The Inflation targeting framework in India was initiated through the **Inflation targeting agreement of 2015** which further culminated into the **Amendment of the RBI Act in 2016.**

- The **Act adopted year-on-year changes in the headline Consumer price Index (CPI)** as the measure of inflation target. The target was fixed at 4% with an upper and lower tolerance band of 2%.
- **The Act** has **mandated the following working methodology** for the Monetary Policy Committee (MPC):
  - The decisions by the MPC are decided by a majority of votes by the members present and voting, and in the event of an equality of votes, the Governor has a second or casting vote.
  - The resolution adopted by the Monetary Policy Committee must be published after the meeting of the MPC.
  - The RBI must publish a report on monetary policy twice a year. The report should outline **the sources of inflation and short-medium term forecasts of inflation**.
  - In the **event of failure to achieve the inflation target**, the Act lays down that the RBI will inform the Central Government the following:
    - ✓ **The reasons for failure to achieve** the inflation target.
    - ✓ **The remedial actions** it proposes to take.
    - ✓ **An estimate of the time** within which the inflation target shall be achieved after the implementation of the remedial actions.

It needs to be kept in mind that there is a built in "escape clause" in the monetary policy that permits inflation to rise above the mandated target. The RBI during the ongoing pandemic has resorted to its use to keep interest rates low.

14. What are the objectives of government budgeting? Enumerate the various components of government budget in India.

Approach:

- Explain the meaning of government budgeting.
- Discuss its objectives (allocation, redistribution and stabilisation).
- Discuss its various components (revenue and capital budget).
- Conclude accordingly.

Answer:

The Indian Constitution requires the government to present before the Parliament a statement of its estimated receipts and expenditures in respect of every financial year which runs from 1 April to 31 March **(Article 112)**. This **'Annual Financial Statement'** constitutes the main budget document of the government.

Objectives of government budgeting include:

- **Allocation of resources:** The government provides certain goods and services which cannot be provided by the market mechanism i.e. by an exchange between individual consumers and producers. Examples of such goods are national defence, roads, government administration etc. which are referred to as public goods.
- **Redistribution:** The government sector affects the personal disposable income of households by making transfers and collecting taxes. It is through the budget that the government can change the distribution of income and bring about a distribution that is considered 'fair' by society.
- **Economic stabilisation:** In any period, the level of demand may not be sufficient for full utilisation of labour and other resources of the economy. Since wages and prices do not fall below a level, employment cannot be brought back to the earlier level automatically. The government needs to intervene to raise the aggregate demand.

Components of a budget:

There are two accounts in the budget. One that relates to the current financial year only are included in the revenue account, also called the **revenue budget**. The second component is