Indian Economy · GS - III

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

EXAM YEAR	PAPER	SUBJECT
2021	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Union Budget, government receipts and expenditure, capital receipts, capital expenditure, revenue receipts, revenue expenditure, asset creation, liabilities, fiscal deficit, public finance

Model Answer

Introduction

The Union Budget presents the government's estimated receipts and expenditure for a financial year. Its two principal expenditure and accounting divisions are the Revenue Budget and the Capital Budget.

Revenue Budget

The Revenue Budget covers receipts and expenditure that generally do not directly create assets or reduce liabilities.

- **Revenue receipts:** Tax revenues such as income tax, GST and corporation tax; non-tax revenues such as fees, dividends and interest receipts.
- **Revenue expenditure:** Salaries, pensions, subsidies, interest payments, grants and routine administrative expenses.

Such expenditure sustains government operations and public services.

Capital Budget

The Capital Budget records capital receipts and capital expenditure, which affect government assets and liabilities.

- **Capital receipts:** Borrowings, recovery of loans and disinvestment proceeds. Borrowings create liabilities, while loan recovery and disinvestment may reduce financial assets.
- **Capital expenditure:** Spending on roads, railways, schools, hospitals, defence equipment and loans to states or public enterprises. It can create assets or reduce liabilities.

Key Differences

Basis	Revenue Budget	Capital Budget
Main purpose	Routine operations and services	Asset creation and liability management
Receipts	Taxes and non-tax income	Borrowings, disinvestment, loan recovery
Typical expenditure	Salaries, pensions, subsidies	Infrastructure and capital assets

Conclusion

A sustainable fiscal policy requires efficient revenue expenditure alongside productive capital investment, supported by prudent borrowing and sound public financial management.

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