MEDIUM TERM FISCAL POLICY CUM FISCAL POLICY STRATEGY STATEMENT

A. Fiscal Indicators - Rolling Targets as a Percentage of GDP

		Revised Estimates	Budget Estimates	(Projections)	
		2018-19	2019-20	2020-21	2021-22
1.	Fiscal Deficit	3.4	3.4	3.0	3.0
2.	Revenue Deficit	2.2	2.2	1.7	1.5
3.	Primary Deficit	0.2	0.2	0.0	0.0
4.	Gross Tax Revenue	11.9	12.1	12.1	12.2
5.	Non-tax Revenue	1.3	1.3	1.3	1.3
6.	Central Government debt	48.9	47.3	45.4	43.4

1. The above table provides the estimates of fiscal performance against specified fiscal indicators during RE 2018-19 and BE 2019-20 and projections for 2020-21 and 2021-22. The above table indicates that the fiscal deficit shall be 3.4 per cent in both RE 2018-19 and BE 2019-20. The FRBM targets for the year were 3.3 per cent in 2018-19 to be brought down to 3.1 per cent in 2019-20. The Gross tax Revenue as a % of GDP is expected to increase to 12.1% of GDP in 2019-20 and stabilise at that level in 2020-21 before climbing up to a level of 12.2% of GDP.

2. The figure of Central Government Debt in the above table includes all liabilities of central government against the consolidated fund of India and all public account liabilities, reduced by the cash balance available at the end of that date with external debt valued at current exchange rate as per Section 2(aa). It however does not include EBRs as the amount actually raised is dependent on the expenditure pattern and also on the market conditions and will be correctly available only by the end of the financial year.

3. Central government debt, reduced by cash balance, shows a declining trend. The Central Government Debt, which was estimated at 48.8 per cent as a percentage of GDP for 2018-19 has been revised upwards to 48.9 per cent. It is expected that Central Government liabilities will come down to 47.3 per cent of GDP in 2019-20. The declining path of central government debt is expected to continue with debt reaching 45.4 per cent of GDP and 43.4 per cent of GDP in 2020-21 and 2021-22 respectively. The main reason for the decline in debt is the sharp reduction in fiscal deficit projected in the medium term and is in line with the overall objective of bringing central government debt within 40 per cent as per the FRBM Act. Fiscal deficit in 2019-20 is budgeted to be 3.4 per cent of GDP and is projected to adhere to the FRBM Act's targeted value of 3 percent in 2020-21, and continuing at that level in 2021-22.

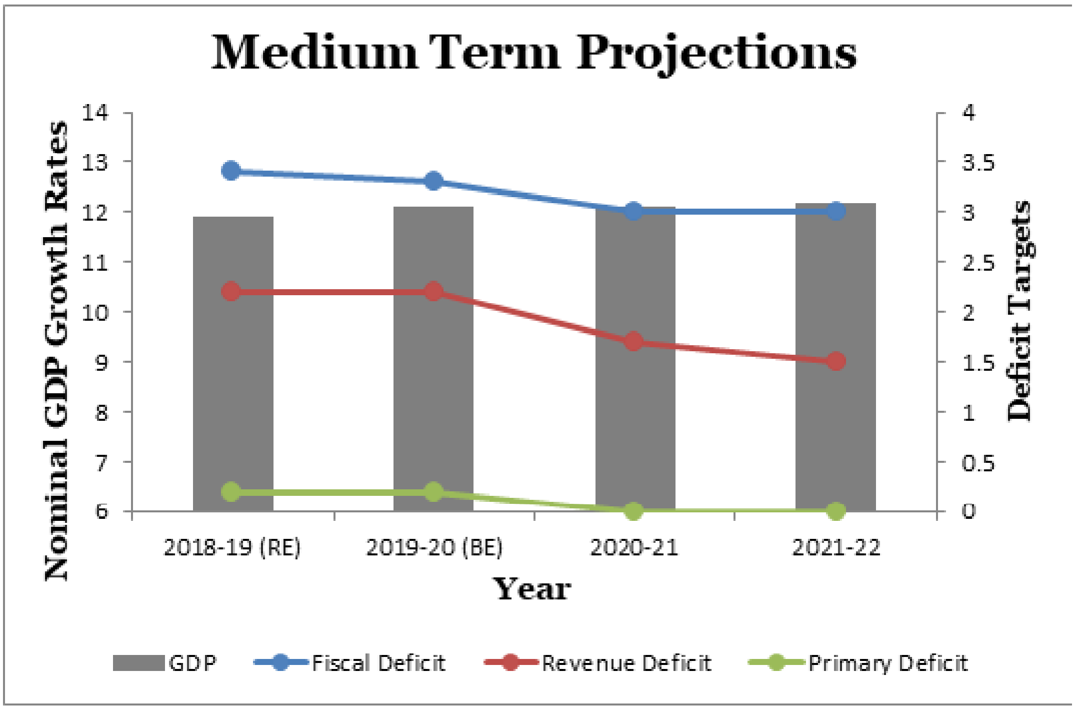
4. Extra budgetary resources are those financial liabilities that are raised by Public Sector Undertakings for which repayment of entire principal and interest is done from Government budget. Based on administrative reports obtained from the ministries, the outstanding liabilities on account of EBRs, as at the end of December 2018, were ₹50,195 crore, amounting to 0.3 per cent of GDP. A robust accounting and reporting mechanism will be put in place to estimate outstanding EBRs and its accurate estimation as a part of actual debt.

5. Though revenue deficit is no longer a parameter for measuring fiscal outcomes in the FRBM Act, it is shown as a reference indicator in MTFP Statement. In 2018-19 revenue deficit was projected at 2.2 per cent of GDP which has been kept at the same level in RE. Revised revenue deficit is expected to be ₹4,10,930 crore at the end of the year compared to ₹4,16,034 crore in BE 2018-19. Revenue deficit creates a preference for capital expenditure over revenue expenditure which may lead to a situation where funds are allotted for creation of capital assets but not for their subsequent maintenance. It is also pertinent to note that even those transfers from Union Government to State Government agencies that create tangible assets under schemes are categorised as revenue expenditure in Union Budget as Grants-

in-Aid. Then there is the conceptual issue of treatment of expenditures incurred in building human resource capital as revenue expenditure.

6. Non-Tax Revenue as a percentage of GDP has also been included as an indicator in the MTFP statement. Biggest contributors to Non-tax Revenue of the Government are interest receipt on loans and dividend receipts. NTR was budgeted as ₹2,45,089 crore in 2018-19. RE 2018-19 is slightly higher at ₹2,45,276 crore. Both work out to be 1.3 percent of GDP.

7. Primary Deficit is another indicator which has been included in the Medium term fiscal policy statement from 2019-20. Primary deficit refers to the deficit left after subtracting interest payments from fiscal deficit. In BE 2018-19, primary deficit was calculated to be ₹48,481 crore which is 0.3 per cent of GDP. Primary deficit in RE 2018-19 is expected to be ₹46,828 crore which works out to be 0.2 per cent of the GDP. The reduction of primary deficit is a positive sign as it shows reduced usage of borrowed funds to pay for existing liabilities.



Medium-Term prospects about Revenue Receipts

8. The Gross Tax Revenue is anticipated to grow at the rate of 11.9 per cent in 2020-21 and 13.4 per cent in 2021-22. With these increases in the gross tax revenues, it is anticipated that the GTR-GDP ratio will show a minor increase from 12.1 per cent to 12.2 per cent between 2020-21 and 2021-22. Whereas direct taxes are expected to show a growth rate of 14.9 per cent and 15.3 per cent, the growth rate in indirect taxes are expected to be slightly muted at 8.4 and 11.1 per cent in the years 2020-21 and 2021-22 respectively. Among the indirect taxes the growth rates of GST is expected to remain roughly at the rate of growth of the economy.

9. Direct taxes have shown high buoyancy in the last few years and have been consistently growing at a higher growth rate than that of the nominal GDP. This has led to an increase in direct tax collections. It has gone up from 5.7 per cent of GDP in 2010-11 to 6 per cent of GDP in 2017-18. This buoyancy is expected to continue and the direct tax- GDP ratio is expected to reach 6.9 per cent of GDP in 2021-22. Indirect taxes have also grown from 4.5 per cent of GDP in 2010-11 to 5.4 per cent in 2017-18.

Fiscal Outlook for RE 2018-19

10. There has been a slight decrease in Gross Tax Revenue estimates for 2018-19 to the tune of about ₹23,067 crore mainly on account of lesser than anticipated collection of GST. Indirect tax was budgeted at ₹11,16,000 crore for 2018-19. This estimate has been revised to ₹10,42,833 crore which is a decrease of ₹73,167 crore from BE level. Direct tax estimate has been calculated to be ₹12,00,000 crore in RE, which is an increase of ₹50,000 over its budgeted amount of ₹11,50,000 crore. This will help in mitigating the anticipated shortfall in GST to some extent. Non-Tax Revenue Receipts is estimated to remain at more or less at the budgeted level and is

estimated to be ₹2,45,276 crore in RE 2018-19.

11. In capital receipts, Non-Debt capital receipts were budgeted at ₹92,199 crore in 2018-19. Revised estimates for non-debt capital receipts have been kept at ₹93,155 crore. Total Net Borrowing has been revised to ₹6,34,398 crore in RE 2018-19 which reflects an increase of ₹10,122 crore over BE 2018-19 (₹6,24,276 crore).

12. In RE 2018-19, total expenditure has been estimated at ₹24,57,235 crore which reflects an increase of ₹15,022 crore from BE 2018-19 (₹24,42,213 crore). Revenue expenditure in RE 2018-19 is ₹21,40,612 crore compared to ₹21,41,772 crore in BE 2018-19, implying a slight reduction of ₹1,160 crore. Capital expenditure on the other hand shows an increase of ₹16,182 crore in RE 2018-19 over BE 2018-19. RE 2018-19 for capital expenditure is ₹3,16,623 crore compared to ₹3,00,441 crore in BE 2018-19.

13. The fiscal deficit target set out at the beginning of the year has been readjusted upwards by 0.1 percent of GDP as a consequence of structural reforms which have been discussed in earlier paragraphs. The fiscal deficit in RE has therefore been pegged at 3.4 percent of GDP.

Fiscal Outlook for BE 2019-20

14. The Gross Tax Revenue of the Central Government is budgeted at ₹25,52,131 crore in BE 2019-20. This reflects a growth of ₹3,03,956 crore (13.5 percent) over RE 2018-19. Direct taxes are expected to reach ₹13,80,000 crore in BE 2019-20 compared to ₹12,00,000 in RE 2018-19 indicating an increase of 15 percent over RE. It is expected that direct taxes would be 6.6 percent of GDP at the end of 2019-20. Indirect taxes are budgeted at ₹11,66,188 crore in BE 2019-20 showing an increase of 11.8 percent over RE estimates (₹10,42,833 crore). The increase is mainly on account of improvement in GST collections anticipated in 2019-20. Non-tax revenue collections in 2019-20 is budgeted at ₹2,72,647 crore as compared to ₹2,45,276 crore in RE 2018-19. This shows an increase of ₹27,371 crore over RE 2018-19.

15. Non-Debt capital receipts on capital side are expected to be ₹1,02,508 crore in BE 2019-20 indicating an increase of ₹9,353 crore over RE 2018-19. Increase in non-debt capital receipts is mostly on account of disinvestment which is budgeted at ₹90,000 crore (RE 2018-19 - ₹80,000 crore). Total net borrowings in 2019-20 are projected at ₹7,03,999 crore as compared to ₹6,34,398 crore in RE 2018-19. This reflects an increase of 11 percent over RE.

16. Total expenditure in 2019-20 is pegged at ₹27,84,200 crore which is an increase of ₹3,26,965 crore (13.3 percent) over RE 2018-19. Revenue Expenditure is estimated to be ₹24,47,907 crore in BE 2019-20 as compared to ₹21,40,612 crore in RE 2018-19. This reflects an increase of ₹3,07,295 crore in BE 2019-20 over RE 2018-29 which is mainly on account of support to the agricultural sector. Increases were mainly seen in the following items — Grants and Loans to States to the tune of ₹81,515 crore. The other major increases are on account of increases in Interest Payments (₹77,491 crore). Capital expenditure is expected to increase to ₹3,36,293 crore in BE 2019-20 from ₹3,16,623 crore in RE 2018-19.

17. Accrual of the full benefit of GST reforms and revenues is expected to take some more time and therefore the stabilisation phase is expected to continue in 2019-20 too. Further, full fiscal impact of income support scheme for farmers will also be felt in FY 2019-20. Therefore fiscal deficit is estimated to remain at 3.4 per cent of GDP in 2019-20 too.

Fiscal Outlook for 2020-21 and 2021-22

18. The gross tax revenue is anticipated to grow by 11.9 percent and 13.4 percent over previous year in 2020-21 and 2021-22 respectively. Tax – GDP ratio is expected to increase to 12.2 percent in 2021-22. These figures are inclusive of GST compensation cess. Non-tax revenue receipts of the Central Government are expected to remain at 1.3 percent of GDP in 2020-21 and 2021-22. With a growth rate of 12.2 percent and 12.3 percent over previous year in 2020-21 and 2021-22 respectively, NTR is expected to reach ₹3,06,000 crore in 2020-21 and ₹3,43,500 crore in 2021-22.

19. Total Government expenditure is expected to grow at a lower rate in 2020-21 and 2021-22 as compared to 2019-20. The decreased growth rate is expected mainly on account of revenue expenditure. Capital expenditure on the other hand is anticipated to grow at 15 percent and 20 percent over previous year in 2020-21 and 2021-22 thereby bringing capital expenditure (as a percentage of total expenditure) to 12.8 per cent in 2020-21 and 13.8 per cent in 2021-22. The debt of central government as a per cent of GDP is also expected to decline to 45.4 percent and 43.4 percent in 2020-21 and 2021-22 respectively. This figure will however go up to a minor extent with inclusion of EBRs.

20. With the above assumptions of receipts and expenditure, it is expected to catch up with the targeted fiscal path and achieve 3 per cent fiscal deficit by FY 2020-21 and continue thereafter. Rationalisation of expenditure and synchronisation of schemes with the award periods of Finance Commission would be the major driver for this in FY 2020-21. The full benefits of GST reforms should start accruing from FY 2020-21 and completely stabilise thereafter to ensure sustainable fiscal path. But certain risk factors would also need to be acknowledged. The fifteenth Finance Commission is expected to submit its report in October, 2019. Its recommendations will lay the basis for transfer of resources to states from 2020-21 onwards. This apart, overall national and global condition will also have an impact on fiscal parameters.

Assumptions underlying the Fiscal Indicators –

Revenue receipts

Tax-Revenue

21. The receipts estimates for 2020-21 and 2021-22 have been made conservatively. Gross Tax Revenue, which was estimated at 12.1 percent of GDP in BE 2018-19 is now expected to be 11.9 percent in RE 2018-19 owing to transitional issues in stabilising the GST regime. In BE 2019-20, GTR is budgeted at ₹25,52,131 crore which works out to be 12.1 percent of GDP. GTR is expected to grow at 11.9 percent and 13.4 percent in 2020-21 and 2021-22 respectively over previous year to reach 12.2 percent of GDP in 2021-22. Direct taxes are expected to grow at 14.9 percent and 15.3 percent over previous year in 2020-21 and 2021-22 respectively. The projections of Direct Tax collections is base case scenario that may vary if there are structural changes like in tax rates or slabs or any of the provisions in the Income Tax Act, 1961. The eight year average buoyancy for Corporation Tax is 0.99 and 1.02 and for Personal Income Tax is 1.52 and 1.55 for the years 2020-21 and 2021-22 respectively.

22. The estimate of Customs Duty has been made with the assumption that Customs will grow at the same rate as nominal GDP. In case of Central Excise, due to specific rate structure on MS/HSD, factors like average petroleum sector consumption growth has also been taken into account. Accordingly, Central Excise is expected to grow at a rate of 6 percent in 2021-22. Indirect taxes are calculated to grow at 8.4 percent and 11.1 percent over previous year in 2020-21 and 2021-22 respectively.

23. Year-on-year growth in GTR is expected to be 17.2 percent in RE 2018-19 and 13.5 percent in BE 2019-20. In absolute terms, GTR is estimated at ₹22,48,175 crore in RE 2018-19 and ₹25,52,131 crore in BE 2019-20. Direct tax estimate for RE 2018-19 is ₹12,00,000 crore which shows a growth of 19.8 percent over 2017-18 and is ₹50,000 crore higher than the budgeted estimates for 2018-19. The growth in Indirect taxes, is expected to be lower than budgeted figures during BE 2018-19. It is expected that indirect taxes will be ₹10,42,833 crore in RE 2018-19 which reflects a growth of 14.3 percent over previous year. The indirect taxes in 2019-20 is budgeted at[1] 11,66,188 crore with a growth rate of 11.8 percent over previous year.

Non-tax-revenue – Policy stance

24. Non-tax revenue is a key component of revenue receipts of the government and has now also been included as a fiscal indicator in this statement. NTR comprise dividends from RBI, banks, financial institutions and other public sector enterprises. Another major component of NTR is interest receipts on loans. Interest is mostly received from states which have in some earlier period taken loan from the Union Government. Other NTR receipts include telecom receipts, receipts from offshore oilfields, user charges and fees levied by various Ministries/ Departments for services provided by them.

25. It is expected that year-on-year growth in non-tax revenue receipts will be 12.2 percent in 2020-21 and 12.3 percent in 2021-22. Over-all, it is anticipated that NTRs will remain at a level of 1.3 percent of GDP in the medium term. In RE 2018-19, NTR is projected to grow at 27.2 percent over 2017-18 and by 11.2 percent over previous year in BE 2019-20.

Devolution to States – Finance Commission

26. Devolution to states in RE 2018-19 and BE 2019-20 is budgeted at ₹1,06,129 crore and ₹1,31,902 crore respectively. The devolution to states for the year 2018-19 and 2019-20 is based on the recommendations provided by the XIV Finance Commission. The recommendations of 14th FC are applicable till FY 2019-20. At present, it will not be possible to make any assumptions or estimations of devolutions to states from 2020-21 and 2021-22 as it will fall in the award period of 15th FC.

Capital receipts

Recovery of loans

27. The Non-debt capital receipts have two main components, viz. recovery of loans and advances and

disinvestment receipts. Recovery of loans has been kept at ₹13,155 crore in RE 2018-19 and the budgeted amount in 2019-20 is ₹12,508 crore. In the medium term, it is estimated at ₹11,000 crore in 2020-21 and 2021-22 both.

Other non-debt capital receipts

28. Disinvestment is the second major component of non-debt capital receipts. Disinvestment receipts accrue to the government on sale of public sector enterprises which are owned by the government. It also includes sale of strategic assets. Disinvestment receipts, which were budgeted at ₹80,000 crore in BE 2018-19 are expected to remain at the same level in RE 2018-19. Disinvestments are budgeted at ₹90,000 crore in 2019-20. It is anticipated that disinvestment receipts in 2020-21 and 2021-22 will be ₹80,000 crore in each year.

Borrowings – Public Debt and Other Liabilities

29. In 2018-19, gross and net market borrowing by the Government of India (GoI) through dated securities, excluding buyback/switches were budgeted at ₹6,05,539.36 crore and ₹3,90,120.49 crore, respectively, which represented an increase of 2.98 per cent in gross and decline of 0.52 per cent in net borrowing. Net market borrowings through dated securities were budgeted to finance 62.4 per cent of Gross Fiscal Deficit (GFD). Other sources such as net borrowing from Treasury Bills, small savings collections, state provident funds, net external assistance and cash draw down were budgeted to finance the remaining 37.5 per cent of the GFD.

30. Of the overall Central Government liabilities, about 93.8 per cent are domestic and 6.2 per cent are external as at end-March 2018. Dated securities are primarily held by domestic institutional investors, major holders being commercial banks, insurance companies and Provident funds. Continued strong demand from banking and insurance sector, a strong Primary Dealers' network implies that the borrowings programme for 2019-20 would be completed comfortably. Revised investment limits for Foreign Portfolio Investors (FPIs) published by Reserve Bank in April 2018, along with relaxation in holding conditions is expected to bring more such investors in the Government securities.

31. There is reduction in Gross Market Borrowings from the BE levels of ₹6,05,539 crore to a level of ₹5,71,000 crore. This will be partly offset by an additional amount of ₹50,000 crore to be used from NSSF for financing fiscal deficit requirements. Gross market borrowings requirement for 2019-20 has been budgeted at ₹7,10,000 crore, which includes repayments of ₹2,36,878 crore. In nominal terms, net market borrowings projections show an increase 8.45 per cent over the previous year BE. In terms of GDP, net market borrowing through dated securities is budgeted to decline to 2.25 per cent in 2019-20 as compared with 2.5 per cent in FY 2018-19. Borrowings through external debt are budgeted to remain broadly at same level during 2019-20. Market borrowings finance about 60 per cent of the GFD. The net market borrowings projected to be 2 % of GDP in BE 2019-20 are likely to decline in next two years to 1.8 per cent of GDP in 2020-21, and 1.8 per cent in 2021-22 in consonance with declining trend of fiscal deficit.

32. Debt-GDP ratio has stabilised in recent years after witnessing a consistent decline from 61.4 per cent in 2001-02, particularly after FRBM Act came into effect. Central Government liabilities constituted 50.5 per cent of GDP at end-March 2018. These are estimated to reduce to 48.9 per cent by the end of 2018-19. Continuing the declining trend, it is likely to further reduce to 47.3 per cent in 2019-20, 45.4 per cent in 2020-21 and 43.4 per cent in 2021-22. This, accompanied by a reduction in primary deficit, reflects benign influence of inflation expectations feeding back on nominal interest rates.

33. Efforts in inflation control will benefit the Government in medium term with lower inflation reducing the cost of fresh borrowings of GoI, resulting in reduction in interest payout. A progressive reduction in debt-GDP ratio of the Government will ease the interest burden and allow more space to the Government to spend on other socially productive sectors without taking recourse to additional borrowings.

Total expenditure

34. Total Expenditure, which was budgeted at ₹24,42,213 crore in BE 2018-19 has been revised to ₹24,57,235 crore during RE estimation. This indicates an increase of ₹15,022 crore (0.6 percent) over BE. Total expenditure in RE is 13 per cent of GDP. The increase is mainly on account of an increase in allocations to the agricultural sector. Another major increase in RE 2018-19 compared to BE is on account of Interest Payments which showed an increase of ₹11,775 crore. An increase of ₹7,625 crore has also been provided for Road Transport and Highways. Capital outlay excluding defence also showed an increase of ₹8,424 crore. It is expected that total expenditure will increase by 14.7 per cent over RE 2018-19 to reach ₹27,84,200 crore in BE 2019-20, which is 13.3 per cent of GDP.

35. The growth of total expenditure is expected to decline to 8.4 per cent and 11.6 percent respectively over previous year in 2020-21 and 2021-22. Revenue expenditure is expected to grow at a slower rate than earlier in 2020-21 and 2021-22 to reach a level of 11.2 per cent of GDP and 11.0 per cent of GDP respectively. Capital expenditure is anticipated to drive the overall expenditure growth in 2020-21 and 2021-22 reaching 12.8 per cent in 2020-21 and 13.8 per cent in 2021-22 respectively as a percentage of total expenditure.

Revenue account

36. Revenue expenditure in RE 2018-19 is calculated to be ₹21,40,612 crore which is lower than BE estimate by ₹1,160 crore. BE figures for revenue expenditure in 2019-20 is ₹24,47,907 crore which reflects an increase of ₹3,07,295 crore (14.4 per cent) over RE 2018-19. Revenue expenditure which was estimated at 87.7 per cent of the total expenditure at the BE 2018-19 has decreased to 87.1 per cent in the revised estimates of 2018-19. It is expected to rise to 87.9 per cent in 2019-20. In the medium term however, revenue expenditure as a percentage of total expenditure is anticipated to decline to 87.2 per cent in 2020-21 and 86.2 per cent in 2021-22. The main reasons are benign expectations on the interest rate front and a rationalisation of subsidies to ensure better targeting.

37. The major components of the revenue expenditure of the Government include Interest payments, Subsidies, Salaries, 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. In the other transfers category is included the transfer to State Governments for compensating revenue losses on account of implementation of GST, The grants to Central autonomous bodies are 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.

Interest payments

38. Interest payments constitute the largest component of Centre's revenue expenditure. Interest payment expenditure was budgeted at ₹5,75,795 crore in BE 2018-19 which was 33.4 per cent of revenue receipts . Interest payment expenditure has been revised upwards to ₹5,87,570 crore in RE 2018-19 which is expected to constitute 34 per cent of revenue receipts in RE. The deterioration in the interest payment –revenue receipt ratio is because increase in interest payment expenditure of ₹11,775 crore is greater than the increase in Revenue receipts in RE over BE (₹3,944 crore). In 2019-20, outgo towards interest payments is expected to be ₹6,65,061 crore which is 33.6 percent of revenue receipts. The interest payments are expected to come down in the medium term as global uncertainties relating to trade wars and higher oil prices are expected to ease the pressure on the currency. This is anticipated to provide a positive feedback and a reduction in interest rates. The total interest payments outgo in 2020-21 and 2021-22 as a percent of revenue receipts is expected to be 32.1 percent and 30.8 percent respectively.

Major subsidies

39. 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 increase slightly from the Budgeted level of 2,64,336 crore to 2,66,206 crore in RE 2018-19. In BE 2019-20, expenditure on account of subsidies is expected to be ₹2,96,684 crore. This reflects an increase of 11.4 percent from RE 2018-19. As a percentage of GDP, these remain unchanged at 1.4%. In the medium term, it is expected that the measure of subsidy rationalisation will bear fruits and subsidy outgo as a percentage of GDP will come down to 1.3 per cent of GDP in 2020-21 and 2021-22.

Defence Services

40. 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. RE 2018-19 for Defence Service revenue expenditure is ₹1,91,431 crore against the budgeted estimates of ₹188723 crore reflecting an increase of 1.4 per cent in RE over BE. In BE 2019-20, expenditure outlay on account defence services (revenue component) is ₹2,01,902 crore which is 5.5 per cent higher than RE 2018-19. It is expected that expenditure on this component will increase by 10 per cent each year in medium term.

Finance Commission Grants

41. The Finance Commission grants are given to the State Governments under the statutory provisions under Article 275(1) of the Constitution. The current transfer to states under FC grants are based on recommendations of 14th Finance Commission 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 2018-19 were estimated at ₹1,09,374 crore. This has been revised in RE 2018-19 to ₹1,06,129 crore. Budgeted estimate in 2019-20 under this component of revenue expenditure is ₹1,31,902 crore.

42. The recommendations of 14th finance commission are in force till 2019-20. The projections of outgo under Finance Commission grants in 2020-21 and 2021-22 cannot be ascertained at this stage as the report of Fifteenth Finance Commission is still to be received.

Pension

43. Revenue expenditure under Pension has three main components, i.e. civil pensions which caters to pension expenditure to all Ministries/ Departments of the Union Govt. barring few exceptions, defence pensions and pensions under Department of Telecommunication. Pension expenditure in RE 2018-19 is estimated to be ₹1,66,618 crore which is slightly lower than BE 2018-19. The increase in pension in the last couple of years has mainly been on account of implementation of the recommendations of 7th Pay Commission. In BE 2019-20, pension expenditure is budgeted to be ₹1,74,300 crore which reflects a growth of 4.6 per cent over RE 2018-19. In the medium term also, the payments on account of pensions is expected to grow at around 6 per cent over previous year. As a per cent of GDP, it is expected that pension payment will come down from 0.9 per cent in RE 2018-19 to 0.7 per cent in 2021-22.

Capital Outlay

44. Capital expenditure of the Government in RE 2018-19 is estimated to be ₹3,16,623 crore as compared to ₹3,00,441 crore in BE 2018-19. This reflects an increase of ₹16,182 crore (5.4 percent) over BE 2018-19. This increase is mainly on account of an increase provided to . Capital expenditure as a percentage of GDP is expected to increase by 0.1 percent in RE 2018-19 (over BE 2018-19) to reach 1.7 percent of GDP. Capex is budgeted at ₹3,36,293 crore in BE 2019-20.

45. Capital expenditure is expected to increase at a fast pace in the medium term. It is anticipated that capital expenditure growth in 2020-21 and 2021-222 over previous year will be 15 percent and 20 percent respectively. As a percentage of GDP, capex is expected to increase from 1.6 percent in 2017-18 to 1.8 percent in 2021-22.

GDP Growth

46. The growth rate of GDP saw a slight dip in 2017-18 due to structural adjustments in the economy caused due to the introduction of GST. The revival in growth momentum in GDP, which was assumed in the short to medium term is already being felt. It is expected that the nominal Gross Domestic Product will grow at the rate of 12.3 per cent in 2018-19 in comparison to a growth rate of 10 per cent in 2017-18. The GDP growth in the short to medium term is expected to hold steady and stabilise at current levels. In 2019-20, the nominal GDP is expected to grow at a rate of 11.5 per cent and attain the level of ₹2,10,07,439 crore. The slight dip of 0.8 per cent in GDP growth is anticipated on account of the inflation stabilising at the targeted rate of 4 per cent. The nominal gross domestic product is projected to growth at 12.1 percent and 12.3 percent respectively in 2020-21 and 2021-22. In real terms, the growth rates for 2020-21 and 2021-22 work out to be ₹2,35,52,637 crore and ₹2,64,56,112 crore respectively.

Assessment of sustainability relating to

1. The balance between revenue receipts and revenue expenditure:

47. Total revenue receipts comprise of tax revenue (net) and non-tax revenue receipts. It is expected to increase from ₹17,25,738 crore in BE 2018-19 to ₹17,29,682 crore in RE 2018-19. Tax Revenue (net) is estimated at ₹14,84,406 crore in RE 2018-19 which is ₹3,757 crore higher than BE projection. It is expected to be 7.9 percent of GDP. Non-tax revenue receipts in RE 2018-19 is also expected to slightly increase to ₹2,45,276 crore which reflects an increase of ₹187 crore over BE. The revenue expenditure however is estimated to decrease by ₹1,160 crore in RE 2018-19 as compared to BE 2018-19. The revenue deficit target of 2.2 percent in Medium-term fiscal policy statement 2018 is therefore expected to be met.

48. In BE 2019-20, total revenue receipts are expected to be ₹19,77,693 crore which reflects an increase of 14.3 percent over RE 2018-19. As a percentage of GDP, it is 9.4 percent. Tax revenue (net) is budgeted at 17,05,046 crore which is 8.1 percent of GDP. Non-tax revenue in BE 2019-20 is expected to be 2,72,647 crore. NTR in 2018-19 and 2019-20 is constant at 1.3 percent of GDP. On the expenditure side, revenue expenditure is budgeted at ₹24,47,907 crore in BE 2018-19 which works out to be 11.7 percent of GDP. Revenue deficit is calculated to be ₹4,70,214 crore which is 2.2 percent of GDP.

49. Total revenue receipts in 2020-21 and 2021-22 are expected to grow at 12.2 percent and 12.5 percent respectively over previous year and stay at 9.4 percent of GDP. Tax revenue (net) and Non-tax revenue are expected remain at the level of 2019-20 at 8.1 percent and 1.3 percent respectively as a percent of GDP. Revenue expenditure is however expected to grow at a lower rate than revenue receipts in the medium term. It is expected that revenue expenditure as a percent of GDP will come to 11.2 percent in 2020-21 and 11.0 percent in 2021-22. This will in turn bring down revenue deficit to 1.7 percent of GDP and 1.5 percent of GDP in 2020-21 and 2021-22 respectively.

50. It may however be noted that in the new FRBM framework, revenue deficit is no longer a targeted fiscal indicator in FRBM Act. Effective revenue deficit (ERD) which is the difference between the revenue deficit and the grants for creation of capital assets has also been removed as a fiscal target. These have been discussed in detail in earlier paragraphs.

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

51. The ratio of revenue deficit to fiscal deficit broadly measures the extent of borrowings used for financing current expenditure of the Government. It is expected to be 64.8 per cent in RE 2018-19. This ratio is however expected to deteriorate to 66.8 per cent in BE 2019-20. RD to FD ratio is expected to come down to 58.2 per cent in 2020-21 and 52.3 per cent in 2021-22 on account of fall in revenue expenditure growth in comparison to capital expenditure. The major fall in the revenue expenditure is based on the assumption of low levels of interest rates, which is based on the assumption of benign inflation and aided by lower pressures on the external front.

Fiscal Policy Strategy Overview:

Indirect Tax Policy

52. **GST Policy**: Significant measures for rationalization of GST rate structure are discussed below.

53. The GST rates on services were fitted into 4 slabs i.e 5%, 12%, 18% and 28%, largely based on the Pre-GST indirect tax incidence both of Centre and States, including the embedded taxes. This GST rate structure was reviewed by the GST Council and certain changes in the rate structure were notified. Major GST rate rationalisation exercise was made with GST rate reduction on 50 specified services keeping in view the representation from trade and industry and the interest of consumers and the same are expected to benefit the overall economy and consumers.

54. Multiple reliefs from GST taxation have been provided to (i) agriculture, farming and food processing industry, (ii) education, training and skill development, (iii) Pension, social security and old age support, (iv) Banking/ Finance/ Insurance services, (v) Government Services, (vi) Tourism and hospitality services, (vii) Construction and works contract services, and (viii) Transportation services.

55. GST on services – Measures taken for Common Man

- Hotel industry has been given major relief by providing that the rate of tax on accommodation service shall be based on transaction value instead of declared tariff.
- Services by old age homes run by Central Government, State Government or an entity registered under 12AA of IT Act, 1961 to its residents (60 years or more) against consideration upto Rs 25,000/- per month per member has been exempted.
- Services by National Pension System (NPS) Trust to its members against consideration in the form of administrative fee has been exempted.
- Services of life insurance business provided under life micro-insurance product as approved by the Insurance Regulatory and Development Authority, having maximum amount of cover of Rs 2 lakh has been exempted.
- The definition of educational institution has been expanded to include Educational Boards for the limited purpose of conduct of examination.
- Services supplied by rehabilitation professionals recognised under Rehabilitation Council of India Act, 1992 by way of rehabilitation/therapy/ counselling and such other activity as covered by the RCI Act, 1992 has been exempted.
- GST rate on cinema tickets above ₹100 has been reduced from 28% to 18% and on cinema tickets upto ₹100 GST rate has been reduced from 18% to 12%.
- GST rate on air travel of pilgrims by non-scheduled/charter operations, for religious pilgrimage facilitated by the Government of India under bilateral arrangements has been reduced to 5%.

56. GST on services – Measures taken for MSME during 2017-19

- To bring relief to medium, small and micro enterprises, GST rate on supply of goods, being food or any other article for human consumption or any drink, by the Indian Railways or Indian Railways Catering and Tourism Corporation Ltd. or their licensees, whether in trains or at platforms has been reduced to 5%. Services supplied by agent of Business correspondent (BC), Business facilitator (BF), supply of security personnel to a registered person by any person other than body corporate have been kept under RCM, thereby shifting the compliance burden on the recipient of service. GST rate on third party insurance premium of goods carrying vehicles has been reduced from 18% to 12%. GST rate on supply consisting only of e-book has been reduced to 5%.

57. **Direct Tax Policy**: The legislative measures for expansion of tax base require to be supplemented by administrative measures to prevent leakage of tax and erosion of tax base. This being the interim budget, no legislative measures for expansion of tax base are proposed at present. However, on the administrative front, a number of initiatives have been taken to improve compliance, augment revenue collections and streamline tax payer services, some of which are as under:

- The Permanent Account Number (PAN) issued by the Income-tax Department has now taken on the role of "identifier" beyond the Income-tax Department as it is now required for various activities like opening of a bank account, opening of a demat account, for the financial transactions prescribed in Rule 114B of the Income-tax Rules, 1962, for registration for Goods and Services Tax (GST) etc. Thus, PAN is leveraged to become Common Business Identification Number (CBIN) or simply Business Identification Number (BIN) for providing registration to a number of government departments and services. Further, as PAN has been adopted as Business Identification Number (BIN) in respect of MCA, CBDT, ESIC, EPFO, DIPP and DGFT services, CBDT has tied up with Ministry of Corporate Affairs (MCA) to issue PAN and Tax Deduction Account Number (TAN) in one day through a common application form in an average turnaround time (TAT) of four hours. Consequently, Certificate of Incorporation (COI) is issued to a company by MCA after printing of PAN on it, in addition to Corporate Identity Number (CIN). PAN database has accordingly shown steady growth in tune with economic progress. The progressive number of PANs allotted up to 31st August, 2018 (cumulative) is 40,70,37,543. During the current year (up to 31st August, 2018) 2,67,73,508 PANs have been allotted.

- Under Project Insight, an integrated data warehousing and business intelligence platform is being rolled out in phased manner to enable the Income-tax Department to achieve three goals, viz. promoting voluntary compliance and deterring non-compliance, imparting confidence that all eligible persons pay appropriate tax and promoting a fair and judicious tax administration. Under this initiative, the following measures have been taken:

    - A state-of-the-art data warehouse has been established with end-of-day integration of key projects/data sources of the Income Tax Department. The Income Tax Transaction Analysis Centre (INTRAC) has also been operationalized for handling data integration, data warehousing, data quality management, data enrichment and data analytics. The new platform is being used for identifying high risk non-filers, selection of cases for scrutiny and processing of information received under Automatic Exchange of Information (AEOI), FATCA etc.

    - A dedicated reporting portal (https://report.insight.gov.in) has been rolled out to provide a comprehensive interface between Reporting Entities and the Income-tax Department. The Reporting Portal enables seamless data processing, data quality monitoring and report rectification.

    - A dedicated compliance portal (https://compliance.insight.gov.in) has been rolled out to capture response on compliance issues in a structured manner for effective compliance monitoring and evaluation. Compliance Management Central Processing Centre (CMCPC) has also been operationalized for leveraging campaign management approach (consisting of emails, SMS, reminders, outbound calls, letters) to support voluntary compliance and resolution of compliance issues.

    - The roll-out of the systems under Project Insight is expected to be completed by 2019.

- The Integrated E-filing & Centralized Processing Center 2.0 Project (CPC 2.0), which was approved by the Union Cabinet recently and is envisaged to go live by 2020 aims to improve income tax administration by introducing measures such as pre-filling of ITR and acceptance by taxpayer as a means to improve accuracy and to reduce refund/ processing turnaround time drastically; facilitation to taxpayers in resolving outstanding tax demands; integrated contact centers for taxpayer assistance and tax payer outreach program through digital media and employer/partner accreditation program to bring significant enhancement in services to taxpayers. It further aims to ensure horizontal equity by processing returns filed by all categories of taxpayers across the country in a consistent, uniform, rule driven, identity blind manner. This will assure fairness in tax treatment to every taxpayer irrespective of their status.

- Electronic filing of IT returns through the e-filing portal of the Income-tax Department (https://www.incometaxindiaefiling.gov.in) picked up from around 4 lakh in FY 2006-07 to 674.74 Lakh in FY 2017-18. As part of a continuing effort to become more taxpayer-friendly, the e-filing portal has been continuously upgraded to provide a number of services besides filing of income-tax returns. These include submission of other income-tax forms such as application for registration of trusts under section 12AA of the Income-tax Act, 1961, submission of application for nil/lower deduction of tax at source, facilitating PAN-Aadhaar linking, submission of request for re-issue of refund, viewing of form 26AS and tax credit mismatch summary, submission of response to outstanding tax demand, adding/registration of representative, submission of grievance applications (through e-nivaran) and submission of PAN applications (e-PAN). The portal also provides help and static content in Hindi for users.

- Further, e-Proceedings have been initiated by the Department in the Income Tax Business Application (ITBA) project which was launched in 2013. Under e-Proceedings, all letters, notices, questionnaires, orders issued by any Officer/ Assessing Officer to an assessee will be visible to the assessee in his account on the e-filing portal (https://www.incometaxindiaefiling.gov.in), under the header "e-Proceedings". Responses submitted by the assessee on the e-filing portal will likewise be visible to the Officer/Assessing Officer. This has drastically reduced the necessity of the assessee to visit the Income-tax office.

- In this direction, e-assessment through email correspondences (e-proceedings) was launched as a pilot project in Mumbai, Delhi, Chennai, Bengaluru and Ahmedabad in October 2015, doing away with the requirement of visiting the offices of the Income-tax Department for scrutiny assessment. From FY 2017-18, the facility of e-assessment was extended to the entire country. In FY 2018-19, approximately 97% of scrutiny assessments (around 2.06 lakh) were completed in the e-mode.

- Various initiatives have also been taken in the direction of citizen-centric governance, some of which are as under:

  - A total of 400 Aaykar Sewa Kendras (ASKs), a single window system for implementation of Citizen's Charter of the Income Tax Department and a mechanism for achieving excellence in public service delivery, have been set up across all buildings of the Income Tax Department upto 31-03-2018, with 50 more being set up in FY 2018-19.

  - The Department also participated in trade exhibitions including the India International Trade Fair 2019 at Delhi and the India International Mega Trade Fair 2018 at Bhubaneswar with the objective of reaching out to the public at large, answering their queries regarding the Income Tax Laws and Procedures and also to generate interest among the visitors with regard to the benefits of paying Income Tax. Various activities like caricature making, Quiz, Nukkad Natak and Drawing competition were also organized for engaging school children.

  - The Department also has a well-defined electronic grievance redressal system called e-Nivaran which is available on the e-filing portal. This system helps in recording grievances and monitoring the redressal of these Grievances are also received through Centralized Public Grievance Redressal and Monitoring System (CPGRAMS) of Government of India and through the designated PAN service providers.

Expenditure Policy:

58. Total expenditure in BE 2019-20 is pegged at ₹27,84,200 crore which is 13.3 percent higher than the revised estimates of total expenditure in 2018-19 (₹24,57,235 crore). The estimates of total expenditure in BE 2019-20 and RE 2018-19 include GST

compensation cess. Total expenditure in RE 2018-19 and BE 2018-19 has been estimates after considering all requirements of Ministries/ Departments along with factors such as pace of expenditure, unspent balances etc.

59. **DIRECT BENEFIT TRANSFER (DBT)**: Direct Benefit Transfer (DBT) is a landmark initiative of the Government to ensure that benefits promised under various welfare and subsidy programmes[1] of the country reach eligible and rightful beneficiaries and are delivered to them at their doorstep or in their bank accounts. DBT framework has effectively leveraged digital technology for better targeting of beneficiaries, timely delivery of benefits and removal of middlemen, thereby lending greater transparency and accountability in the public delivery system. Pradhan Mantri Jan Dhan Yojana (PMJDY) aimed at financial inclusion of the poor and the legislative approval for use of Aadhaar as proof of identity for delivery of subsidies, services and benefits under Section 7 of the Aadhaar Act, 2016 have given further fillip to DBT efforts.

60. DBT since inception continues to be a success story with 434 schemes of 56 Central Ministries and Departments under its ambit today. Under the present DBT framework, schemes are broadly classified into the following two categories based on the type of benefit given under the schemes:

i) Cash schemes: This category includes 302 schemes or components of schemes where subsidies/benefits are transferred directly into the bank accounts of the beneficiaries. For example, under PAHAL, beneficiaries buy LPG cylinders at market price and receive subsidy directly in their bank accounts. In MGNREGS, all wage payments to workers are directly transferred into their bank accounts.

ii) In-kind schemes: This category includes 74 schemes or components of schemes where beneficiaries receive subsidies in the form of goods, commodities, etc. after Aadhaar authentication at Point of Sale (PoS). For instance, under PDS, foodgrains are distributed at subsidized rates via Fair Price Shops to authenticated beneficiaries. Under Fertilizer Subsidy scheme, fertilizer companies release fertilizers to farmers at subsidised rates after Aadhaar authentication at PoS. The remaining schemes are composite schemes which have both cash and in-kind components. One such scheme is ‘Swacch Bharat Mission-Grameen’ of M/o Drinking Water & Sanitation, wherein funds for constructing household latrines are transferred into the bank accounts of identified beneficiaries in certain areas while in others, latrines are constructed for beneficiaries without involving any fund transfer.

61. The National Scholarship Portal (NSP), launched by Hon’ble Prime Minister on 1st July 2015, is a key initiative under Digital India programme aimed at providing one-stop solution for scholarships. It facilitates a gamut of activities ranging from student registration to application submission, verification, national level de-duplication, merit list generation, sanction and electronic transfer of funds; thereby providing an end-to-end comprehensive solution towards enabling effective disbursal of scholarships. Having overcome the initial hiccups and challenges, NSP has now attained enough maturity and robustness to cater not only to Central Sector Scholarship schemes but also Centrally Sponsored and State/UT Scholarship Schemes. More than 14 lakhs Institutes/Colleges are presently registered on the portal. All efforts are being made to ensure that NSP continues to provide smooth, accessible and hassle-free scholarship to students, leaving no scope for duplication and leakage.

62. The progress of DBT implementation in the above schemes is being regularly monitored through the DBT Bharat Portal. Since the adoption of DBT, a sum of ₹5,78,440 crore has been transferred through DBT under cash and in-kind schemes. In the Financial year 2018-19 upto 7th January, 2019, ₹2,04,643 crore has been transferred to 123.9 crore eligible beneficiaries under DBT schemes. Key Ministries and Departments have reported estimated gains from DBT and associated governance reforms to the tune of more than ₹90,000 crore primarily as a result of removal of duplicate or fake beneficiaries.

63. **Subsidies:** Allocation for expenditure on major subsidies has been kept at ₹2,96,684 crore in BE 2019-20 which is equivalent to 1.4 per cent of GDP.

64. **Fertilizer:** New Urea Policy- 2015, effective from 1st June, 2015, with the objectives of maximizing indigenous urea production; promoting energy efficiency in urea production; and rationalizing subsidy burden on the government. NUP – 2015 has resulted in additional production over the years without adding any capacity.

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[1] *only those funded from the Consolidated Fund of India*

i. Introduction of 45 kg bag of urea:-Government of India has decided to introduce 45 kg bag of urea in place of existing 50 kg bag in September 2017. A period of six months was given to urea units as lead time to ensure smooth implementation of the policy. MRP of such bags was notified by Department of Agriculture Cooperation and Farmers Welfare in 1st March, 2018 i.e. ₹242 per 45 Kg Bag (exclusive of Central / State levies and other charges). Vide notification dated 9th March, 2018, Department of Fertilizers had given a period of two months from the date of notification of MRP to Urea units as lead time to ensure smooth implementation of the policy.

ii. IMPLEMENTATION OF DBT IN FERTILIZER SUBSIDY:-Department of Fertilizers has taken action for introducing the DBT in Fertilizers and after the successful implementation of Pilot DBT Project in 17 Districts, now DBT has been launched across all India from March, 2018. A Project Monitoring Cell has been setup in the Department to oversee implementation of DBT exclusively. 24 States Coordinators have been appointed across all States to monitor the on-going DBT activities. A dedicated 15-member Multi-lingual Help Desk has been set up to provide quick response to the queries of wide range of stakeholders across the country as a preparatory to DBT implementation.

iii. Implementation of the DBT Scheme requires deployment of PoS devices at every retailer shop, training of retailers for operating PoS device. 2.22 Lakh PoS devices have been deployed across all States. Approximately 2.22 lakh retailers have been trained by Lead Fertilizer Suppliers & State Co-ordinators. 7716 training sessions have been conducted across the country. A total of 457.86 Lakh MT of Fertilizers have been sold under DBT scheme up to October, 2018.

65. Food subsidy is provided in the Budget of the Department of Food and Public Distribution to meet the difference between Economic Cost of foodgrains and their sales realization at Central Issue Price (CIP) fixed for National Food Security Act (NFSA) and other welfare schemes. To rationalise the release of food subsidy, Principals of Incidentals have been amended to restrict the benefit of indexation of procurement incidentals except for Minimum Support Price of food grains, gunny costs and statutory charges for the states who have defaulted in timely submission of audited accounts. Department of Food and PD regularly pursues with the State Governments for timely submission of the audited accounts so that their accounts can be finalised and better estimation of subsidy for budgetary allocation can be made. 12 State Governments/UTs (Karnataka, Haryana, Telangana, Nagaland, Chandigarh, Gujarat, Andhra Pradesh, Bihar, Goa, Puducherry, Rajasthan and Maharashtra) have voluntarily surrendered their PDS kerosene allocations under DBTK Scheme. As on date, 8 State Governments/UTs have already cut down their PDS Kerosene allocation to nil. In the year 2018-19 (1st Qtr., 2nd Qtr. And 3rd Qtr.), the allocation for PDS Kerosene has been maintained at the level of the corresponding period of the previous year (2017-18) except for the States voluntarily surrendering their PDS SKO quota.

Policy on Government Borrowings, Lending and Investments

66. Borrowings through dated government securities continued to be main source of financing GFD. Net borrowing through treasury bills in 2018-19 was kept at ₹17,000 crore only. During 2018-19, there was higher net inflow in the small savings schemes vis-a-vis budget estimates. Pursuant to the implementation of the recommendations of 14th FC on exclusion of states from NSSF, Central Government's share of investment in NSSF has increased. This has helped government to rely relatively less on market borrowings to finance its FD. Consequently, NSSF's share in financing FD is projected to go increase to 18.5% in 2019-20. In addition, State Provident Fund and other receipts from Public Account would finance remaining portion of the fiscal deficit.

67. Prudent debt management is corner stone of good economic policy and a pre-requisite for financial stability. In India, debt policy is driven by the principle of gradual reduction of public debt to GDP ratio so as to reduce the debt servicing costs and create fiscal space for other expenditure. The debt policy emphasizes maintaining stable, low cost and prudent debt structure. GoI have been conducting buyback and switches with an objective to spread the redemption pressure evenly, reduce rollover risk as well as utilizing the cash surplus prudently. In view of growing redemption pressures in coming years, particularly during 2021-22 and 2022-23, the Government will continue with this strategy. An amount of ₹71,941 crore was budgeted in FY 2018-19 for buyback and ₹28,059 crore for switches. During FY 2019-20, Government will carry out buyback of G-securities worth ₹50,000 crore and switch worth ₹50,000 crore, totalling ₹1,00,000 crore.

68. Primary issuance strategy of the Government remains focused on issuing new securities under multiple benchmark maturities and building sizeable volumes under existing securities. Medium Term Framework (MTF) for FPI investment limits in Government securities was comprehensively revised in April 2018 by RBI, raising the FPI investment limit in G-Secs to 6 per cent of outstanding stock of government securities in next three years. Development of deep and liquid secondary market for Government securities is another key objective of the public debt management policy as it helps in efficient discovery of interest rates.

69. Apart from greater focus on market borrowings, the Government is also moving toward alignment of administered interest rates with the market rates. Interest rates on small savings are now broadly linked to G-Sec yields and are reviewed every quarter. The net collections under NSSF are now mostly used by Government of India only, after the recommendations of 14th Finance Commission to exclude State Governments from borrowings from the NSSF, with effect from 1 April, 2016.

70. Government is committed to bring transparency in public debt management operations. Government has been publishing a number of documents for the purpose detailing overall debt position of the country, consolidated public debt data, debt management strategies of Central Government, etc. These publications included an annual Status Paper on Government Debt which includes Debt Management Strategy and Handbook of Statistics on Central Government Debt which brings entire Government Debt related information at one place. Annual Status Paper for year 2016-17 was released last on February 27, 2018 and for year 2017-18 was released on January 18, 2019.

71. Public Debt Management Cell (PDMC) established in Budget Division, Department of Economic Affairs, Ministry of Finance, on October 04, 2016, as an interim arrangement before setting up of an independent and statutory debt management agency, viz. Public Debt Management Agency (PDMA), in due course has been discharging responsibilities assigned to it and is also taking steps towards formation of PDMA in a time bound manner.

Contingent and other Liabilities:

72. In terms of Article 292 of the Constitution, Central Government gives guarantees for the repayment of borrowings upon the security of the Consolidated Fund of India. The FRBM Act mandates the Central Government to specify the annual target for assuming contingent liabilities in the form of guarantees. Accordingly, FRBM Rules prescribe a ceiling of 0.5 per cent of GDP for incremental guarantees that the Government can assume in a particular financial year. The Central Government extends guarantees primarily for the purpose of improving viability of projects or activities undertaken by the Government entities with significant social and economic benefits, to lower the cost of borrowing as well as to fulfil the requirement in cases where sovereign guarantee is a precondition for bilateral/ multilateral assistance. As the statutory corporations, government companies, co-operative institutions, financial institutions, autonomous bodies and authorities are distinct legal entities, they are responsible for their debts. In the process of guaranteeing their financial obligations the Government has the commitment to assess the fulfilment of such obligations and adequately disclose them.

73. For better management of contingent liabilities, Government Financial Rules, 2017 and Government guarantee policy enumerates various principles which need to be followed before new contingent liabilities in the form of sovereign guarantees are assumed. As these guarantees have the risk devolving on the Government, the proposals are examined in the manner of a loan being taken directly by the Government. The principles enunciated in the policy lay down framework for minimization of risk exposure of sovereign while assuming these contingent liabilities. The principles include assessment of risk including the probability of a future pay-out, priority of the activity, institutional limits on guarantee for limiting exposure towards select sectors and reviewing the requirement of guarantee vis-a-vis other forms of budgetary support or comfort.

74. The stock of contingent liabilities in the form of guarantees given by government has increased in absolute terms from ₹1,07,957 crore in 2004-05 to ₹3,80,172.80 crore at the end of 2017-18. FRBM ceiling on guarantees which can be assumed by Government during a FY has resulted in reduced contingent liability to GDP ratio. This ratio which stood at 3.3 per cent in 2004-05 has now reduced to 2.27 percent in 2017-18. The disclosure statement on outstanding guarantees as prescribed in FRBM Rules, 2004 is appended in the Receipt Budget [1(iii) of part B]. During the year 2017-18, net accretion to the stock of guarantees was ₹13,984.10 crore, amounting to 0.08 percent of GDP, which is within the limit of 0.5 per cent under the FRBM Rules.

Railway Budget

75. The Railway Budget has been merged with the General Budget from 2017-18. Accordingly, a single Appropriation Bill of the Union Government, including estimates of Railways, is being presented to the Parliament by the Ministry of Finance. As per the terms of merger, Railways continues to function as a departmentally run commercial undertaking requiring to meet all its revenue expenditure including Ordinary Working Expenses (OWE), pay, allowances and pension payable to its employees, from its revenue receipts. With the capital-at-charge wiped off from 2017-18, the requirement of dividend payment by Railways to the Government and the receipt of subsidy from the Government in payment of dividend has been done away with. The Government however continues to provide Gross Budgetary Support to the Railways for meeting part of its capital expenditure.

76. Railway revenues are primarily earned through two major streams i.e. passenger and freight traffic. Some earnings are also contributed by luggage/ parcels, commercial utilization of land, siding charges, advertisement etc. under two broad categories called 'other coaching and sundries'. The earnings are utilized to meet the operating expenses called OWE, Depreciation and Pensionary charges. The remaining surplus is used to supplement Railways' capital investment for meeting safety and development needs of the system.

77. Railways' finances improved substantially in the last decade in as much as that it attained an Operating Ratio of 75.9 per cent in 2007-08. This was primarily due to buoyancy in the national economy getting reflected in railway traffic. However, after 2007-08, the OWE and pension payments soared consequent upon implementation of the 6th Central Pay Commission (CPC) and later 7th CPC, whereas the momentum of growth in earnings witnessed earlier have not sustained. As a result Railways' Operating Ratio has remained over 90 percent. During 2017-18, Railways' Operating Ratio was 98.4 percent.

78. In 2017-18, while the working expenses of Indian Railways, specifically staff cost and pension continued to grow under the impact of implementation of 7th Central Pay Commission recommendations, total receipts of Railways could not provide the anticipated growth. Lower than expected growth in passenger earnings was largely due to increase in number of trains being cancelled for mandatory track maintenance/ renewal for ensuring safety of train operations adversely impacting the earnings from the PRS segment. In the sundry segment, there was shortfall under land monetisation and advertisement revenue targets. In goods, the shortfall in earnings resulting from lower than targeted loading under Pig Iron & finished steel and Iron Ore was minimised by entering into long term freight agreement with NTPC. Despite achieving lower than targeted Gross Traffic Receipts and bearing additional burden on account of implementation of 7th CPC recommendations on allowances, Railways were able to manage within the available resources and to contain the Operating Ratio at 98.4 percent.

79. In 2018-19, Railways' passenger and freight traffic throughput have picked up. However, the traffic earnings have been short of budgeted expectations. Hence, Gross Traffic Receipts of the Railways have been recast at ₹1,96,714 crore in RE 2018-19 with the growth of 10.1 percent over 2017-18 actuals, whereas the OWE and the pension expenditure at ₹1,89,000 crore are estimated to increase by 8.8 percent.

80. The internal resource generation in RE 2018-19 is estimated to be ₹6,514 crore against ₹3,206 crore in 2017-18. The Operating Ratio in RE 2018-19 is targeted at 96.2 per cent. Traditionally the passenger services of railways have been loss making and the under recovery in 2017-18 was about ₹34,000 crore. The Capital expenditure in Railways has increased over the years. As against a capital expenditure of ₹1,09,935 crore in 2016-17, ₹1,01,985 crore in 2017-18, and ₹1,38,858 crore in RE 2018-19, a capital outlay of ₹1,58,658 crore has been envisaged in BE 2019-20.

Amendments to Fiscal Responsibility and Management Act, 2003

81. In the Budget Speech of 2016-17, it was proposed to constitute a Committee to review the implementation of the FRBM Act and give its recommendations on the way forward. Subsequently, a Committee was established under the chairmanship of Shri NK Singh in May 2016, to comprehensively review and give recommendations on the FRBM roadmap for future. The Committee submitted its report to the Government in January, 2017. After detailed deliberations on the Committee's report, the key recommendations of the Committee were accepted by the Government.

82. The Government has amended the Fiscal Reforms and Budget Management Act, 2003 vide Finance Act 2018 (Act 13 of 2018). In the reformed FRBM framework, the focus is on limiting Government

Debt and fiscal deficit. The key amendments enacted are outlined below:

a. A medium-term debt ceiling has been included in the Act. It has been decided to achieve a target of 60 per cent of GDP for General Government Debt and 40 percent of GDP for Central Government Debt by March 31st, 2025. General Government Debt for this purpose has been defined as the sum total of the debt of Central Government and the State Government. The Central Government debt is defined to include the total outstanding liabilities of the Central Government on the security of the Consolidated Fund of India, including external debt valued at current exchange rates, the total outstanding liabilities in the public account of India and such financial liabilities of any body corporate or other entity owned or controlled by the Central Government, which the Government is to repay or service from the annual financial statement, reduced by the cash balance available at the end of that date.

b. Fiscal Deficit (FD) has been adopted as the only operational target for fiscal consolidation. FD has been targeted at 3 percent of GDP by March 31st, 2021. Revenue Deficit and Effective Revenue Deficit have been removed as parameters for targeting fiscal outcomes.

c. Well defined escape clause and buoyancy clause, with return paths, have been included to allow deviation from FD targets in the event of rare / unforeseen events. This will provide sufficient flexibility for necessary deviations to enhance the credibility of fiscal rule while preventing violation of these rules.

Strategic priorities for ensuing year:

83. The main focus of the ensuing year will be to improve the expenditure efficiency and improve tax collections to ensure that the economy moves back to the fiscal deficit path as mentioned in the FRBM Act. The growth prospects of the Indian economy in the medium to long term are sanguine. Hence, the buoyancy accorded to fiscal management of increased nominal GDP and the resultant uptick in revenues is expected to lift the fiscal prospects of the economy.

Statement of deviation explaining the reasons thereof and the path of return to annual prescribed targets, as per the provisions of Section 4 (5) of the Act

84. The minor deviation in the path of FD as ordained by the Act has been necessitated by two main factors, transitional impact of GST and the agricultural situation in the country. The introduction of GST on 1st July 2017 was a structural reform with economic significance. It brought about fiscal confluence between State Governments, providing benefits to economic agents — manufacturers, dealers and consumers. Such deep structural reforms are however implemented not without pain. Being the stronger fiscal entity and in the true spirit of co-operative fiscal federalism, the Central Government has shouldered the responsibility of carrying all fiscal misses in the short run through the mechanism of compensating the States. The GST Compensation Act, 2018 guarantees a 14% annual growth in tax revenues for the States from the amounts collected by them in 2015-16. This arrangement will continue for the first 5 (five) years of implementation of GST.

85. 2018-19 is the first full year of GST implementation. There have been rate changes during the course of the past 18 months. These rate changes have reduced the tax burden on consumers and in the long run will lead to improvement in compliance, reduce classification disputes and make GST more equitous. The full potential of GST would be realised after this transition period is over. A thrust has been provided in the agricultural sector to tide over the issue of adverse terms of trade. Farmers need support to manage the changes in the agricultural economy that are underway. Government needs to play a critical and an effectively large role to provide support to farmers to manage these changes that are underway in the agricultural economy and minimise distress in the sector. It is anticipated that there shall be a deviation from the fiscal path by 0.1 pp in RE 2018-19 and the fiscal deficit (FD) will be at a level of 3.4% of GDP. For a similar reason, the FD is anticipated to remain at 3.4% of GDP in BE 2019-20. These revisions have been made under the provisions of Section 4 (2) of the Fiscal Responsibility and Budget Management Act, 2003. Further, in keeping with the provisions under Section 4(3) of the FRBM Act, it has been ensured that the deviation from fiscal deficit target shall be within the prescribed and allowed limit of the Act of 0.5% of GDP.