team**

By this time, the finance minister is in a position to estimate as to how much it will get through taxes and how much it has to spend in coming financial year.

The finance minister has other constraints also. He has to abide by the laws of the land and cut fiscal deficit. Keeping in mind all these, the finance minister - with his team - decides whether some new taxes should be levied to collect more tax, how to widen tax net in order to earn more revenue. While doing so, the suggestions from various interest groups are duly taken into account.

**GDP Assessment**

The Department of Expenditure and the Department of Economic Affairs sit to decide GDP assessment for next year. Generally, a nominal growth in GDP is projected. Actual growth in GDP is nominal growth of GDP reduced by inflation figure.

**The Budget Speech of the FM**

Now comes the Budget Speech. It is fine-tuned to the last minute. Once the Budget documents are almost ready to go for printing to a press located in North Block itself, security agencies cordon off the press and entry is almost prohibited.

**The D-Day:** The finance minister delivers the Budget Speech in Parliament.

Normally, the finance minister delivers the Budget Speech in the Lok Sabha after which the Budget documents are made available.

These are also put on the Web site [www.finmin.nic.in](http://www.finmin.nic.in).



*Finance Minister Pranab Mukherjee about to present the Union Budget for this year*