

FISCAL POLICY STRATEGY STATEMENT

A. Review of fiscal policy 2017-18:

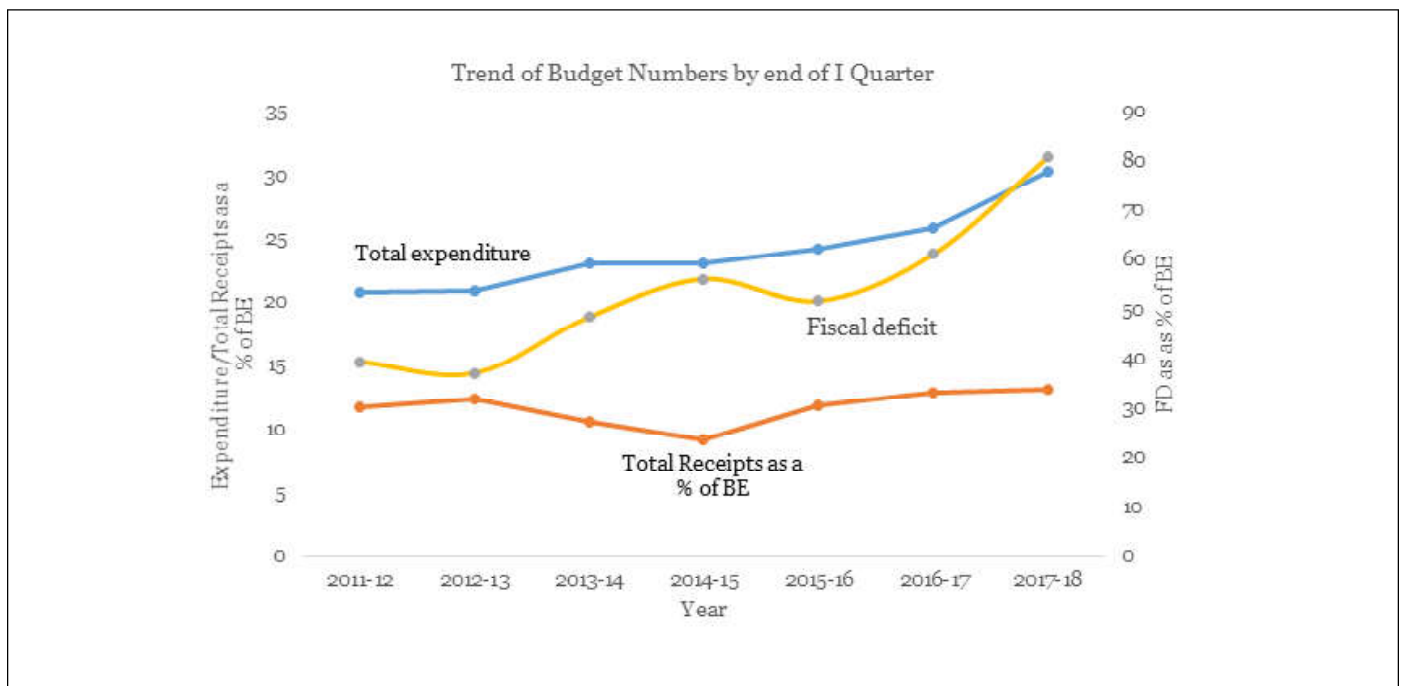
1. The Central Government in FY 2016-17 achieved budgeted target of fiscal Deficit of 3.5 per cent of GDP. Prudent economic policies, manifested in a combined focus on reducing government spending and increasing revenue receipts ensured that the Government stayed its course. This achievement ensured that the government is on track to achieve its fiscal deficit targets as outlined in the FRBM Act.

2. FY 2017-18 started on this positive back drop. Fiscal policy 2017-18 of the Government apart from the major macro parameters, has also built on landmark budgetary and fiscal reforms undertaken in 2017-18. At least two major fiscal reforms which need mention due to their impact on fiscal policy outcomes are advancement of budget cycle and roll out of Goods and Services Tax from July 1, 2017. A single value-added tax for the country - the Goods and Services Tax (GST), which is a destination based tax replaced the numerous indirect taxes pervading the country. Cross-country evidence pointed to the challenges that an introduction of a VAT regime imposed on any country.

3. The 2017-18 budget was presented on February 1, and did away with the practice of a vote on account. By advancing the budget calendar, it was anticipated that the lack in expenditure that

characterised the Q1 spending profiles in the earlier years, would be reversed. By making the full budget available to the ministries/departments from the beginning of the financial year itself, the cap of spending at 1/6th of the total spending for the first two months of financial year would no longer be applicable.

4. To assess the impact of this change on the spending patterns in Government of India, we look at Figure 1. The graph shows the trend of major budget variables, namely expenditure, revenue and the fiscal deficit as a percentage of GDP since 2011-12. The data has been extracted from the monthly accounts, published by the Controller General of Accounts (CGA) of the respective years. The figure clearly shows how the expenditure in Q1 of 2017-18 shows a jump of roughly 5 percentage points of BE. Compared to the expenditure spikes, the revenue trend has remained roughly flat. The fiscal deficit as a per cent of BE (measured on the right axis), however, increased by roughly 20 percentage points. In absolute terms, this implies an increase of about ₹ 1,15,362 crore more than the FD in the corresponding period of the previous year. The availability of the whole budget from the beginning of the financial year resulted in a spike in revenue expenditure to the tune of ₹ 1,19,567 crore and capital expenditure showed an increase by ₹ 19,332 crore. The total receipts of the central government, however, increased by only ₹ 23,537 crore.



5. The revenue-capital mix in the expenditure improved from 9.6 per cent in Q1 2016-17 to 10.5 per cent in Q1 2017-18. The front-loading of expenditure was financed by a combination of increasing the market loans/short-term borrowings.

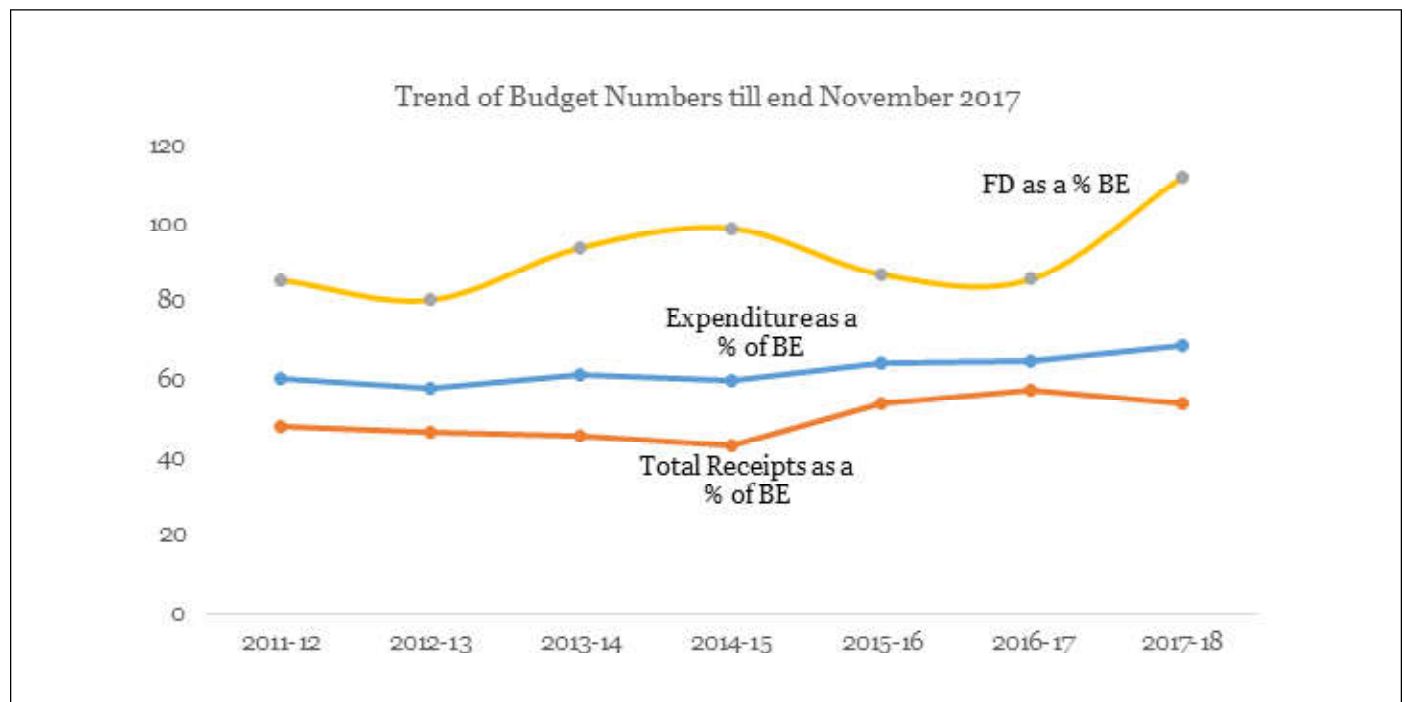
6. By frontloading the proportion of expenditure during the current FY, it has been possible for the government to initiate expenditure during the first half of the financial year itself. The fiscal targets set for the FY 2017-18 seemed to be at risk especially in the first quarter as the expenditure was far greater than the receipts of the Government. This, however, does not give an accurate picture of the Government's fiscal stance as certain receipts, especially the Non-Tax Revenue start accruing during the latter half of the year.

7. The trend of the government expenditure from April to November 2017 point out to an increase in expenditure as a per cent of BE over the corresponding period of the previous year. The April-November 2017 total expenditure was 68.9 per cent of BE compared to 65 per cent of BE during the previous FY. The increase was seen in both capital and revenue expenditures. While revenue expenditure showed an increase to the tune of 4.4 percentage points, capital expenditure showed an increase of 1.8 percentage points. These points are clearly visible from the graph extracted and placed below. The jump in total expenditure as a per cent of GDP that was clearly visible as a sharp upturn in Q1 has moderated to a great extent. However, this compared to the previous years seems to have subsided a bit and there is also a positive turn that total revenue receipts have

taken. Expenditure trends for the first 8 months of this FY are shown below:

8. If we look at the trend of receipts, we see a different picture. The total receipts were only 54.2 per cent of budgeted receipts during the current FY compared to the figure of 57.1 percentage during COPPY. The Gross Tax Revenues also saw a similar trend with the per cent compared to BE remaining at 56.9 per cent as opposed to 57.2 per cent during COPPY. The higher revenue accruals during the previous years was buoyed by the Disclosure of Income Scheme and the robust growth that was witnessed during the first 8 months of the previous FY. The fall in receipts has been on account of the uncertainties regarding the streamlining of the GST processes on the indirect tax side. The initial hiccups notwithstanding the latter day collections have shown a robust firming up after the GST revenues have shown an increase on the back of reviving growth in the economy and the removal of the teething issues related to the introduction of GST.

9. The RE 2017-18 for the total Expenditure has been pegged at ₹ 2217750 crore compared to the BE 2017-18 of ₹ 2146735 crore. This implies an increase of ₹ 71015 crore or 3.3 per cent over the Budget estimates. The main reasons for the increase over BE estimates is the increase of ₹ 61331 crore that have been provided in the demand of the Department of Revenue, on account of GST compensation cess. As a percentage of GDP the total expenditure works out to 13.2 per cent which implies a growth rate of 12.0 per cent above the actuals of 2016-17. The other increases were mainly on account of the need to



provide for salaries to grantee bodies, subsequent to the decision for implementing 7th CPC recommendations to autonomous bodies as well.

10. The transfer of GST compensation cess to states is fiscal neutral as the above amounts have been levied as a cess over the peak rate of 28 per cent on certain specified luxury and demerit goods, like tobacco and tobacco products, pan masala, aerated waters, motor vehicles. This is proposed to be introduced for a period of five years to compensate States for any revenue loss on account of implementation of GST. The amounts are transferred to a non-lapsable fund in the public account called the GST Compensation Fund as per the Section 10 of the GST (Compensation to States) Act, 2017.

11. In terms of overall expenditures, there has been an increase in revenue expenditures from ₹ 1836934 crore to ₹ 1944305 crore. This implies an increase to the tune of ₹ 1,07,371 crore or 5.8 per cent over the BE. The increase in Revenue Expenditure was offset by the reduction in capital expenditure that was financed through the budgetary resources. The reduction was to the tune of ₹ 36,356 crore, which represented a reduction of 11.7 per cent compared to BE. The main reasons for reduction is a rationalisation of the support provided to railways and the rationalisation of the mechanism for transferring EAP loans to State Governments, which has been explained in the Medium-term Fiscal Policy Statement.

12. There has been an increase in revised estimates of gross tax revenue. It has been estimated to increase from ₹ 1911579 crore in BE 2017-18 to ₹ 1946119 crore in RE 2017-18. This increase is, however, mainly on account of GST compensation cess to the tune of ₹ 61331 crore in RE 2017-18 which did not feature in Budget Estimates of 2017-18. In addition to above, direct taxes have been estimate with an increase of ₹ 25,000 crore over BE. However on the revenue receipts side especially those impacting the resources that the Central Government can use by way of its Net to Centre amount the total revenue receipts fell by ₹ 71674 crore from a BE of ₹ 1515771 crore to an RE of ₹ 1444097 crore. The above reduction is mainly because of a fall in indirect tax collections to the tune of ₹ 51856 crore from the BE of ₹ 926900 crore to the RE of ₹ 875044 crore. One of the main reasons for the reduction can be attributed to the spill over impact of the tax filing dates for the last month of the current fiscal year. The last date for filing GST returns for the month of March 2018 is 20th April and, therefore, the revenues that the Centre can use during this fiscal year is lower to that extent. On the Non-tax revenue front as well there has been a decrease to the tune of ₹ 52783 crore

from a budgeted figure of ₹ 2,88,757 crore to ₹ 2,35,974 crore.

13. On the capital receipts side the non-debt capital receipts have shown an increase of ₹ 33041 crore, from a BE of ₹ 84432 crore to ₹ 117473 crore in RE. This jump was mainly contributed by the increase in disinvestment receipts by ₹ 27500 crore from a BE of ₹ 72500 crore to ₹ 100000 crore in RE 2017-18.

14. In view of reform measures initiated by Government as mentioned above, and the requirements of challenging times, the fiscal consolidation as mandated by the FRBM Act has been recalibrated by the Government. Accordingly, fiscal deficit target in RE 2017-18 has been recalibrated at 3.5 per cent of GDP as against 3.2 per cent of GDP envisaged in BE. This leeway is but the natural concomitant of a wide-ranging reform initiative that has been introduced in the Government, namely introduction of the Goods and Services Tax.

B. Fiscal Policy Outlook for 2018-19

15. The Government is aiming to revert to the path of fiscal rectitude after the temporary blip in the following year, that is FY 2018-19. This will also be the maiden year of the new targeting framework, where the twin focus would be on reducing debt and the fiscal deficit. The Government aims to reach the FD target of 3.3 per cent of GDP in BE 2018-19.

16. The Gross Tax Revenue of the Government is expected to increase to ₹ 2271242 crore in BE 2018-19 from an RE of ₹ 1946119 crore. This implies a growth of 16.7 per cent over the RE. As a per cent of GDP this is anticipated to be 12.1 per cent compared to the 11.6 per cent assumed in RE 2017-18. There is a bump-up in the GTR to GDP estimates from the level of RE 2017-18. The caveat is that the GTR includes a portion, the GST Compensation Cess (amounting to ₹ 90000 crore) which cannot be utilised by the Central Government for its expenditure commitments.

17. Direct taxes have been projected to increase to ₹ 1150000 crore in BE 2018-19. This implies a growth of 14.4 per cent in 2018-19 compared to RE 2017-18. The increase in direct taxes is expected to be from both the arms of direct tax, namely Corporate Income Tax and Personal Income Tax. These have been budgeted to increase to ₹ 621000 crore and ₹ 529000 crore respectively.

18. Indirect taxes in BE 2018-19 are expected to be ₹ 1116000 crore. It is anticipated that the GST revenues will be ₹ 743900 crore in BE 2018-19 compared to ₹ 444631 crore in RE 2017-18. The fact that GST was imposed only after the completion of

the first quarter. The non-GST component of the indirect taxes would be ₹ 372100 crore in BE 2018-19. This is compared to ₹ 491744 crore in RE 2017-18. It is expected that Indirect taxes will grow by 17.3 per cent in 2018-19 over RE 2017-18.

19. The Non tax revenue is expected to grow over the RE 2017-18 by 3.9 per cent to an amount of ₹ 245089 crore in BE 2018-19. As a per cent of GDP, the Non-tax Revenue component constitutes 1.3 per cent. Non-debt Capital Receipts have been budgeted in BE 2018-19 to be ₹ 92199 crore compared to the RE 2017-18 figure of ₹ 117473 crore. The main contributor to this kitty is from disinvestment receipts, which has been anticipated to be ₹ 80000 crore in BE 2018-19. Net borrowings and other liabilities are expected to be ₹ 624276 crore to finance the fiscal deficit, a majority of which would be mainly financed through market borrowings.

(1) Tax Policy

a) Direct Taxes

20. The policy of the Government in Direct Taxes has been to broaden and deepen the tax base while maintaining a moderate tax rate and gradually phasing out exemptions. No change is proposed in the personal income-tax rates in respect of income earned in financial year 2018-19. In case of domestic companies having turnover or gross receipts up to ₹ 250 crores in financial year 2016-17, it is proposed to reduce the tax rate to 25 per cent in respect of income earned in financial year 2018-19 assessable in assessment year 2019-20. The existing provision giving option to domestic companies, incorporated on or after 1st March, 2016 and engaged solely in manufacture and production of articles and things, of payment of tax at the rate of twenty-five per cent in respect of its income, if they do not claim any accelerated depreciation, investment allowance, profit-linked and investment-linked deductions, shall continue to be available.

21. With a view to increasing mobilisation of resources through direct taxes and to plug revenue leakage, the Government proposes to undertake the following initiatives:-

- (i) At present, education cess @ 2 per cent for primary education and additional 1 per cent for secondary and higher education is levied on tax and surcharge. It is proposed to levy additional cess of 1 per cent to take care of the needs of education and health of rural families. Accordingly, the existing 3 per cent education cess is proposed to be replaced by 4 per cent "Health and Education cess" to be levied on tax and surcharge payable by all taxpayers.

- (ii) At present, capital gains arising from sale of long term capital assets being listed equity shares, units of equity oriented mutual fund and units of business trust are exempt from tax. The present regime for taxation of such long term capital gains has led to a significant erosion of the tax base and bias against manufacturing. It is, therefore, proposed to tax long term capital gains arising from such assets exceeding ₹ 1 lakh @ 10 per cent without allowing the benefit of indexation. However, gain up to 31.1.2018 in respect of such assets is proposed to be grandfathered. In order to discourage distribution of all gains by way of dividend and to provide a level playing field across gross oriented funds and dividend distributing funds, it is proposed to introduce dividend distribution tax @10 per cent in respect of distributed income by equity oriented mutual fund.

- (iii) The regime for taxation of trust and institutions enable significant transactions in cash. In order to discourage such cash transactions, it is proposed to disallow any cash payments exceeding ₹ 10,000/-. Similarly, disallowance of expenditure is also proposed to be made to discourage non-compliance with the provisions of tax deduction at source. These twin measures are expected to significantly restrict leakage of tax revenue.

- (iv) Sometimes, dividend is camouflaged as loans and advances to shareholders so as to avoid dividend distribution tax. The Finance Bill seeks to plug certain gaps in the taxation of such distribution of dividends.

- (v) In order to discourage the practice of deferring the tax payment by converting the inventory into capital asset, the Finance Bill proposes to tax the fair market value of the inventory on the date of its conversion into capital asset.

22. Several changes have also been introduced to improve horizontal equity of the tax system by providing relief to certain sections of the society keeping in view their personal circumstances. In this regard, an additional amount of ₹ 40,000/- being interest from deposits in banks and post office is proposed to be exempted from tax for senior citizens. Further, the deduction for payment towards medical insurance and medical expenditure is proposed to be increased from ₹ 30,000/- to ₹ 50,000/- and the deduction for critical illness proposed to be enhanced to Rs.1 lakh in case of senior citizens. Similarly, a standard deduction of ₹ 40,000/- is proposed to be provided to salaried taxpayers to provide relief from

higher cost of incidental expenses relating to employment.

23. Consequent to demonetisation in November, 2016, the Income-tax Department was able to access the entire set of data relating to cash deposits in banks on a real time basis. The Department has initiated the Operation Clean Money programme to identify black money deposited in the bank and bring it to tax. These efforts are estimated to have resulted in significant deepening and widening of tax base resulting in substantial revenue gain. These gains appear to be permanent in nature and will, therefore, have recurring effect. The exercise relating to data mining is in progress and expected to positively impact revenue collections over the next two to three years.

24. The Income-tax Department has introduced e-assessment on a pilot basis with the objective of reducing the interface between the department and the taxpayers. This scheme was extended to 102 cities in 2017. It is now proposed to introduce a comprehensive e-assessment scheme where the assessment will be done in electronic mode almost eliminating person to person contact leading to greater efficiency and transparency.

b) Indirect Taxes

Significant measures under Indirect taxes are as under:

Rollout of GST

25. In a historic tax reform, the Goods and Services Tax was rolled out on 1st July, 2017. It brought a new era of indirect taxation with the motto of "One Tax, One Market, One Nation". It subsumed almost all major indirect taxes like Central Excise Duty, Service Tax, VAT, CST, Entertainment tax, Octroi, Luxury tax, a large number of cesses/surcharges and various other state and central levies on goods and services. The certain significant implication of GST regime are:

- (i) Uniform taxation of goods and services across all states. All business processes have been made common, including the IT processes relating to registration, return, payment and refund of taxes. This has paved the way for making the whole nation a common market.
- (ii) The pre-GST regime suffered from cascading of taxes in which VAT and other states levies were being imposed on value inclusive of central taxes. GST removed such cascading of taxes.
- (iii) Tax neutrality for business as the scope of Input Tax Credit has been widened considerably. It has also ensured that integrity

of tax chain is maintained throughout the supply chain upto the stage of consumption. In the erstwhile regime, no credit of certain indirect taxes, such as SAD on imports paid by a trader or the CST was available.

- (iv) GST has aided in widening of the tax base, e.g., entire textile chain has now been brought under tax net. Further, a segment of land and real estate transactions – "works contracts", referring to housing that is being built, has been brought into the tax net. This in turn would allow for greater transparency and formalization of cement, steel, and other sales, which tended to be outside the tax net. The formalization will occur because builders will need documentation of these input purchases to claim tax credit.
- (v) There are early signs of tax base expansion. Between June & July 2017, 6.6 lakh new entities previously outside the tax net have sought GST registration. This is expected to rise consistently as the incentives for formalization increase. Preliminary estimates point to potentially large increases in the tax base as a consequence.
- (vi) Another benefit will be the impact of GST in formalization of economy and consequently the information flow that would eventually augment direct tax collections. In the past, Centre had little data on small manufacturers and consumption (because the excise was imposed at the manufacturing stage), while states had little data on the activities of local firms outside their borders. Under the GST, there will be seamless flow and availability of a common set of data to both the Centre and states, making direct tax collections more effective.
- (vii) The long-term benefits include the GST's impact on financial inclusion. Small businesses can build up a real-time track record of tax payments digitally.
- (viii) GST makes the supply chain and logistics efficient. With introduction of GST, the check posts in the states have been removed as the whole nation has same tax and compliance structure. If this trend continues, the reduction in transport costs, fuel use, and corruption could be significant. There is ample evidence to suggest that logistics costs within India are high. For example, one study suggests that trucks in India drive just one-third of the daily distance of trucks in the US (280 km vs 800

km). This raises direct costs (especially in terms of time to delivery), indirect costs (firms keeping larger inventory), and location choices (locating closer to suppliers/ customers instead of the best place to produce). Further, only about 40 per cent of total travel time is spent driving; while one quarter is taken up by check points and other official stoppages. Eliminating check point delays could keep trucks moving almost 6 hours more per day, equivalent to additional 164 kms per day – pulling India above global average and to the level of Brazil.

- (ix) Overall, logistics costs (broadly defined, and including firms' estimates of lost sales) are 3-4 times the international benchmarks. Studies show that inter-state trade costs exceed intra-state trade costs by a factor of 7-16, thus pointing to clear existence of border barriers to inter-state movement of goods. GST will dramatically reduce these costs and give a boost to inter-state trade in the country.

Status of GST implementation

26. GST is mammoth change in the indirect tax regime. Considering the magnitude of change, its implementation has been smooth. Needless to say that any change of this magnitude will have teething problems in the initial phase of implementation. However, GSTC Council has taken all possible measures to address the concerns of stake holders. The concerns raised by the stakeholders were related to business processes (relating to migration, registration, return filing and refunds on the portal), GST rates, difficulties faced by MSME sector in compliance, cash flow issues of exporter on account of delay in getting refunds on exports. The GST Council had several meetings in quick succession post GST implementation and it took specific measures to address all the concerns in a short span of time. To address the IT issues, a GOM (Group of Ministers) has been constituted which since then has taken a number of measures. Another GOM looked into the issue of MSME and made specific far reaching recommendations. A Committee on exports was constituted to address the concerns of exporters. Further, the GST Council also recommended significant rationalization in rates. Besides, extensive exercises have been undertaken for streamlining the tax administration, ensuring that taxpayer has single interface (with either Central or State tax authority). Further, various Committees of officers examined the issues relating to law and processes and sectoral issues like handicrafts. A number of procedural changes have been made to simplify the process. Also extensive exercise was taken for taxpayer education

and facilitation by way of knowledge sharing, dissemination of information and replies to frequently asked questions. All these efforts have smoothed the GST implementation to a large extent and lot of work is going on in the background for further simplification.

2. Expenditure Policy

27. Total expenditure in BE 2018-19 is anticipated to be ₹ 2442213 crore compared to the RE of ₹ 2217750 crore. Both these figures are inclusive of the expenditure as a result of the GST Compensation to the States. In BE 2017-18, this amount is anticipated to be ₹ 90,000 crores compared to the ₹ 61331 crore that has been kept in RE 2017-18. The total expenditure in BE 2018-19 shows an increase of ₹ 224463 crore and works out to be 10.1 per cent increase over the RE of 2017-18. If we look at the expenditure after removing the component of the Compensation Cess portion from both the years, then we see an increase of 9.1 per cent coming to an absolute increase of ₹ 1,95,794 crore. These increases have been effected after considering all aspects of the ministries and departments. The focus was on ensuring that increased allocation translates to actual expenditure on the ground, by looking at key variables like unspent balances and pace of expenditure. This is in tune with the Government's strategy of ensuring that the whole financial year is available to the Government departments to effect their expenditure.

28. However, the Government has not fallen into a fiscal straitjacket either. The need to mitigate development deficits as much as fiscal deficits is a concern that has been on the top of the Government's agenda. The need to focus on bridging the development gaps in the rural sector has occupied the mind of the Central Government. In tune with this focus the allocations for agriculture and allied departments have been increased. ₹ 46700 crore has been allocated for the Department of Agriculture alone. To ensure that there is spread of awareness of agricultural technologies, an increase has also been provided to Department of Agricultural Research and Education. The focus is also on post production value addition. This focus is apparent if we look at the increased expenditure allocation for the Department of Food Processing Industries which has seen an increase

29. Allocations to health, education and other social sectors such as department of minorities, tribals, women and social justice have also shown an increase. The nominal increase in these sectors are higher than the average increase in expenditure

provided for all the ministries combined. These expenditures are important if we have to maintain the productivity and increase human capital formation of the Indians. This will ensure that a healthy, educated and a more skilled India will be able to the growth dividend. In tune with this policy of the Government, it has been decided to fund the expenditure of the health education, road transport & highways and Railways ministries through the National Investment Fund (constituted by the accrual of disinvestment receipts). Sums of ₹ 85,100 crore in RE 2017-18 and ₹ 82,440 crore in BE 2018-19 are routed through National Investment Fund.

30. The focus on the above sectors to mitigate development deficits has led to an increase in revenue expenditure to the tune of ₹ 197467 crore from ₹ 1944305 crore in RE 2017-18 to ₹ 2141772 crore in BE 2018-19 in absolute terms which amounts to an increase of 10.2 per cent. The increase in revenue expenditure as hinted above was visible in the major sectors. Interest payments have been budgeted to show an increase of ₹ 44952 crore (8.5 per cent increases) from RE 2017-18. These increased to ₹ 575795 crore in BE 2018-19 from ₹ 530843 crore in RE 2017-18. Pension payments have increased by ₹ 21079 crore (14.3 per cent) from an RE of ₹ 147387 crore to an amount of ₹ 168466 crore in BE 2018-19. The expenditure on major subsidies have increased by 15.1 per cent from an RE of ₹ 229716 crore to a BE 2018-19 of ₹ 264336 crore. The increase in major subsidies of the government has been evidenced in all the subsidy heads namely food, fertiliser and fuel. However, as a per cent of GDP the Major Subsidies are expected to remain stagnant at 1.4 per cent of GDP.

31. Expenditure on Defence Services have also seen an increase in allocation from ₹ 267107 crore in RE 2017-18 to ₹ 282734 crore in BE 2017-18. The increase in defence service allocation is to the tune of ₹ 15627 crore in absolute terms or an increase of 5.9 per cent compared to RE 2017-18.

32. The Capital Expenditure in BE 2018-19 has been budgeted to increase to ₹ 300441 crore from the RE 2017-18 figure of ₹ 273445 crore. Capital expenditure is therefore anticipated to return to the path that was being followed earlier. As a per cent of GDP capital expenditure is expected to be 1.6 per cent in 2018-19. This capital expenditure, however, does not reflect the actual capital expenditure on the ground by the government. This is because of at least two reasons. The fact that all grants that the Government gives to its grantee bodies for the creation of their capital assets, amounting to ₹ 195345 crore

(in BE 2018-19) is counted as revenue expenditure of the Central Government. The expenditure on rail construction done by the Railways are also not captured in this amount as they are from the resources that are generated by them independent of the Government of India's budget allocations. Additionally, for bodies like NHAI, Metro etc, the government has given permission to raise bonds from the market. These imply that the capital expenditure on the ground by the Government of India is more than the above figure of ₹ 300441 crore.

33. Expenditure policy of the Government relies broadly on the principle of optimising outcomes by effective and efficient utilisation of resources. Some of the important initiatives for improvising expenditure management are discussed in the following paras:

i) Public Financial Management System (PFMS):

34. As a major initiative relating to public finance management with focus on good governance through efficient use of public resource with citizen centric focus, Government has rolled out the online payment systems through the Public Finance Management System (PFMS). The system has enabled complete digitization of payment systems in civil Ministries/ Departments at the first level of payment from the Central Government to the implementing agencies/ beneficiaries/vendors etc. and the State Governments. Efforts are being made to enhance the coverage at all levels and to track the flow of funds till it reaches the final beneficiaries.

35. The streamlining of the payment systems through PFMS platform is showing spill-over impact on the management of even State public finances and delivery of public services by them. This is in the true spirit of co-operative federalism with the Centre and the State Governments combining their efforts to digitize and streamline entire Government payment systems for ultimate public good.

36. As a measure towards enhancing coverage at all levels, Ministry of Finance in the first phase has made it mandatory to make payments through PFMS for all the Central Sector (CS) schemes at all levels of programme implementation. PFMS has also been integrated with treasury systems of all the States and UTs with legislature and on-boarding of agencies at all the levels in the State domain on PFMS is also in process. In this direction, State Project Management Units (SPMUs) have been created in all States to provide support to the State Governments/Agencies.

ii) Direct benefit Transfer (DBT)

37. Direct benefit Transfer (DBT) is an attempt to change the face of the Governance by re-engineering the processes of various Government welfare schemes/programmes and adopting technology to reform the delivery systems so that the citizens are engaged in a meaningful manner. DBT aspires to achieve accurate targeting of beneficiaries, de-duplication, efficiency in delivery process, ensuring greater inclusion, curbing leakage thereby controlling expenditure and greater accountability and transparency. By transferring the cash/benefits directly in the bank accounts of beneficiaries, several layers in the delivery process have been cut. DBT was universalized in 2015 to cover all Central Sector and Centrally Sponsored Schemes, where cash benefits are transferred to individual beneficiaries. Extended scope of DBT includes 'in-kind' transfer to individual beneficiaries, transfers to enablers of Government schemes and services.

38. Up to November, 2017, 462 DBT applicable schemes identified across 57 Ministries/Departments and 34 Aadhar Enabled Services from 16 Ministries/Departments. The ambit of DBT covers major schemes that involve cash transfers, such as Pratyaksh Hanstantrit Labh (PAHAL), Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), Pensions and Scholarships, as well as in-kind transfers such as food grains and Mid-Day Meals to school children.

39. Since inception of DBT, ₹ 2, 46,133 crore have been disbursed. Total number of beneficiaries covered under DBT is 52 crore (including cash and in-kind schemes) in 2017-18 (as on 30.11.2017). The total amount of funds transferred through DBT is ₹ 63,190 crore in FY 2017-18 (as on 30.11.2017) and 95.4 per cent payments made through Electronic transfer.

iii) Subsidy reforms:

40. Outgo on major subsidies is budgeted at 1.4 per cent of GDP in BE 2018-19. Rationalization of major subsidies is important from the viewpoint of fiscal consolidation. The effort of Government would be to address this issue with a two pronged strategy. Government is committed to progressively pursuing subsidy reforms in a manner that will ensure efficient targeting of subsidies to the poor and needy, while also saving scarce financial resources for investment in infrastructure and pursuit of new development programmed announced by the Government. With the aim of reforming Government delivery system by re-engineering the existing process in welfare schemes for simpler and faster flow of information/funds and to ensure accurate targeting of the beneficiaries, de-

duplication and reduction of fraud, Direct Benefit Transfer (DBT) was started on 1st January, 2013.

41. Jharkhand has become the first State in the country to implement DBTK in all the districts of the State. The States of Karnataka, Haryana, Telangana, Nagaland, Bihar, Gujarat and Goa have responded favorably by undertaking voluntary cut in their PDS SKO allocation. Further, the UTs of Delhi, Chandigarh, Daman & Diu, Dadra & Nagar Haveli and Puducherry have become Kerosene Free and all the remaining UTs are also likely to become Kerosene free shortly. The State(s) of Haryana, Punjab and Andhra Pradesh have also become Kerosene Free.

42. Pilot run of DBT in fertilizer was completed by 31st March, 2017 in 14 districts and in newly added 3 districts in Aug 2017. Currently PAN India roll-out is under process. When PAN India roll out of DBT in fertilizers happens, the subsidies will be paid within a week of sales being registered in the PoS machines.

43. All States/UTs have adopted National Food Security Act (NFSA), 2013 and implementation of NFSA became universal from 1st November 2016. Out of the target of 81.34 crore persons, 80.72 crore has been covered as on date under NFSA and the remaining is also expected to be covered within the current Financial Year. As part of efforts to modernize and to introduce the best practices & transparency in the Targeted Public Distribution System (TPDS), the scheme on End-to-end Computerization of TPDS Operations is being implemented. 2.84 lakh Fair Price Shops (FPSs) out of total 5.27 lakh FPS have been provided with ePoS devices in 23 States/UTs. At the National level 81.63 per cent ration cards have been seeded with Aadhar numbers

3. Government Borrowings, Lending and Investments

44. In RE 2017-18, net market borrowings through dated securities at ₹ 4,02,394 crore have been budgeted to finance 67.6 per cent of Gross Fiscal Deficit (GFD). Other sources of financing such as treasury bills, external assistances, state provident funds and National Small Savings Fund (NSSF) have been budgeted to finance the remaining 32.4 per cent of GFD. Net borrowings requirement for 2018-19 has been budgeted at ₹ 3,90,120 crore.

45. Borrowings through dated government securities continued to be main source of financing GFD. Strategy to be adopted for its management in medium term has been elaborated in 'Debt Management Strategy' (DMS) document on Central Government Debt, which includes various benchmarks. Accordingly, the rollover risk in the

Government debt portfolio continues to be low as weighted average maturity of outstanding dated securities (including special securities, FRBs and IIBs) remains close to 10.71 years as on December 26, 2017, which is on higher side compared to international standards. Furthermore, the share of short-term debt in outstanding dated securities as on December 26, 2017 is around 3.1 per cent and securities maturing in next 5 years are around 27.4 per cent of total outstanding dated securities, which reinforces the low level of rollover risks in short term. During the 2017-18 (up to December 26, 2017), weighted average maturity of primary issuance continued to be high at 14.54 years through slightly lower than 14.76 years in previous year. The weighted average yield of dated securities issued during the same period of 2017-18 stood at 6.90 per cent as compared to 7.16 per cent during 2016-17 indicating lower yield environment. The continued longer maturity of primary issuances coupled with decrease in borrowings cost reflects the robust demand for longer tenor securities by insurance companies and provident funds, which continue to support the Government efforts to elongate its maturity profile in medium term. Pursuing its strategy to borrow from market, borrowing from dated securities at ₹ 3,90,120 crore is budgeted to finance nearly 62.5 per cent of GFD in 2018-19.

46. Government has kept reasonable share of Treasury bills to finance its GFD in 2017-18. Treasury bills allows manoeuvrability for cash management as also provide benchmark and momentum to trading activity in the money market, thereby facilitating the participants in financial markets to lend/borrow for their short-term cash management. During 2017-18, there was higher net inflow in the small savings schemes vis-à-vis budget estimates, primarily due to higher returns on these schemes as compared to other avenues for the retail investors. With revised policy for deployment of NSSF, share of funding from NSSF are projected at 12.0 per cent of GFD in 2018-19. In addition, State Provident Fund and other receipts from Public Account would finance remaining portion of the deficit.

47. One of the key features on country's debt profile is diminishing proportion of external debt as percentage of total liabilities and it is about 5.0 per cent of Central Government's total liabilities as estimated on March 31, 2018. External borrowing is limited to multilateral/bilateral loans from select international development agencies like JICA, IADA, IFC, etc. for financing development projects and, thus, not exposed to reversal of capital flows. Net loans from multilateral institutions constituted significant portion (66.0 per cent) of external debt at end March 2017, which are largely on concessional terms. Thus,

Government will continue to rely on raising debts from domestic market borrowing or market linked domestic sources. The external sources are projected to finance only miniscule portion of the GFD in 2018-19.

48. As explained in the Medium-term Fiscal Policy Statement, total outstanding liabilities of the Central Government are estimated at about 50.1 per cent of GDP in RE 2017-18 and will fall down to about 48.8 per cent of GDP by the end of financial year 2018-19. Keeping in view the fiscal consolidation as envisaged for medium-term, the total outstanding liabilities have been estimated to decline to about 44.6 per cent of GDP by the end of FY 2020-21. As proposed in the FRBM framework, the Central Government will endeavour to reduce its debt/total outstanding liabilities to 40 per cent of GDP by FY 2024-25.

49. 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. Further, GoI in consultation with RBI have used market-oriented active debt management tools since 2013-14 in the form of buyback and switching of shorter tenor G-secs with longer tenors G-secs, with an objective to spread the redemption pressure evenly, reduce rollover risk as well as utilizing the cash surplus prudently. In view of redemption pressures in coming years, particularly during 2018-19 and 2019-20, the Government will continue its active debt management strategy. Towards this objective, an amount of ₹ 75,000 crore was budgeted in FY 2017-18 for buyback and ₹ 25,000 crore for switches. During current FY 2018-19, Government will carry out buyback of G-securities worth ₹ 71,941 crore and switching worth ₹ 28,059 crore, totalling ₹ 1,00,000 crore.

50. Development of deep and liquid secondary market for Government securities is another key objective of the debt management policy as it helps in efficient discovery of interest rates. Government desires a liquid and vibrant secondary market for government securities and broadening the investor base to ensure that debt is raised in a cost effective manner. The initiatives to develop market are undertaken with close coordination with the RBI. Primary issuance strategy of the Government remains focused on issuing new securities under multiple benchmark maturities and building sizeable volumes under existing securities to improve liquidity in the secondary market, with internal ceilings on outstanding amount under individual securities to manage redemption cliff risk of the Government. In FY 2017-

18 till date (Dec 26, 2017), only two new securities were launched while remaining borrowings were raised through reissuance of existing securities, resulting in consolidation of number of outstanding G-securities. For the purpose of using debt strategy for better intra-year cash management as also to reduce redemption pressure in the first half of financial years, Government attempted issuances of non-standard maturity bonds during 2015-16, which continued in 2017-18. With an objective of having a more predictable regime for investment by the Foreign Portfolio Investors (FPIs), RBI, in consultation with the Government had set out the medium term framework (MTF) of FPI investment limits in Government securities. Sovereign Gold Bonds Schemes launched by Government of India in November 2015 will broaden investment choice of investors as well as it will also diversify investors base for debt liabilities of Central Government through more participation of retail investors. Features of the SGB scheme are being continuously improvised to make them more investor friendly and expanding the retail investor base.

51. 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-secs yields. The interest rates are now reviewed every quarter. Collections under various small savings schemes, net of withdrawals, during the financial year form the source of funds for National Small Savings Fund (NSSF). The net collections under NSSF which were hitherto invested in Central and State Government special Securities 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 1st April, 2016.

52. Government is committed to bring transparency in public debt management operation. Government of India 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 (since 2010), Debt management Strategy document (2015) and Handbook of Statistics on Central Government Debt (since 2013). Government has now decided to consolidate all these publications into a single report to bring entire on Government Debt related information at one place.

4. Contingent Liabilities

53. 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.

54. For better management of contingent liabilities, 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.

55. 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 ₹ 3,66,189 crore at the end of 2016-17. 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 2.41 per cent in 2016-17. 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 2016-17, net accretion to the stock of guarantees was ₹ 22,429.84 crore, amounting to 0.15 per cent of GDP, which is within the limit of 0.5 per cent under the FRBM Rules.

C. Strategic Priorities for the ensuing year:

56. The main focus of the government in the ensuing financial year will be on agriculture and allied sectors and also on social sector expenditure. The social sector expenditure which will include expenditure on health and education apart from the expenditure on socially disadvantaged groups. These include Ministries like Minorities Affairs, Tribal Affairs, Social Justice and Empowerment, DoNER etc; Being disadvantaged, the groups that are represented by the above ministries have a definite development deficit. If the fiscal rectitude that the government strives for has to be sustainable, then there has to be overall development in the economy. For this it is important to reduce the inequalities in the system. Such prioritising of expenditure would ensure that development deficits are mitigated and at best even eliminated.

57. The focus will also be on continuing on re-calibrated path of fiscal consolidation by reducing fiscal deficit and the Government debt as a percentage of GDP and supporting tax revenue growth through policies that result in increasing the tax net and higher tax compliance to enhance the tax to GDP ratio to support the expenditure growth and thereby improve the fiscal discipline and overall macro-economic environment.

58. Further, attention will also be on ensuring that expenditure is done in the most efficient manner. Web based Government Integrated Financial Management Information System (GIFMIS) administered by Controller General of Accounts for budgeting, accounting, expenditure and cash management of Government will be interfaced with key external systems to provide holistic technology solution for more effective fiscal management in GoI.

59. The first year of implementation of GST has also resulted in a large amount of unsettled IGST money that has come to the Government of India. However, in the true spirit of co-operative federalism it has been decided that the estimated IGST receipts to the tune of ₹ 161900 crore in RE 2017-18 will be divided between the centre and the states on an equitable manner similar to the pattern of devolution of taxes that are being undertaken by the Government. This is a mark of the maturity that the Centre-State relations have acquired over the years.

FRBM – a New Framework

60. In tune with the requirement of the changing times and the need to re-focus on the issue of fiscal prudence along parameters that are acceptable internationally, the government has decided to amend

the existing FRBM act in a suitable manner. In the new framework the following key changes are being instituted:

- To target simultaneously on fiscal deficit and debt
- To target fiscal deficit as an operational target and to ensure that the FD of 3.0 per cent of GDP is reached by the Government by FY 2020-21.
- The Central Government shall endeavour to follow a declining debt trajectory and the Central Government reach a debt target of 40 per cent of GDP as also to keep the general government debt at 60 per cent of GDP by FY 2024-25.
- Inserting adequately defined escape and buoyancy clauses to determine when the targets defined by the FRBM Act may be relaxed or tightened as the case maybe.

Railway Budget

61. The Railway Budget has been merged with the General Budget with effect 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 will continue 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 with effect from 2017-18, the requirement of dividend payment by Railways to the Government has been done away with. The Government will, however, continue to provide Gross Budgetary Support to the Railways for meeting part of its capital expenditure. Government has been reimbursing Railways the losses on operation of 'strategic' lines.

62. 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.

63. 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 could not be maintained. As a result Railways' Operating Ratio has remained in the range of 90.5 per cent to 96.5 per cent. During such time, contribution of internal resources to Railways' capital expenditure could be sustained by drawing down from the Railway Reserve Funds. As a result, Railway Fund balances have depleted. During 2016-17, the Operating Ratio was 96.5 per cent.

64. In 2016-17, while the working expenses of Indian Railways, specifically under pay and pensions went up with the implementation of 7th Central Pay Commission recommendations, the prime earning segments of Railways i.e. passenger and goods could not perform on expected lines.

65. During the year though the negative growth in originating passengers witnessed since 2013-14 was reversed, Indian Railways witnessed one of the lowest incremental loading in recent years due to slowdown in the core sector of the economy resulting in drop in freight earnings vis-a-vis preceding year. With stabilization of the impact of 7th Central Pay Commission (CPC) and also due to various measures taken, the financial position of the Railways have indicated signs of improvement in 2017-18. In 2017-18, though, the traffic throughput of the Railways have picked up, these were short of budgeted expectations. Hence, earnings of the Railways, recast at ₹ 1,87,225 crore are estimated to register a growth of 13.3 per cent in RE 2017-18 over 2016-17 actuals, whereas the OWE and the pension expenditure at ₹ 1,75,450 crore are estimated to increase by 10.1 per cent.

66. The internal resource generation is likely to be ₹ 11,425 crore in RE 2017-18 against ₹ 10,113 crore in 2016-17. The operating Ratio in RE 2017-18 is targeted at 96.0 per cent. Traditionally the passenger services of railways have been loss making and the under recovery in 2016-17 was about ₹ 30,000 crore.

67. The Capital expenditure in Railways has increased over the years. As against a capital expenditure of ₹ 93,520 crore in 2015-16, ₹ 1,09,935 crore in 2016-17, ₹ 1,20,000 crore in RE 2017-18, a capital outlay of ₹ 1,46,500 crore has been envisaged in BE 2018-19. The total outlay in BE 2018-19 includes ₹ 53,060 crore from General Revenues and ₹ 93,440 crore from IEBR.

Outlook

68. FY 2017-18 fiscal was buffeted by one tail wind and one headwind. These two winds of change were reform measures on the revenue front which will have a positive impact in the long-run on the economy. The tail wind was demonetisation and its impact on the governmental revenues. The withdrawal of high denomination 500 and 1000 rupee notes would hasten the pace of formalisation in the economy. The increase in formalisation would bring more tax-payers into the net increasing the tax base of the economy. The headwind that impacted the fiscal calculus in the economy was the introduction of a nation-wide destination based value-added tax, called Goods and Services tax from the beginning of the second quarter. This discontinuity in the taxation regime of the country was but the step towards removing inter-state barriers of trade and commerce in the country, thereby giving a push to economic growth in the country and the economic unification of the nation.

69. The introduction of the new taxation regime has impacted the revenue position of the government also because of structural issues. Under the new GST regime, the last date for filing of GST returns remains 20th of the succeeding month even on the last day of the financial year. This means that the tax receipts during the current year was only for 11 months, excluding the indirect tax receipts for March. This spill over, will result an estimated loss to the Central Government's tax kitty to the tune of between ₹ 35-36,000 crore. This one-time impact on the Central Government's fiscal will lead to a temporary and one-time spike in the fiscal deficit over and above the estimated fiscal deficit during the previous budget.

70. These teething issues related to the implementation of a new indirect tax regime are slowly sorting itself out. It is expected that once these headwinds on the revenue side take wing the Government will have access to a greater share of resources, thereby allowing for greater spending in the economy. Moreover, as expenditure reforms related to in-time release of funds to agencies and governments fall in place, there will not be any possibility of idle parking of funds in the system. This will enhance the efficiency of the spending system.

71. The fact that schemes are increasingly trying to be implemented on the direct benefits transfer module using the IT platform, this ensures that the benefits actually flow to the beneficiaries who are in need of these scarce resources.