MEDIUM TERM FISCAL POLICY STATEMENT

A. FISCAL INDICATORS – ROLLING TARGETS AS A PERCENTAGE OF GDP

(at current market prices)

		Revised Estimates 2016-17	Budget Estimates 2017-18	Targets for	
				2018-19	2019-20
1.	Fiscal Deficit	3.5	3.2	3.0	3.0
2.	Revenue Deficit	2.1	1.9	1.6	1.4
3.	Effective Revenue Deficit	0.9	0.7	0.4	0.2
4.	Total Outstanding Liabilities at the end of the year	46.7	44.7	42.8	40.9
5.	Gross Tax Revenue	11.3	11.3	11.6	11.9

Notes:—

1. *"GDP" is the Gross Domestic Product at current market prices as per new series from 2011-12.*

2. *"Total outstanding liabilities" include external public debt at current exchange rates. For projections, same exchange rates have been assumed. Centre's liabilities do not include part of NSSF and total MSS liabilities which are not used for Central Government deficit.*

1. The fiscal performance against major parameters in the Revised Estimates of 2016-17, Budget Estimates of 2017-18 and the rolling targets for the next two financial years is indicated in the above Table.

2. With regard to deficit indicators, the fiscal policy of Government continues to be guided by the principle of gradual adjustment. The performance in respect of revenue deficit during the ensuing year and the rolling targets are in line with the revised roadmap of fiscal consolidation, as amended in 2015 and significant improvement is expected over the medium-term. The fiscal deficit target of 3 per cent of GDP to be achieved by 2017-18, as per amended FRBM Act, is being shifted to 2018-19. The Government on a re-assessment of the macroeconomic needs of higher public expenditure in a scenario when private investment is not picking up has tilted in favour of the gradual reduction of 0.3 per cent of GDP in 2017-18, and target achievement of fiscal deficit of 3.2 per cent of GDP in 2017-18. The target of elimination of ERD by 2017-18, in spite of achieving target of revenue deficit, as mandated under the amended FRBM Act, is being missed on account of structural issues in the revenue expenditure component of the Centre.

3. India's economy continued to show a buoyant real growth in GDP in the first half of the financial year 2016-17. Positive impetus to consumption from a near normal monsoon and salary and pension increases on account of pay commission recommendations drove the pick-up in GDP growth in H1 of 2016-17. However, decline in domestic investments and the external sector performance prevented the growth from gathering further momentum. The Gross Domestic Product at current market prices as per the Advance Estimates of CSO (based on data up to October 2016) is projected to show a growth of 11.9 per cent during 2016-17. However, the momentum in real growth is estimated to decline marginally post the Government's decision to withdraw specified bank notes. This could in short run impact economic activity in the cash sensitive sectors. Therefore, factoring in the marginal dip in growth in the remaining months of current financial year, the Government has decided to retain the estimated GDP growth at the budgeted estimates of 11 per cent.

4. The effect of demonetization it may be emphasized, is expected to be short term and not likely to extend beyond the current financial year. However, in the medium term, the benefits of demonetization would far outweigh the short term impact on growth, through a more efficient payment system and greater formalization of business activities. Despite the temporary setback to real GDP growth momentum, the Indian economy continues to be a bright spot in the world economy, as one of the fastest growing large economies in the world.

5.   In 2016-17, the fiscal deficit target of 3.5 per cent of GDP is expected to be achieved. This is despite a substantial increase in expenditure allocations during the course of the year (for the second consecutive year), and enhanced pace of fiscal consolidation in 2016-17. Importantly, the Government has managed to stick to the fiscal deficit target even while the non debt capital receipts are estimated to be lower than the budgeted estimates of 2016-17 by around ₹10563 crore. The increase in growth and buoyancy in overall direct and indirect tax revenues have offset the shortfall in receipts from other sources. In nominal terms, the fiscal deficit of Rs.5,33,904 crore estimated in Budget 2016-17 is now estimated at Rs.5,34,273 crore in RE 2016-17 while staying at 3.5 per cent of GDP.The marginal difference is on account of provisional GDP estimates for 2016-17 as given by CSO.

6.   The revenue deficit was estimated at Rs.3,54,015 crore or 2.3 per cent of GDP in BE 2016-17 which is estimated to show a further improvement in RE 2016-17. The estimated revenue deficit in RE 2016-17 is ₹3,10,997 crore which is a reduction of ₹43,018 crore from the budget estimates of the year. This is despite higher allocation for pensions and salaries provided to meet the requirements on account of seventh pay commission implementation. This may also be seen in the context of an increase of ₹32,823 crore in capital component of total expenditure over the budgeted estimates for the year. As a ratio of GDP, the revenue deficit is estimated at 2.1 per cent in RE 2016-17 against 2.3 per cent in BE 2016-17. Effective revenue deficit as a consequence is also estimated to decline to 0.9 per cent of GDP against the budgeted estimate of 1.2 per cent of GDP in 2016-17.

7.   The Gross tax revenues which were projected at 10.8 per cent of GDP in BE 2016-17 was made on the assumption of 11.7 per cent growth over the Revised estimates of 2015-16. The Direct taxes component was estimated to grow by 12.6 per cent while the Indirect taxes were estimated to grow by 10.8 per cent over the revised estimates of 2015-16. However, despite dip in the real GDP growth the tax revenues are estimated to far surpass the budgeted estimates. In RE 2016-17, Indirect taxes are estimated at ₹8,51,869 crore which is ₹72,199 crore more than the budgeted estimates. Direct tax collections are estimated at ₹ 8,47,097 crore at budgeted level. The overall tax to GDP ratio is estimated at 11.3 per cent of GDP in RE 2016-17, implying a growth of 17 per cent over 2015-16.

8.   The non-debt capital receipts include Recovery of Loans and Advances (made to the State Governments) and the major component of Disinvestment receipts. The estimated receipts from disinvestments including through the sale of strategic assets was budgeted at ₹56,500 core in BE 2016-17. The revised estimates, keeping in view the market volatility and strategic decisions, has been pared down to ₹45,500 crore. Total non-debt capital receipts are estimated at ₹ 56,571 crore in RE 2016-17 of which ₹11,071 crore is on account of recovery of loans and advances.

9.   Non tax revenues were estimated at ₹3,22,921 crore in BE 2016-17 with an increase of ₹ 64,345 crore over the RE of 2015-16. The major part of the increase projected was on account of the telecom receipts. However the actual receipts from the spectrum auctions fell short of the estimated numbers The shortfall in telecom receipts was mainly because the high value 700MHz and 900 MHz bands went unsold as the telecom operators felt that the ecosystem was not yet ready. The shortfall against the estimated spectrum receipts is estimated to be covered through enhanced receipts from the dividend payments, particularly from the public sector enterprises. The Non tax revenues in RE 2016-17 have been revised to ₹3,34,770 crore which shows a growth of 33.2 per cent over 2015-16 actuals and works out to 2.2 per cent of projected GDP for the year.

10.   The estimated total expenditure of ₹19,78,060 crore in BE 2016-17 has been substantially increased during the course of the year through additional allocations made by way of supplementary demands for grants. The total expenditure in RE 2016-17 has been revised to ₹20,14,407 crore which shows an increase of ₹36,347 crore over the budget estimates. For the second consecutive year the Government has enhanced its expenditure allocations over the budget estimates while maintaining the fiscal deficit targets for the year. The increase in expenditure allocation through mid-year additionality is higher in 2016-17 compared to the previous year.

11.   A positive feature of the expenditure at the end of the current financial year is the improvement envisaged in the revenue-capital balance. In the revised estimates, the capital component of the Government's expenditure is estimated at ₹2,79,847 crore which shows an increase of ₹32,823 crore over the budgeted estimates of 2016-17. The ratio of revenue-capital expenditure is therefore estimated to improve from about 88:12 in BE 2016-17 to about 86:14 in RE 2016-17. This has contributed in improving revenue deficit position in RE 2016-17.

12.   The Government has been successful in restricting the fiscal deficit within the budgeted estimates during 2016-17 despite shortfall in non-debt capital receipts, because of the substantial increase in the gross tax revenues witnessed over the budgeted estimates. Gross tax revenues are estimated to increase by about ₹75,355 crore in RE 2016-17 over

BE 2016-17. The revenues have been particularly buoyant in Excise tax and Service tax on the Indirect tax side; however, Customs collections are estimated to fall short of the budgeted estimates. On the Direct taxes front the Corporation tax and Taxes on Income are anticipated to remain at the budget level.

13. Market borrowings during the year, the revised estimates have been pegged lower than the budgeted estimates on account of cash build up due to disintermediation of States from the NSSF (National Small Savings Fund) pool. Government has invested part of the NSSF net collections during the year with Food Corporation of India (to discharge the old liabilities) which will be repaid by the Government over the next few years to NSSF. Despite this, the NSSF's investment in Central Government securities will be higher than the budgeted estimates. The net market borrowings have therefore been pared down from ₹ 4,25,181crore in BE 2016-17 to ₹ 4,06,708 crore in RE 2016-17. Overall, the Total liabilities of the Centre is estimated at 46.7 per cent of GDP in RE 2016-17 against 47.1 per cent estimated in BE 2016-17.

Fiscal Outlook in Budget 2017-18:

14. Fiscal Policy of the Government continues to be guided by the principle of a gradual reduction of deficit. The Government is fully cognizant of the need to maintain tight fiscal plan. However, any fiscal straight jacketing to meet the FRBM target would not be advisable. In current context, a need for a push through higher public spending is assessed to be crucial for providing an impetus to economic growth. The Government has, therefore, consciously decided to shift the FRBM target of achieving fiscal deficit at 3 per cent of GDP, by another year to 2018-19. The estimate of fiscal deficit at 3.2 per cent of GDP in 2017-18 shows a correction of 0.3 per cent over estimates of 2016-17. In nominal terms the fiscal deficit (at 3.2 per cent of estimated GDP) for 2017-18 is estimated at ₹5,46,531 crore.

15. The revenue deficit is estimated at1.9 per cent of GDP in 2017-18 against 2.1 per cent of GDP in RE 2016-17. In nominal terms, the revenue deficit is estimated at ₹3,21,163 crore in BE 2017-18. The effective revenue deficit (ERD) which is worked out after deducting the amount provided for 'grants for creation of capital assets' from the total revenue deficit works out to ₹1,25,813 crore in BE 2017-18 which is 0.7 per cent of GDP. As already mentioned, the target of elimination of ERD by 2017-18, in spite of gradual reduction in revenue deficit, may not be achieved. This is due to structural issues relating to booking of grant in aid for creation of capital assets in the revenue side of the account. Till that time this structural issue is addressed through a suitable and appropriate accounting mechanism or through a substantial

change in the revenue-capital composition of Government expenditure, this imbalance is likely to persist.

16. In Budget 2017-18 the Gross tax revenues are estimated at ₹19,11,579 crore with a growth of 12.2 per cent over the Revised estimates of 2016-17 and 17.2 per cent increase over the Budget estimates of 2016-17. The tax to GDP ratio is estimated at 11.3 per cent in BE 2017-18. The point that needs to be highlighted is that the tax to GDP ratio is estimated for the first time since 2007-08 to cross 11 per cent, both in RE 2016-17 and BE 2017-18. The impact of demonetization slated to translate through increase in the size of the organized sector and increase in the tax net as well as the expectation of the economy to bounce back on the back of a pent up consumption demand, is estimated to spur the tax collections in 2017-18. The estimated tax revenues in BE 2017-8 is a net result of the additional resource mobilization measures/rationalization of tax exemptions as well as the tax giveaways proposed for the year.

17. The total Non debt capital receipts are estimated at ₹84,432 crore in BE 2017-18 which marks an increase of ₹ 27,861 crore over RE 2016-17. This includes ₹72,500 crore on account of disinvestment receipts against ₹45,500 crore estimated in RE 2016-17. The disinvestment programme of the Government has been scaled up in 2017-18 in comparison to the previous years. The increase of ₹27,000 crore over the RE 2016-17 is based on the assumption that the disinvestments will be pursued with greater vigour, based on proactive policy decisions taken by the Government. The other component of the non debt capital receipts include the repayment of loans by the State Governments which is budgeted to ₹ 11,932 crore in 2017-18.

18. The total expenditure of the Centre in BE 2017-18 is estimated at ₹ 21,46,735 crore which is an increase of 6.6 per cent over the Revised estimate of ₹ 20,14,407 crore in 2016-17. This includes a provision of ₹ 18,36,934 crore on account of Revenue expenditure and ₹ 3.09,801 crore on account of Capital expenditure. While the Revenue expenditure of the Centre shows an increase of 5.9 per cent the Capital expenditure is estimated to increase by 10.7 per cent over the revised estimates of 2016-17. The Revenue-Capital ratio is estimated to remain at the same level in BE 2017-18 as in RE 2016-17.

19. The major components of Government expenditure apart from the broad Revenue and Capital classification has been organized into two broad sections indicating Centre's expenditure (incurred directly by the Centre including through its agencies) and the Transfers to States/UTs. The Centre's expenditure is estimated to increase from ₹ 16,16,712

crore in RE 2016-17 to Rs, 17,23,407 crore in BE 2017-18. Similarly, the total Transfers to States/UTs is estimated to increase from ₹ 3,97,695 crore in RE 2016-17 to Rs, 4,23,328 crore in BE 2017-18.

20. Apart from the merger of Plan and Non-Plan classification, the Budget documents in 2017-18 include a separate document on consolidated Outcome Budget of Ministries/Departments of the Central Government. This document links the budgeted outlays for different schemes of Ministries/Departments with physical and financial outputs/deliverables as well as the medium term Outcomes. This will make it easier for the stakeholders to understand what the proposed outlays are intended to achieve. This will enhance the accountability process in the implementation of both Central Sector and the Centrally Sponsored Schemes.

Fiscal Outlook for 2018-19 and 2019-20.

21. The Government's medium term fiscal projections use the FRBM limits and the budget estimates as a base and are subject to risks and uncertainties that affect the fiscal aggregates. As explained earlier the fiscal deficit target of 3 per cent of GDP was mandated to be achieved by 2017-18, as per amended FRBM Act. This is now expected to be achieved in 2018-19. There will not be any statutory requirement of further reduction of FD as a percentage of GDP after 2018-19, under the existing FRBM provisions. The FD for 2018-19 and 2019-20 has therefore been assumed at 3 per cent of GDP. This will result in creation of additional fiscal space for the Government based on nominal GDP growth in those years.

22. Containing revenue deficit is an important benchmark for assessing fiscal prudence in normal circumstances. However, in the context of the fiscal federal arrangements between the Centre and the States in Indian context, the Centre transfers to States, even those meant for capital expenditure, flow in the form of revenue grants, and the specific need to enhance allocations on important revenue components of expenditure, particularly on maintenance works, an excessive focus on reducing revenue deficit will be counterproductive and may even impact return on capital assets in the economy. However, efforts for further rationalization of non-productive revenue expenditure will remain in focus. Keeping these in view, and the requirements under the FRBM Act which mandate revenue deficit to be contained at 2 per cent of GDP the revenue deficit has been estimated at 1.6 per cent and 1.4 per cent of GDP in 2018-19 and in 2019-20 respectively.

23. The Fourteenth Finance Commission has recommended doing away with the concept of Effective revenue deficit finding it to be a dilution of the standard systems of fiscal benchmarking. However, there are certain tangible merits in continuing with this additional fiscal benchmark. On the one hand it clearly brings out the capital component of the revenue expenditure thereby indicating the real capital investment expenditure in the economy out of the Central funds, while at the same time it keeps up the pressure on pushing up this component of revenue expenditure for creation of tangible physical assets.

24. As mentioned in preceding paragraphs, an appropriate balance will need to be maintained so that excessive focus on grants for creation of capital assets do not result in a compromise on other essential revenue components of expenditure on developmental needs such as appointment of teachers in schools or maintenance and supplies in the hospitals or the maintenance of roads and other infrastructure assets. The focus needs to be brought back on adequate allocation for essential maintenance and supplies related expenditure particularly in key areas of public delivery of services. The effective revenue deficit therefore in these contexts is estimated at 0.4 per cent and 0.2 per cent of GDP in 2018-19 and 2019-20 respectively. This projection is a deviation from the targeted elimination of ERD under the FRBM Act and will need to be given a hard look while deciding on this aspect later in the year, based on the recommendations of the FRBM (Review) Committee.

25. The Indian economy is expected to return to a more stable high growth trajectory in the medium term. Keeping this in view and the major tax reform policy measures particularly relating to GST and broadening of base in direct taxes, which is on the anvil, along with the beneficial impact of anticipated greater formalization of economy as a result of the recent demonetization measures, the growth in tax collections are likely to show an improvement. The tax to GDP ratio is therefore estimated to show an improvement in the medium term and has been estimated at 11.6 per cent and 11.9 per cent of GDP respectively in 2018-19 and 2019-20.

26. Non tax revenues are the second important source of revenue for the Government besides the tax revenues. Apart from occasional spikes in non-tax revenues particularly on account of spectrum auctions, most of the other sources of non-tax revenues are fairly inelastic. The non tax revenues in medium term are projected conservatively at 1.4 per cent and 1.3 per cent of GDP in 2018-19 and 2019-20 respectively. The Government has also implemented a number of recommendations of the Expenditure Management Commission (EMC) with regard to steps suggested for the review and augmentation of non–tax sources of revenues. It includes revised guidelines on dividend payments, mandatory review of user charges/fees etc. which may yield higher returns in the medium term.

27. The total Government expenditure to GDP ratio is budgeted to 12.7 per cent in 2017-18. This is estimated to taper to 12.2 per cent of GDP in 2018-19 and 2019-20. The balance between the revenue and capital expenditure is expected to improve to 85:15 by 2019-20. However, payment or expenditure outcomes in the medium term can differ from estimates for a number of reasons, including the fiscal development and overall macro-economic conditions.

28. Keeping in view the broad fiscal estimates in the medium term, the total estimated liability of the Centre is estimated to decline from 44.7 per cent in 2017-18 to 42.8 per cent and 40.9 per cent of GDP in 2018-19 and 2019-20 respectively. This will still be above the targeted total liability of the Centre at 40 percent of GDP in terms of the Finance Commission recommendations; the pace of consolidation is on track.

A. Assumptions Underlying the Fiscal Indicators

1. Revenue receipts.

(a) Tax-Revenue

29. The Gross tax revenue which was stagnating for a long period since 2007-08 in the range of 10 per cent of GDP was projected to increase to 10.8 per cent of GDP in BE 2016-17. It is now estimated to increase to 11.3 per cent in RE 2016-17 and is estimated to sustain at this level (11.3 per cent) in BE 2017-18. The growth in Gross tax revenues in 2017-18 is estimated at 12..2 per cent over the revised estimates of 2016-17. The growth in tax revenues have been projected on a conservative basis when seen against the growth of 17 per cent estimated in RE 2016-17. However, keeping in view the prevailing macroeconomic uncertainties and the low pick up of real growth in the current year it would be fiscally prudent to estimate conservatively at this stage.

30. The Direct taxes collections are estimated at ₹ 9,80,000 crore in BE 2017-18 with a growth of 15.6 per cent over RE 2016-17. The Direct taxes are estimated to constitute 51.3 per cent of the gross tax revenues in 2017-18. The Indirect taxes which have been particularly buoyant on account of growth in Excise and Service tax collections in 2016-17, are estimated at ₹ 9,26,900 crore in BE 2017-18 with a growth of 8.8 per cent over RE 2016-17, thereby contributing 48.5 per cent to the total pool of gross tax revenues. The trend of higher share of direct taxes compared to Indirect taxes though maintained, the gap is closing down in the short run trend.

31. In Direct taxes, the revenue from Taxes on Income is estimated to grow by 24.9 per cent over RE 2016-17 to ₹ 4,41,255 crore in BE 2017-18. The Corporation tax which continues to show a deceleration in the growth rates is estimated at ₹ 5,38,745 crore in BE 2017-18, with a growth of 9.1 per cent over RE 2016-17.

32. The indirect tax collections have been very buoyant showing a growth of more than 25 per cent during April-December, 2016 over corresponding period in the previous year. Robust growth in indirect taxes seems to suggest that the budgeted estimates will be crossed by a healthy margin. India's Indirect tax-GDP ratio which was around 5.2 per cent in 2015-16 is estimated to go up to about 5.7 per cent in RE 2016-17. A number of steps have been taken to increase the indirect tax-GDP ratio viz. widening the tax base through policy measures, comprehensive taxation of all services/introduction of negative list approach and reduction of exemptions wherever possible along with increase in levy of additional excise duty. In addition, several steps have been taken by the Government to improve the revenue collections through the administrative measures in the form of better usage of risk management systems, use of information technology, special audits, speedier adjudications, liquidation of arrears, speedy disposal of confiscated/seized goods etc.

33. In the Indirect taxes, the Union Excise Duties has been extraordinarily buoyant in 2016-17. Receipts from this component of indirect taxes are estimated to grow by 34.5 per cent in RE 2016-17 over 2015-16 (actual). The trend is estimated to moderate in 2017-18 due to the impact of base effect on account of additional excise on oil in the previous year. The revenues from Central Excise are estimated at ₹4,06,900 crore in BE 2017-18 with a growth of about 5 per cent over RE 2016-17. The Service tax component is estimated to grow by 11.1 per cent over RE 2016-17 to ₹ 2,75,000 crore in BE 2017-18. The share of the Customs Duties collections in the Gross tax revenues is estimated at ₹ 2,45,000 crore in BE 2017-18 with a growth of 12.9 per cent over RE 2016-17.

34. Having crossed the threshold of tax-GDP ratio of 11 per cent and the impending roll out of the GST reforms along with measures announced for the Direct tax reforms, the tax to GDP ratio is estimated to remain at the upper end curve of 12 per cent in the medium term. In view of these, tax to GDP ratio is estimated at 11.6 per cent and 11.9 per cent of GDP in 2018-19 and 2019-20 respectively.

(b) Devolution to States

35. This is the mid phase of the 14th Finance Commission period. Based on FFC recommendations the Government had enhanced the share of States' in the gross tax revenues. Tax devolution was increased

by 10 percentage from 32 per cent to 42 per cent of the divisible pool of gross tax revenues, from 2015-16. The devolution of the States' share of taxes which was estimated at ₹ 5,70,337 crore in BE 2016-17 has been substantially enhanced to ₹ 6,08,000 crore in the revised estimates, as a result of substantial increase in the gross tax collections during the year. In BE 2017-18, the States' share of taxes is estimated at ₹ 6,74,565 crore, which is 42 per cent of the divisible pool of gross tax revenues (after netting the cesses/surcharges and the cost of collections etc.

36.   Over the medium-term, States' share in gross tax revenues has been projected keeping in view the recommendations of the 14th Finance Commission. The Net tax revenues of the Centre after devolution of the States' share of taxes are estimated at ₹ 12,27,014 crore in BE 2017-18, which is 7.3 per cent of the estimated GDP. The Net tax revenue of the Centre is estimated to marginally increase to 7.5 per cent and 7.7 per cent of GDP in 2018-19 and 2019-20 respectively.

(c)   Non Tax Revenues

37.   The non tax revenues comprise Dividends from RBI, Banks and other Financial Institutions and the Public sector enterprises (post the merger of Railway Budget with the Union Budget, the Railways will not pay dividend on the capital at charge from 2017-18) ; Interest receipts mainly from the States against the loans extended by the Centre, telecom receipts, royalty from offshore oilfields and profit petroleum and other user charges and fees etc. levied by various Ministries/Departments.

38.   In Budget 2017-18, the non tax revenues are estimated at ₹ 2,88,757 crore which is lower by ₹ 46,013 crore compared to the revised estimates of 2016-17. The reduced estimates for non tax revenues is mainly because additional receipts through spectrum auction which came during 2016-17, is not factored in 2017-18. The telecom receipts as a result, are estimated to decrease from ₹ 78,715 crore in RE 2016-17 to ₹ 44,342 crore in BE 2017-18.

39.   The total Non tax revenues are estimated at 1.7 per cent of GDP in BE 2017-18. This is significantly lower than the 2.2 per cent of GDP estimated in the revised figures of 2016-17. In percentage terms this shows a decrease of 13.8 per cent over the revised estimates of 2016-17. In the medium term, the non tax revenue receipts are expected to remain at 1.4 per cent and 1.3 per cent of GDP in 2018-19 and 2019-20 respectively.

40.   The growth in non-tax revenues due to the very nature of their components is low and inflexible, as there are limited avenues for enhancing their scope. This is also because some major sources of non tax revenue in other countries, include revenues from property tax and royalty on minerals. In our context, these fall in the domain of the State Governments. In addition, the Government's decision not to accept dividends from Railways while providing additional fiscal space to Railways for its developmental works will put downward pressure on the non tax revenues of the Centre. Despite the above, the estimated non tax revenues in other components generally show an upward movement mainly due to reviews/revisions of rates and charges on various products and public services provided by the various Ministries/Departments, along with the positive impact of the revised guidelines on dividend payments.

2.   Capital Receipts

(a)   Recovery of loans and advances

41.   The non debt capital receipts have two major components viz. Recovery of loans and advances and the Disinvestment receipts. The recovery of loans and advances are estimated at ₹ 11,932 crore in BE 2017-18 against ₹ 11,071 crore estimated in RE 2016-17. With no fresh on-lending to the States except the back to back transfer of the loans taken for Externally Aided Projects (EAP), the receipts under this head are showing a gradual declining trend. The other source of recovery of loans is from the public sector enterprises, for repayment of loans earlier extended to them. However, the repayment of loans by the public sector enterprises is impacted on account of non-recovery from the loss making and sick public sector enterprises. Taking into account the repayments due from the States and the actual trends of receipts from the public sector enterprises, the amount of receipts estimated in 2018-19 and 2019-20 is kept at ₹ 10,000 crore in each of these two years.

(b)   Other non-debt capital receipts

42.   The major share of non debt capital receipts comprises the disinvestment receipts on account of stake sale in the public sector enterprises including the strategic sale of assets. In BE 2016-17, the disinvestment receipts was ₹56,500 crore including ₹20,500 crore from the strategic sale in companies with minority stake holdings. The total disinvestment receipts are estimated at ₹45,500 crore in the revised estimates of 2016-17. The shortfall in actual disinvestment receipts is estimated to be lower, compared to those achieved in the previous years.

43.   Taking into account the proactive measures of the Government particularly for the closure/sale of sick public sector enterprises and the momentum that disinvestments have gathered, the disinvestment receipts are projected to ₹72,500 crore in BE 2017-18 which works out to about 0.43 per cent of estimated GDP for the year. This is an increase of ₹27,000 crore

over the Revised estimates of 2016-17. However, the estimate of disinvestment receipts in BE 2017-18 continues to fall short of the 14th Finance Commission estimate of 0.7 per cent of GDP projected for the year. The target for disinvestment receipts are kept conservatively at ₹47,000 crore and ₹ 40,000 crore in 2018-19 and 2019-20 respectively.

(c) Borrowings- Public debt and other liabilities

44. The total liability of the Government includes public debt and other liabilities in the Public Account of India. In the public debt part of the liabilities the major component pertains to internal public debt and the remaining is the external debt component. The external debt of the Centre is a very small component of the total liabilities as the Government borrowings are mainly through domestic markets. The total public debt of the Centre is estimated at ₹ 64,20,951 crore in BE 2017-18 against 59,56,527 crore in RE 2016-17. As a percentage of GDP the total public debt is estimated to decline from 39.5 per cent of GDP in 2016-17 to 38.1 per cent of GDP in 2017-18. At the end of March, 2016 the share of external debt stood at only 3.8 per cent while the remaining 96.2 per cent was accounted towards the internal market debt at book value.

45. The total outstanding liabilities of the Centre including external debt at current exchange rate and after netting as indicated at Page 1 (Table) are estimated to ₹ 75,36,622 crore, which works out to 44.7 per cent of GDP in BE 2017-18 as against 46.7 per cent in RE 2016-17. The percentage share of the public account liabilities are estimated to show a rising trend as the Government, based on the 14th Finance Commission recommendations, has decided to dicontinue investment of NSSF receipts, into the State Government securities. Only states of Arunachal Pradesh, Kerala, Madhya Pradesh and UT of Delhi have chosen to borrow from share in NSSF collection. This is expected to bring a quantum change in the borrowing pattern of the Centre as well as the States. In the case of the Centre, in view of the need for additional investment of NSSF receipts (net collections and repayments from the States) in the Central Government securities, there will be a concomitant reduction in the market borrowings component. Just opposite to this, the State Governments' market borrowings size is expected to increase, as there will not be any receipts from the NSSF.

46. In BE 2016-17, the Gross and the Net market borrowing of the Centre through dated securities was estimated at ₹ 6,00,000 crore and ₹4,25,181 crore respectively. Compared to this the Gross and net market borrowings of the Centre are estimated to come down to ₹5,80,000 crore on gross basis and ₹ 3,48,226 crore on net basis during 2017-18. Apart from NSSF

receipts, the increased subscriptions under the General Provident Fund on account of the pay revision is another factor contributing partly to the increase in the public account liabilities, both in 2016-17 and 2017-18. In BE 2017-18, the net borrowings through dated securities are estimated to finance 63.7 per cent of the fiscal deficit against 72.5 per cent in the revised estimates of 2016-17. Other sources of deficit financing such as short term treasury bills, net external assistance and the public account balances are estimated to finance the remaining part of the fiscal deficit in 2017-18.

47. The external borrowings of the Centre includes borrowings made by the Centre for the Central sector schemes as well as the borrowings carried in the name of the sovereign for passing on to the State Governments (as Constitution bars borrowings by the States from external sources) on back to back basis. The external borrowings, mainly through multilateral agencies are estimated at ₹ 7,257 crore in RE 2016-17, which is reduced to ₹ 7,257 crore over the budgeted estimates. In BE 2017-18 the external borrowings are estimated at ₹15,789 crore.

48. With the reduction of the fiscal deficit target from 3.5 per cent of GDP in 2016-17 to 3.2 per cent of GDP in 2017-18, the fiscal deficit in nominal terms is estimated to ₹ 5,46,531 crore in BE 2017-18. The market borrowings are estimated to come down from RE 2016-17 onwards on account of disintermediation of States and consequent investment of entire NSSF (net) collections in Central Government securities and better management of debt through internationally adopted techniques of debt management by using buyback and switching at the securities etc.

49. The Government, keeping in view the cash flows accruing from the NSSF collections, has reduced the net market borrowings through dated securities as well as short term instruments during the course of the current financial year. In RE 2016-17 the gross market borrowings have been reduced by ₹18,000 crore from the budgeted estimates of the year. Even the short term borrowings through Treasury Bills were reduced by ₹ 52,000 crore in 2016-17 from the budgeted estimates. (In BE 2017-18 also the share of net borrowings for financing Centre's deficit is projected almost at the level of BE 2016-17 i.e. at ₹ 3.48 lakh crore in BE 2017-18. Consequently, NSSF borrowings are estimated to increase from ₹ 90,376 crore to ₹ 1,00,157 crore in BE 2017-18).

50. In 2016-17, the weighted average maturity of primary issuances of rupee denominated dated securities was elongated to 14.75 years as against 16.03 years in 2015-16. The weighted average yield of securities issued in the financial year 2016-17 (till January, 2017) has come down to 7.2 per cent from

estimated at 87.5 per cent of the total expenditure at the budget stage has come down to 86.1 per cent in the revised estimates of 2016-17. Showing further improvement, in BE 2017-18 the revenue component of the total expenditure is estimated to decline further to 85.6 per cent of total expenditure.

58.   The major components of the revenue expenditure of the Government include Interest payments, Subsidies, Salaries and Pensions, Defence revenue expenditures, expenditure on Central Police Organizations and the revenue transfers made to the State/UT Governments in the form of Finance Commission grants, Centrally Sponsored Schemes and Other Transfers. The grants to Central autonomous bodies as also a substantial part of the Central sector schemes are also in the nature of revenue expenditure. These are discussed briefly in the following paragraphs.

(a)   Interest Payments

59.   Interest payments constitute the largest component of Centre's revenue expenditure. In BE 2016-17, interest payments estimated at ₹4,92,670 crore constituted 35.8 per cent of the revenue receipts of the Centre. In RE 2016-17 this ratio is expected to improve substantially as a result of buoyant revenues and savings on account of declining interest rates of market borrowings. This is despite Government decision to take over sudden liabilities on account of the window provided through the Market Stabilization Scheme for investment of surplus cash with banks, consequent to demonetization measures, and a higher pay out on account of larger net NSSF investments in Central Government securities. The overall interest expenditure is estimated to decline to ₹ 4,83,069 crore in RE 2016-17. The interest payment to net revenue receipts ratio is also estimated to improve to 33.9 per cent in the revised estimates of current year.

60.   In BE 2017-18 the total interest payment is estimated at ₹5,23,078 crore which is 34.5 per cent of the revenue receipts (net tax plus non-tax revenues) of the Government. This factors full investment of the higher cost NSSF receipts in Central Government securities (with appropriate reduction in the market borrowings component). With the Government commitment to stay steadfast on the fiscal consolidation path, the interest expenditure as a percentage of revenue receipts is expected to decline in the medium term. Keeping in view the constant fiscal deficit target of 3 per cent of GDP the interest payment to revenue receipts ratio is estimated to gradually improve to 32 per cent and 30.5 per cent of Centre's revenue receipts in 2018-19 and 2019-20, respectively.

(b)   Major Subsidies

61.   The expenditure on Major subsidies on Food, Fertilizer and Petroleum remains the second significant component of revenue expenditure. The expenditure on major subsidies is estimated to remain approximately at the budgeted level in 2016-17. There is a marginal increase from ₹2,31,782 crore in BE to ₹2,32,705 crore in the revised estimates. The provision for Major subsidies in BE 2017-18 stands at ₹2,40,339 crore which is estimated at 1.4 per cent of the GDP. The net increase of ₹7,634 crore over the revised estimates of current year is due to the increase of ₹10,166 crore for Food subsidies and reduction of ₹2,532 crore for Petroleum subsidies.

62.   With diesel and petrol being fully decontrolled from 1st January, 2015 the petroleum related subsidies now relate mainly to kerosene and LPG. While the Government has implemented direct benefit transfer for LPG, reform push is now directed towards kerosene subsidies. To this end while the PDS kerosene allocation to States have been rationalized (from 2016-17) in keeping with the Expenditure Management Commission recommendations, steps are also being taken to enhance DBT coverage for kerosene. In this direction, Jharkhand has implemented DBT for kerosene in 4 Districts from 1st April, 2016 and other States are being encouraged to follow suit, some States have in fact initiated measures for making their State kerosene free. While Chandigarh declared itself kerosene free from 1st April, 2016, Haryana has achieved this in 8 districts and is targeting to become 'kerosene free' State by 31st March, 2017. Going forward the subsidy on petroleum products is likely to see a declining trend. Keeping this in view, the provision for petroleum related subsidies in BE 2017-18 has been reduced to ₹25,000 crore.

63.   As regards Food subsidy, implementation of the National Food Security Act has become universal from 1st November, 2016. All the States/UTs have now adopted NFSA, 2013 expanding the food subsidy coverage to approximately 80 crore beneficiaries. The provision for Food subsidy has been kept at ₹1,45,339 crore in BE 2017-18 against ₹1,35,173 crore in the revised estimates of 2016-17. Reforms in food subsidy have been initiated, 6 States have automated all their Fair Price Shops (FPSs). In addition, a total of 1,77,746 FPSs have been automated with ePoS machines and 72 per cent ration cards have already been seeded with Aadhar. This is expected to gradually bring down the incidence of food subsidies in the medium term, albeit depending on decisions on MSP/Issue prices

64.   Making headway in fertilizer subsidy reforms, Department of Fertilizers has chalked out a programme to implement DBT in modified form through pilot projects in 16 Districts. As an outcome

of neem coating of urea, Kharif 2016 was the first season when entire urea consumed came to be neem based. This has been estimated t obring down the consumption of urea by 8.66 lakh metric tonne compared to the previous year. Urea consumption has declined between the Kharif seasons from 152.37 LMT in 2015-16 to 143.71 LMT in 2016-17. The savings in subsidy at approximately ₹12,000/MT is estimated to be over ₹1,000 crore on this count alone. The provision for fertilizer subsidies in BE 2017-18, however, has been retained at RE 2016-17 level of ₹70,000 crore.

65.   It is expected that with active policy reforms gaining momentum in the medium term, the budgetary outgo on Major subsidies will fall. Over the projection period, the Government expenditure on Major subsidies is estimated to come down from 1.4 percent of GDP in BE 2017-18 to 1.3 per cent and 1.2 per cent of GDP respectively, in 2018-19 and 2019-20.

(c)   Defence Services

66.   The Defence Services revenue expenditure constitute mainly, expenditure on salaries, other establishment related items including Stores, works related maintenance expenditures, transport and other miscellaneous expenditure. The revised estimates of Defence Service revenue expenditure is ₹1,68,635 crore against the budgeted estimates of ₹1,62,759 crore. In BE 2017-18, it is estimated at ₹ 1,75,861 crore . The increase is on account of additional allocations provided towards both salaries as well as other operational revenue expenses. The increase in defence revenue expenditure in BE 2017-18 is 4.3 per cent over RE 2016-17. The revenue component of Defence services is projected to increase by about 8 per cent and 11 per cent respectively in 2018-19 and 2019-20, over the previous year's estimates.

(d)   Finance Commission Grants

67.   The Finance Commission grants are given to the State Governments under the statutory provisions under Article 275(1) of the Constitution. The 14th Finance Commission had recommended grants under this Constitutional provision in relation to revenue deficit grants, Grants in aid for State disaster response funds and Grants in aid for the rural and urban local bodies. The Finance Commission grants in BE 2017-18 are estimated at ₹ 1,03,101 crore. In 2018-19 and 2019-20, these statutory Grants are estimated as per recommendations of the 14th Finance Commission.

(e)   Pensions

68.   The incidence of pension payments arises mainly in three Demands for Grants in the Government of India viz. Defence (Pensions), Civil (Pensions) and Department of Telecom. While Civil (Pensions) caters to all departments, the other two demands cater to pension expenditures in relation to specific Ministries/ Departments. The expenditure on pensions is estimated to increase from ₹1,23,368 crore in BE 2016-17 to ₹1,28,166 crore in RE 2016-17, mainly on account of implementation of Pay Commission recommendations.

69.   In Budget estimates of 2017-18 the total expenditure on pensions is estimated at ₹1,31,201 crore which is 0.8 per cent of estimated GDP for the year. This includes a provision of ₹ 85,740 crore for Defence pensions, ₹ 34,118 crore for Civil pensions and ₹ 9,940 crore for Telecom pensions. The total expenditure on pensions is estimated to decline gradually in the medium term as a ratio of GDP to about 0.7 per cent of GDP by 2019-20.

II.   Capital Outlay

70.   The total capital expenditure of the Centre was ₹ 2,53,022 crore in 2015-16 (actuals). In RE 2016-17 the capital expenditure of the Centre has increased to ₹2,79,847 crore which is a growth of 10.6 per cent over 2015-16 (actuals) and constitutes 13.9 per cent of the total expenditure estimated in the revised estimates of 2016-17. The provision for capital expenditure in BE 2017-18 is ₹ 3,09,801 crore which is a further 10.7 per cent increase over RE 2016-17 and constitutes 14.4 per cent of the total expenditure estimated for the year.

71.   However, for a holistic perspective of the Central Government expenditure of capital nature, it would be useful to review the status of the Internal and Extra Budgetary Resources (IEBR) estimated to be deployed by the Central Government public sector enterprises and the commercial departmental undertakings. The IEBR of the Central public sector enterprises was estimated at ₹ 3,98,139 crore in BE 2016-17 which is now estimated at ₹ 4,06,390 crore in the revised estimates for the year. In BE 2017-18, the total IEBR is estimated at ₹ 3,85,027 crore.

GDP Growth:

72.   The growth momentum which had been picking up consistently since the previous year is facing a temporary setback, attributable to a number of macroeconomic factors The real growth as per the Advance Estimates of CSO is now estimated at 7.1 per cent in 2016-17 against 7.6 per cent achieved in 2015-16. In nominal terms, the GDP growth has been assumed at 11 per cent in projecting the revised budgetary estimates of the current financial year even though the CSO Advance Estimates are 90 basis points higher at 11.9 per cent. The adjustments have been done on account of trends of decline in growth rate, expected to run out in the last two quarters of current financial year, in maximum. Since the CSO Figures could not fully factor these on account of

limited period data, as they had to advance their projection taking into account the growth figures till October, 2016 Government has moderated the estimated nominal GDP growth rate to factor for the above.

73. However, with the negative impact on GDP growth not expected to continue beyond the current financial year and the likelihood of a bounce back of the consumption demand from the first quarter of 2017-18, the medium term growth prospects of the Indian economy appears quite positive. This is mainly on account of a strong macro-economic fundamentals including the demographic dividend of a large young population with corresponding low dependency ratio, healthy savings and investment rates, increasing integration into the global economy and large number of proactive Government initiatives to spur growth in all sectors of the economy. India, therefore, despite short term setbacks continues to be the 'bright spot' in the global landscape in terms of GDP growth.

74. GDP growth is expected to rebound in 2017-18 and in the medium term over the next three years. The growth in consumption on account of recent salary and pension hikes and higher agricultural production, on the back of a return to normal monsoons is expected to have a more positive impact in 2017-18. In addition, private investments are expected to pick up gradually as excess capacities in some sectors diminish infrastructure projects mature and corporate sector deleverages itself. The benefits of the implementation of the Goods and Service Tax (GST) during the course of the next financial year is another important factor expected to improve the rate of GDP growth. The rate of growth in nominal terms is estimated at 11.75 per cent in BE 2017-18, over the estimated nominal GDP assumed in the revised estimates of 2016-17. In the medium-term GDP growth in nominal terms is assumed at 12 per cent both in 2018-19 and 2019-20.

B.   Assessment of sustainability relating to

(i)   The balance between Revenue receipts and Revenue expenditure

75.   The total revenue receipt of the Centre is estimated at ₹14,23,563 crore in the revised estimates of 2016-17 showing an increase of ₹ 46,541 crore over the budgeted estimates. The net increase is accounted through increase in net tax receipts of the Centre by ₹ 34,692 crore and the non- tax revenues by ₹ 11,849 crore. In the revised estimates, the revenue expenditure is estimated to increase marginally by ₹3,523 crore over the budgeted estimates of 2016-17, to ₹ 17,34,560 crore. As a result, the revenue deficit as a percentage of GDP is estimated to decline from

2.3 per cent in BE 2016-17 to 2.1 per cent in RE 2016-17.

76.   In BE 2017-18 the revenue deficit is estimated at 1.9 per cent of GDP. The position shows a substantial improvement over BE 2016-17 of 2.3 per cent of GDP. As a result, the revenue deficit benchmark target of 2 per cent of GDP is estimated to be achieved for the first time since the amendment to the FRBM Act in 2012-13, setting the revised limit. In the medium term, with the pay commission impact likely to narrow down gradually, the revenue deficit is estimated to decline further to 1.6 per cent of GDP in 2018-19 and 1.4 per cent of GDP in 2019-20.

77.   The effective revenue deficit (ERD) which is the difference between the revenue deficit and the grants for creation of capital assets is estimated to decrease from the estimated 1.2 per cent of GDP in BE 2016-17 to 0.9 per cent of GDP in the revised estimates of the year. The ERD is estimated to further decline to 0.7 per cent of GDP in BE 2017-18. Still, this would be a deviation from the FRBM mandated target of elimination of the ERD by 2017-18. This slippage is justified as the Government has consciously decided, in view of the larger reform undertaken for presenting budget in the form of Revenue/Capital, to ensure that important developmental and maintenance expenditure of revenue nature do not get compromised.

78.   In the medium term, the ERD is however estimated to decline to 0.4 per cent of GDP in 2018-19 and 0.2 per cent of GDP in 2019-20. It may also be mentioned that while the 14th Finance Commission has recommended doing away with this indigenous fiscal benchmark to focus only on revenue deficit, a decision on this issue will need to be taken by the Government at the time of processing the recommendations of the FRBM Review Committee.

(ii)   The use of capital receipts including market borrowings for generating productive assets

79.   The ratio of revenue deficit to fiscal deficit broadly measures the extent of borrowings used for financing current expenditure of the Governmnet. The ratio of revenue and fiscal deficit in BE 2017-18 brings out this persistent imbalance, even though with a declining trend. The figures show that the ratio which had gone up to 81 per cent in 2009-10, has come down to the level of 58.8 per cent in BE 2017-18. The high levels of revenue deficit as explained over the years is largely on account of structural reasons, whereby the Centre's expenditure allocations for creation of assets are budgeted largely for implementation in State domains or by the implementing agencies, with funds transferred in the form of revenue grants.