MEDIUM TERM FISCAL POLICY STATEMENT

FISCAL INDICATORS - ROLLING TARGETS AS A PERCENTAGE OF GDP

		Revised Estimates 2017-18	Budget Estimates 2018-19	(Projections) 2019-20	(Projections) 2020-21
1.	Fiscal Deficit	3.5	3.3	3.1	3.0
2.	Revenue Deficit	2.6	2.2	1.8	1.6
3.	Total Outstanding Liabilities at the end of the year	50.1	48.8	46.7	44.6
4.	Gross Tax Revenue as percentage of GDP	11.6	12.1	12.4	12.7

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

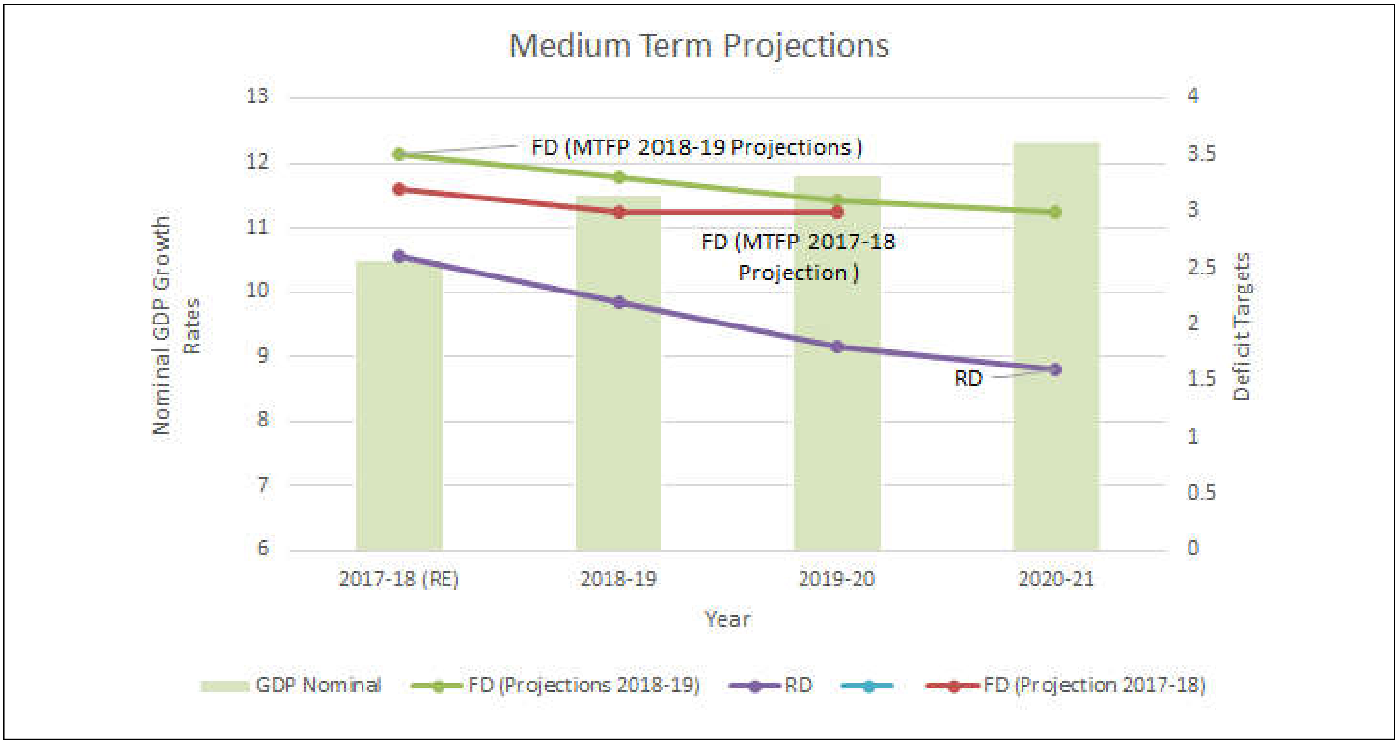
1. During RE 2017-18, there has been a slight bump up in the fiscal deficit figure from the budgeted amount of ₹ 546531 crore (3.2 per cent of GDP) in BE 2017-18 to ₹ 594849 crore (3.5 per cent of GDP) in RE 2017-18. The increase in the fiscal deficit over and above the figures that have been budgeted in BE 2017-18 is mainly because of the spill over impact of the new indirect tax regime. This is a one-time cost imposed on the fiscal by the change to a new system for paying indirect taxes. According to the GST Act, the tax for the month of March 2018 does not become due before 20th April 2018, which happens to fall in the new FY. Apart from the above there has also been a shortfall in Non-tax revenues compared to BE 2017-18. While Non-tax Revenues were budgeted to be ₹ 288757 crore in BE 2017-18, the figure has been revised downwards to ₹ 235974 crore. A major reason for this is the lower realisation of NTR from the Reserve Bank of India in 2017-18.

2. The Government has proposed an amendment to the FRBM Act. In the proposed FRBM Architecture, Government will simultaneously target debt and fiscal deficit, with fiscal deficit as an operational target and do away with the deficit targets on revenue account i.e. revenue deficit (RD) and consequentially, effective revenue deficit (ERD). In the above table estimates of RD have been mentioned only for information.

3. Total outstanding liabilities as shown in the table are calculated in terms of changes proposed in the FRBM framework by the Government. The scope of the definition of the Central Government debt is being widened to include all outstanding liabilities including those in the Public Account of India. Further, external debt is to be valued at current exchange rates. Therefore, total outstanding liabilities as indicated in the table are at variance with those estimated/projected in the previous Medium-term Fiscal Policy Statement. Total outstanding liabilities of the Central Government in view of above mentioned re-calibration are estimated at about 50.1 per cent of GDP in RE 2017-18 and it will fall down to about 48.8 per cent at the end of the financial year 2018-19. Keeping in view the fiscal estimates in the medium-term, the total outstanding liabilities have been estimated to decline to about 46.7 per cent and 44.6 per cent of GDP at the end of FY 2019-20 and 2020-21 respectively. As proposed in new framework, the Central Government will endeavour to reduce its debt/total outstanding liabilities to 40 per cent of GDP by FY 2024-25.

4. Once the discontinuity as mentioned above in the payment of GST stabilises the Government will be back on the path of fiscal rectitude. The proposed new regime of the FRBM with its twin focus on debt and FD aims at ensuring that the Government reaches its FD target of 3.0 per cent by 2020-21.

5. The Revenue Deficit in RE 2017-18 works out to ₹ 438877 crore compared to ₹ 321163 crore in BE 2017-18. The revenue deficit figure as a per cent of GDP is therefore 2.6 per cent compared to the 1.9 per cent of GDP of BE 2017-18. The increase in Revenue Deficit over and above the budgeted figure may also be seen in the context of the rationalisation



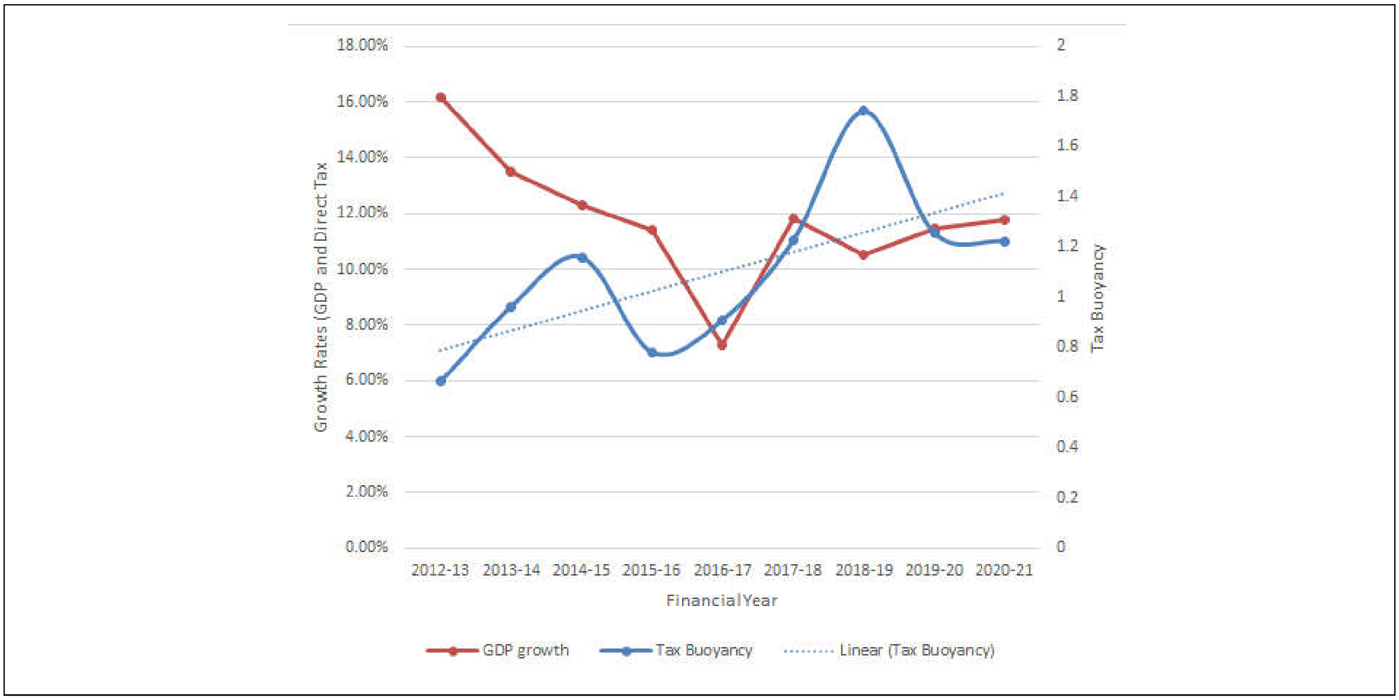
of expenditure that was carried out in capital expenditure. Hence, though capital expenditure fell by 4.5 per cent over 2016-17 Actuals, the revenue expenditure increased by 14.8 per cent. Being a year which saw the introduction of a new taxation regime in the form of GST, there was a need to ensure that the growth dynamics do not fall below the curve to a great extent. From FY 2018-19, it has been decided that the government would do away with the RD targets. In a country like India, there is little or no evidence to say that capital expenditure should enjoy pre-eminence. Maintenance expenditure, especially for schools and hospitals that include teachers and doctors salaries are as important as capital expenditure on building new schools. Moreover, expenditure on schools and hospitals also enhance the human capital formation in the country. This strategy, however, will not compromise on the Capital expenditure since Government is meeting the requirement through off budget borrowings. Debt raised for the purpose would be repaid through revenue generation from such projects. Thus, both Capital and Revenue expenditure needs of the economy would be met.

6. In the medium term expenditure framework statement, it was hinted that there could be a slowdown in the economy, mainly because of the short-term impacts of demonetisation. It was also anticipated that uncertainties related to implementation of GST would lead to increasing the fiscal deficit targets in the short-term. The achievement of the deficit targets in the medium to long term is not going to be difficult due to the increased buoyancy in tax revenues in the country. Though the first signs of the difficulties anticipated in implementation of GST seem to have subsided, the economy is still not completely out of the rough. The medium term positives are tied to the enhanced revenue generating capabilities that are inherent in the two path breaking steps namely, demonetisation and GST, on the revenue side that have been undertaken.

Medium-term prospects about revenue receipts

7. The figure given below points to a steady increase in direct-tax buoyancy in the economy since 2012-13. This increase is partly because of the better tax administration. In the recent past, there has been an increase in the tax buoyancy, because of provisions related to the widening of TDS etc that the CBDT had carried out in the earlier part of the decade. Over fairly long periods of time, the direct tax buoyancy should stabilise. The recent attempt at bringing into the tax net, a larger number of individuals, by withdrawal of high denomination notes is also a movement in the direction of improvement in the tax buoyancy. The data on direct taxes in 2017-18 and 2018-19 are Revised Estimates and Budget Estimates, whereas the direct tax collection figures after 2018-19 reflect the MTFP projections.

8. GST revenues are expected to rise once matching of invoices and e-Way bills come into full swing. If we were to allow for expansion of the indirect



tax base due to the increase in the number of indirect tax filers in the GST regime and a higher tax realisation in the economy, then we may safely conclude that the indirect tax buoyancy may also show an increase in the medium to long run. It may, therefore, be safe to assume that the above fiscal path is more a floor than a ceiling. Once the winds of reform blow its complete course, we can safely assume that the temporary blip in the fiscal horizon is neutralised.

9. One of the main criticisms of fiscal (or even monetary) targeting is the need to lend credibility to those targets. In the wake of the encouragement provided by the improving indicators vis-à-vis revenue receipts, it is felt that there is a need to moderate the expectations and align them in a manner that has both credibility and lends easy comprehensibility. This is crucial especially in the era of the changed FRBM framework. There is, therefore, a strong case for adopting a stable but declining path for the fiscal deficit and the debt parameters of the Government. In line with the provisions of FRBM Act.

GDP Assumptions

10. The temporary difficulties imposed by the introduction of GST in FY 2017-18 have caused a temporary fall in the nominal GDP growth. This was anticipated as all the players in the economy take time to adjust to the changes that are imposed in the system. This has resulted in a slight dip in the nominal and real GDP of the economy. It has been estimated that the nominal GDP will grow by 10.5 per cent in 2017-18 compared to the 11.0 per cent growth seen in 2016-17. The real GDP growth estimated for the current year is 6.7 per cent. In absolute terms it is anticipated that the nominal GDP will attain a level of ₹ 16784679 crore compared to ₹ 13006574 crore in real terms during 2017-18. The implicit GDP deflator for these figures are in the band of 3.5-3.6 per cent.

11. It is assumed that in the short to medium-term the GST regime would have stabilised to a great extent. This would give comfort to all the sectors in the economy and would aid the growth momentum that has started showing signs of revival. It is hence projected that the nominal GDP will grow by 11.5 per cent in 2018-19. This would be on top of the anticipated 10.5 per cent nominal growth that is expected in 2017-18 over 2016-17. The estimated GDP in real terms is expected at 7.2 per cent. The implicit GDP deflator of these estimates work out to 4 per cent on an annual basis.

12. In the medium term the nominal GDP growth has been projected at 11.8 per cent in 2019-20 and 12.3 per cent in 2020-21. These are respectively 7.5 per cent and 8 per cent in real terms with an implicit GDP deflator of 4 per cent.

Fiscal Outlook for RE 2017-18

13. The FRBM targets in respect of the BE 2017-18 has been re-calibrated because of the difficulties mentioned in the earlier paragraphs. Hence, it has been decided that the fiscal deficit target to be aimed at for the FY 2017-18 shall be 3.5 per cent. 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.

14. There has been an increase in revised estimates of direct taxes, which has seen an increase of ₹ 25,000 crore over BE. This has ensured that the Gross Tax Revenue has shown an increase from ₹ 1911579 crore to ₹ 1946119 crore. This increase is however, 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. This, however, does not add to the fiscal calculations as the amount so gathered has to be transferred to the states by first debiting CFI and transferring to the GST Compensation Fund in the Public Account. 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 was 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.

15. 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. There has also been a slight increase to the tune of ₹ 5541 crore in recoveries of loans and advances from ₹ 11,932 crore in BE 2017-18 to ₹ 17473 crore in RE 2017-18. Total net borrowings have increased by ₹ 48318 crore from a BE of ₹ 546531 crore in BE to an RE of ₹ 594849 crore. These borrowings will be required to finance the net additional expenditure that has been incurred by the Government of India.

16. The RE for the total Expenditure will be ₹ 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 per cent of GDP the above 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.

17. 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.

18. In RE 2017-18 major subsidies saw a decline to the tune of ₹ 10623 crore. This decrease was seen in all the components of the major subsidies namely, food, fertiliser and fuel. The respective declines were ₹ 5057 crore, ₹ 5026 crore and ₹ 540 crore respectively. 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.

19. 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. There was a reduction to the tune of approximately ₹ 15000 crore in respect of the Government of India to railways as it was decided that the Railways would try access the market directly as a start to transition towards greater financial autonomy. With respect to EAP loans to States, the BE was ₹ 18500 crore. This expenditure, under a loan Major Head (7601) was actually in the nature of pass through as the states could only borrow externally against the guarantee of the Consolidated Fund of India. Therefore, this arrangement was impacting the FD of the Government of India, when the loans were

the liabilities of the state governments. This arrangement was changed to reflect the fact that only final repayments to the international organisations amounting to ₹ 4500 crore or so would form part of the expenditure of the Government of India. This accounting arrangement would reflect as a reduced capital expenditure for Central Government. However, the end result from such EAP loans would remain unchanged.

Fiscal Outlook for 2018-19

20. The Government will aim 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.

21. 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. In other words it is anticipated that the medium term forecast regarding the GTR as a per cent of Revenue is on target. In the Medium term statement placed in Parliament along with Budget 2017-18 it was assumed that the GTR would be 11.3 per cent of GDP in 2017-18. There is a bump-up in the GTR to GDP estimates from the earlier projected 11.6 per cent. 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.

22. 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.

23. 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 is 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. It is expected that Indirect taxes will grow by 17.3 per cent in 2018-19 over RE 2017-18.

24. Non-tax Revenue is another component that is an important aspect of total revenue aspects of the Government. This includes interest payments that are received by the Government and a major contribution is by dividends and profits of Central Public Sector Enterprises. The NTR 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 compared to the RE of ₹ 100,000 crore. Net borrowings and other liabilities (FD) are expected to be ₹ 624276 crore, a majority of which would be mainly financed through market borrowings.

25. 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 10.12 per cent increase over the RE of 2017-18. If we look at the expenditure after removing the component of the Compensation Cess portion, then we see an increase of 9.1 per cent coming to an absolute increase of ₹ 1,95,794 crore. This nominal increase is evidence that though there have been pressures towards increasing expenditures that has been contained. 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.

26. The focus on the broad social 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 from RE 2017-18. These increased to ₹ 575795 crore in BE 2018-19 from ₹ 530843 crore in RE 2017-18. This shows an increase of 8.5 per cent compared to 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 in 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. As a per cent of GDP the Major Subsidies are expected to remain stagnant at 1.4 per cent of GDP.

27. Expenditure on Defence Services have also seen an increase in allocation compared to RE 2017-18 to ₹ 282734 crore from ₹ 267107 crore. 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. As a percentage of GDP Defence Services is 1.5 per cent.

28. The Capital Expenditure in RE 2017-18 has been budgeted to increase to ₹ 300441 crore in BE 2018-19 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 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 is counted as revenue expenditure of the 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 debt against issuance of 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.

Fiscal Outlook for 2019-20 and 2020-21

29. The assumptions regarding the FYs 2019-20 and 2020-21 have been laid bare in the sections above. The achievement of the fiscal targets in 2019-20 and 2020-21 are, therefore, contingent on the achievement of these intertwined targets, especially the ones related to the nominal GDP in the country.

30. In the new proposed framework, as mentioned earlier, the Revenue Deficit targets shall not enjoy the pre-eminence as it did earlier. This is to remove the anomaly created by a preference for capital expenditure that was inherent in the framework where the RD was following a declining trend. However, apart from the creation of assets, there is also a need to focus on the correct maintenance of the assets that have been set up. Moreover, in a federal country like India, all the capital-related transfers that the Government passes on to State Government agencies who implement certain schemes are categorised as revenue expenditure. Moreover, education and health as part of human capital, the expenditures on these items are as crucial as the ones on physical capital. For example, the presence of well-trained and adequately paid teachers and doctors are as important as strong hospital and school buildings.

31. As analysed in the above paragraphs it is anticipated that the Government is sure to reap the dividends of the recent taxation reform initiatives. Whereas the direct tax buoyancy rates show that the dividends with respect to demonetisation are perhaps already kicking in, the Government is confident that the widening of the tax base thanks to implementation of GST will help in improving the fiscal prospects of the Central Government.

32. One major uncertainty in the horizon is on the front of State Governments. The redemption of UDAY Bonds are on the horizon and these may apply an upward pressure on the state's fiscal calculations. In the era of amended FRBM Act, where there is a cap on General Government Debt at 60 per cent of GDP, it is anyone's guess as to the implications of these on the fiscal position of the states.

33. Keeping these issues in mind in 2019-20 and 2020-21, it is anticipated that the Gross Tax Revenues of the Central Government will show an increase of 14.3 per cent and 14.7 per cent over BE 2018-19 and 2019-20 respectively. The GTR for these years reach the absolute targets of ₹ 2595775 crore and ₹ 2977350 crore in the respective years. These figures also include an amount of ₹ 90000 crore in each of these years on account of GST Compensation Cess. These increases imply that the Tax GDP ratio will touch 12.4 per cent in 2019-20 and 12.7 per cent in 2020-21 respectively. These jumps will be considerably aided by the widening of the tax base and hence the

increased tax buoyancy associated with demonetization and GST respectively.

34. Apart from the above figures on tax revenues, the other important component of the Government's revenue receipts is the Non-tax Revenue receipts of the Government. These are respectively grow by 8.4 per cent and 11 per cent in 2019-20 and 2020-21 respectively. Growing at these rates, NTR is anticipated to reach ₹ 265867 crore and ₹ 295000 crore respectively in the two relevant years. As a per cent of GDP these have been projected to remain at 1.3 per cent each in FY 2019-20 and 2020-21 as there is also a simultaneous move towards increased unshackling of private sector potential.

35. On the expenditure front the total Government expenditure which is budgeted to reach 13.0 per cent of GDP in 2018-19 (BE) is projected to taper by 0.3 percentage points to 12.7 per cent each in 2019-20 and 2020-21. The revenue-capital mix in the expenditure profile is anticipated to increase from 12.3 per cent in BE 2018-19 to about 13 per cent in 2020-21.

Assumptions underlying the Fiscal Indicators

Tax Revenue

36. The Gross tax revenue which was stagnating for a long period since 2007-08 in the range of 10 per cent of GDP was projected to increase to 12.1 per cent of GDP in BE 2018-19. This is higher than the RE 2017-18 tax-GDP figure of 11.6 per cent. The growth in Gross tax revenues in 2019-20 and 2020-21 is projected at 14.3 per cent and 14.7 per cent respectively over previous year. The growth in tax revenues have been projected on a conservative basis when seen against the growth of 13.4 per cent in RE 2017-18 and 16.7 per cent in BE 2018-19. Direct and Indirect tax receipts are projected to grow at 14.7 per cent and 15.1 per cent in FY 2019-20 respectively and 15 per cent and 15.5 per cent in FY 2020-21 respectively. This is against growth of 14.4 per cent and 17.3 per cent estimated for direct and indirect taxes in BE 2018-19 respectively. These figures are downwardly biased. Once, the dividends on the tax reform measures kicks-in these percentages are sure to increase.

37. The Direct taxes collections are estimated with a growth of 14.4 per cent in BE 2018-19 over RE 2017-18. The Direct taxes are estimated to constitute 51.6 per cent of the gross tax revenues in RE 2017-18. The Indirect taxes which have seen a slight dip because of the first year of the implementation of GST is expected to show a growth rate of 17.3 per cent in BE 2018-19 over RE 2017-18.

Devolution to States

38. The devolution of the States' share of taxes has been estimated at Rs.673005 crore in the revised estimates of 2017-18. In BE 2018-19, the States' share of taxes is estimated at Rs. 788093 crore. Over the medium-term, States' share in gross tax revenues has been projected keeping in view the recommendations of the 14th Finance Commission. The Net tax revenues of the Centre after devolution of the States' share of taxes are estimated at ₹ 1480649 crore in BE 2018-19, which is 7.9 per cent of the estimated GDP. The Net tax revenue of the Centre is estimated to marginally increase to 8 per cent and 8.1 per cent of GDP in 2019-20 and 2020-21 respectively.

Non- Tax Revenues

39. The non-tax revenues comprise Dividends from RBI, Banks and other Financial Institutions and the Public sector enterprises. After the merger of Railway Budget with the Union Budget, the Railways will not pay dividend on the capital at charge from 2017-18 onwards. However, like few other Ministries, Railway's CPSUs would pay dividend to GoI. Interest receipts mainly from the States against the loans previously extended by the Centre, telecom receipts, royalty from offshore oilfields and profit petroleum and other user charges and fees etc. levied by various Ministries/ Departments.

40. In Budget 2018-19, the non-tax revenues are estimated at 1.3 per cent of GDP compared to 1.4 per cent in RE 2017-18. In the medium term, it is anticipated that the NTR will grow at the rate of 8.4 per cent in 2019-20 and 11 per cent in 2020-21. With the above growth rates, the NTR is expected to roughly remain at the level of 1.3 per cent of GDP in each 2019-20 and 2020-21. Efforts will be made to further increase it in 2020-21.

41. It may be mentioned that the component of Non-tax Revenue depends on the presence of adequately profit making Public Sector Enterprises in the economy. The profits then can be ploughed back to take developmental work through budgetary allocation. However, there is also a competing force at work, namely, disinvestment, with the Government wanting to slowly move away from direct involvement in production. This will reduce GoI's share of dividend from the total dividend paid by such units. However, improved profitability and accountability in such units would make up for such fall in revenues.

Capital Receipts

Recovery of Loans and Advances

42. The non debt capital receipts have two major components viz. Recovery of loans and advances and the Disinvestment receipts. The recovery of loans and advances are estimated at ₹ 12199 crore in BE 2018-19. With no fresh on-lending to the States except the back to back transfer of the loans taken for Externally Aided Projects (EAP), the receipts under this head are showing a gradual declining trend. Moreover, the limited receipts on this count would be used in repaying our liabilities of past external loans. The other source of recovery of loans is from the public sector enterprises (currently no loans are extended to Public Sector Enterprises except for revival or in cases of settlement of court cases), for repayment of loans earlier extended to them. However, the repayment of loans by the public sector enterprises is impacted on account of non-recovery from the loss making and sick public sector enterprises. Taking into account the repayments due from the States and the actual trends of receipts from the public sector enterprises, the amount of receipts estimated in 2019-20 and 2020-21 is kept at Rs.10,000 crore in each of these two years.

Other non-debt capital receipts

43. Disinvestment receipts forms a major share of non-debt capital receipts. These accrue on account of sale of the Governmental share in the public sector enterprises including the strategic sale of assets. In BE 2017-18, the disinvestment receipts were supposed to be ₹ 72500 crore. In RE 2017-18 the total disinvestment receipts are estimated at ₹ 100000 crore. This amount is anticipated to reduce over the medium-term as the number of eligible disinvested companies reduces. Hence, the disinvestment receipts have been budgeted at ₹ 80000 crore in BE 2018-19 and projected at ₹ 60000 crore each in 2019-20 and 2020-21.

Borrowings—Public Debt and other Liabilities:

44. The gross and net market borrowing by the Government of India (GoI) through dated securities, excluding buyback/switches were budgeted at ₹ 5,80,000 crore and ₹ 4,23,226 crore, respectively, in 2017-18, which represented decrease of 0.3 per cent in gross and decrease of 0.5 per cent in net borrowing, respectively, over the borrowings of ₹ 5,83,045 crore and ₹ 4,08,199 crore in the FY 2016-17. In BE 2017-18, net market borrowings through dated securities were budgeted to finance 77.4 per cent of Gross Fiscal Deficit (GFD). Other sources of the GFD financing such as Treasury Bills, small savings collections, state provident funds, net external assistance and cash draw down were budgeted to finance the remaining 22.6 per cent of the GFD. The realization from external assistance was lower by 24.5 per cent than budget estimates whereas realization from State Provident Fund has been marginally higher. In view of more expenditure and low realization under non-tax revenue head.

45. In RE 2017-18 to finance the enhanced FD targets of 3.5 per cent of GDP, amounting to ₹ 594849 crore the Government will resort to total net market borrowings (G-Secs + T-bills) of ₹ 479864 crore. The rest of the deficit is proposed to be financed through a combination of issue of securities against small savings collections (₹ 102628 crore), State Provident Funds receipts (₹ 15000 crore), accretions under Reserve Fund, Deposits & Advances (₹ 34318 crore). An amount of ₹ 2418 crore from external debt is proposed to finance the FD. It is envisaged that the Government will build cash balances of ₹ 39379 crore at the end of the financial year.

46. In BE 2018-19, to finance the targeted FD of 3.3 per cent of GDP, amounting to ₹ 624276 crore the Government will resort to total net market borrowings (G-Secs + T-bills) of ₹ 407120 crore. The rest of the deficit is proposed to be financed through a combination of issue of securities against small savings collections (₹ 75,000 crore), State Provident Funds receipts (₹ 17000 crore), accretions under Reserve Fund, Deposits & Advances (₹ 84679 crore) etc. It is envisaged that the Government will draw down cash of ₹ 43066 crore at the and of FY 2018-19.

47. The MTFP statement projects a fiscal deficit at 3.1 per cent and 3.0 per cent of GDP in FY 2019-20 and 2020-21 respectively. The borrowings are expected to reduce over the medium –term with gradual fiscal consolidation and as the GST stabilizes and Government revenues pick up momentum. With contraction of Government deficit, there will be more room for private investment and capital inflows. It is expected that private investment would pick-up following Government's sustained push on Capital expenditure in last few years. This will also ease inflationary pressure providing comfort to RBI for easing monetary policy.

48. Debt-GDP ratio has stabilized in recent years after witnessing a consistent decline from 61.4 per cent in 2001-02, particularly after FRBM Act came into effect. The pause in declining trend, despite fiscal consolidation by the Government, is primarily on account of lower nominal GDP growth numbers. In RE 2017-18, total outstanding liabilities of the Government are estimated at 50.1 per cent of GDP which will reduce to 48.8 per cent by the end of 2018-19. Continuing the declining trend, it is likely to further come down to about 46.7 per cent in 2019-20 and 44.6 per cent by the end of 2020-21. 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

49. After the plan and non-plan merger that was effected from the Budget of 2017-18, the artificial bifurcation of expenditure has been removed completely. It is expected that with the presentation of budget in the capital and revenue based classifications, there will be more efficient use of public resources. The focus on revenue-capital classification is essential for assessing the desirable levels of operating costs of the Government for adequate funding. This classification is also mandated by the Constitution.

50. The total expenditure of the Centre is estimated at ₹ 2442213 crore in BE 2018-19 with an increase of ₹ 224463 crore or 10.1 per cent over the revised estimates of 2017-18. As a percentage of GDP, the total expenditure had climbed down from the high of 15.8 per cent of GDP in 2009-10 to 13.2 per cent of GDP in RE 2017-18. In Budget 2018-19, the total expenditure of the Government is estimated to taper down to 13 per cent of GDP. In the medium term these percentages are anticipated to taper further to 12.7 per cent of GDP each in 2019-20 and 2020-21.

Revenue Account

51. The total revenue expenditure estimated in Budget 2018-19 is ₹ 2141772 crore which is an increase of ₹ 197467 crore or 10.2 per cent over the revised estimates of 2017-18. The revenue expenditure which was estimated at 85.6 per cent of the total expenditure at the budget stage of 2017-18 has increased to 87.7 per cent in the revised estimates of 2017-18. It is expected to come down to about 87 per cent in 2020-21.

52. The major components of the revenue expenditure of the Government include Interest payments, Subsidies, Salaries and Pensions, Defence revenue expenditures, expenditure on Central Police Organizations and the revenue transfers made to the State/UT Governments in the form of Finance Commission grants, Centrally Sponsored Schemes and Other Transfers. 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

53. Interest payments constitute the largest component of Centre's revenue expenditure. In BE 2017-18, interest payments were estimated at ₹ 523078 crore. This constituted 34.5 per cent of the revenue receipts of the Centre. In RE 2017-18 interest payments are estimated to be ₹ 530843 crore and this ratio is expected to be 35.3 per cent of the revenue receipts of the Centre. In BE 2018-19 it is anticipated there will be a slight let up in the ratio with the ratio of interest payments to the total revenue receipts of the centre declining to 33.4 per cent.

54. The interest payments projections in the medium term are expected to be benign, partly because of the successful inflation management by the RBI. The total interest payments outgo as a percentage of total revenue receipts is expected to 31.6 per cent in 2019-20 and 29.8 per cent in 2020-21. One of the main risks of the above projections is the impact of any increase in petroleum and other oil prices on the inflation situation in the country.

Major Subsidies

55. The expenditure on Major subsidies on Food, Fertilizer and Petroleum remains the second most significant component of revenue expenditure. The expenditure on major subsidies was estimated to ₹ 240339 crore in BE 217-18. In RE 2017-18 this figure is anticipated to show a decline to ₹ 229716 crore. Though as a per cent of GDP these remain unchanged at 1.4 per cent, in the medium term there is an anticipation that this figure may slowly climb down. In BE 2018-19, major subsidies have been estimated at

₹ 264336 crore which shows an increase of ₹ 34620 crore compared to the RE 2017-18. As a per cent of GDP, this also works out to 1.4 per cent. However, in the medium term this figure is estimated to taper to 1.3 per cent and 1.2 per cent in 2019-20 and 2020-21 respectively.

56. Government has initiated measures for subsidy reform 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 etc. The reform measures initiated for major subsidies are discussed in detail in the fiscal policy strategy statement. It is expected that with active policy reforms gaining momentum in the medium term, the budgetary outgo on Major subsidies as a per cent of GDP will gradually come down.

Defence Services

57. The Defence Services revenue expenditure constitute mainly, expenditure on salaries, other establishment related items including Stores, works related maintenance expenditures, transport and other miscellaneous expenditure. The revised estimates of Defence Service revenue expenditure is ₹ 180608 crore against the budgeted estimates of ₹ 175861 crore. In BE 2018-19, it is estimated at ₹ 188723 crore. The increase is on account of additional allocations provided towards both salaries as well as other operational revenue expenses. The increase in defence revenue expenditure in BE 2018-19 is 4.5 per cent over RE 2017-18. The revenue component of Defence services is projected to increase by about 9.7 per cent in 2019-20 and 11 per cent in 2020-21.

Finance Commission Grants

58. The Finance Commission grants are given to the State Governments under the statutory provisions under Article 275(1) of the Constitution. The 14th Finance Commission had recommended grants under this Constitutional provision in relation to revenue deficit grants, Grants in aid for State disaster response funds and Grants in aid for the rural and urban local bodies. The Finance Commission grants in BE 2018-19 are estimated at ₹ 109374 crore. In 2019-20, these statutory Grants are estimated as per recommendations of the 14th Finance Commission at ₹ 133678 crore. The FY 2019-20 will be the last year of 14th Finance Commission award period. However, for the projections in FY 2020-21, the FC grants have been assumed at the level of previous year.

Pension

59. The incidence of pension payments arises mainly in three Demands for Grants in the Government of India viz. Defence (Pensions), Civil (Pensions) and Department of Telecom. While Civil (Pensions) caters to all departments, the other two demands cater to pension expenditures in relation to specific Ministries/ Departments. The expenditure on pensions is estimated to increase from ₹ 131201 crore in BE 2017-18 to ₹ 147387 crore in RE 2017-18, mainly on account of implementation of 7th Pay Commission recommendations. In Budget estimates of 2018-19 the total expenditure on pensions is estimated at ₹ 168466 crore which is 0.9 per cent of estimated GDP for the year. This includes a provision of ₹ 108853 crore for Defence pensions, ₹ 46378 crore for Civil pensions and ₹ 11676 crore for Telecom pensions in BE 2018-19. The total expenditure on pensions is estimated in the medium term as a ratio of GDP to about 0.9 per cent in 2019-20 and 0.8 per cent of GDP in 2020-21.

Capital Outlay

60. The total capital expenditure of the Centre was ₹ 286282 crore in 2016-17 (actuals). In RE 2017-18 the capital expenditure of the Centre has reduced to ₹ 273445 crore which is a reduction of 4.5 per cent over 2016-17 (actuals) and constitutes 12.3 per cent of the total expenditure estimated in the revised estimates of 2017-18. The provision for capital expenditure in BE 2018-19 is ₹ 300441 crore which constitutes 12.3 per cent of the total expenditure estimated for the year. In the medium term the share of capital expenditure in total expenditure is projected to increase 12.6 per cent in 2019-20 and 12.9 per cent in 2020-21. However, for a holistic perspective of the Central Government expenditure of capital nature, it would be useful to review the status of the Internal and Extra Budgetary Resources (IEBR) estimated to be deployed by the Central Government public sector enterprises and the commercial departmental undertakings. The IEBR of the Central public sector enterprises was estimated at ₹ 385027 crore in BE 2017-18 which is now estimated at ₹476859 crore in the revised estimates for the year. In BE 2018-19, the total IEBR is estimated at ₹ 478271 crore. Besides, the Government is now financing important expenditure of Capital nature through Extra Budgetary Resources (EBR) where borrowing would be allowed for the purpose and which shall be met through budgetary allocations to the Ministries/ Departments.

Assessment of sustainability relating to

1. The balance between revenue receipts and revenue expenditure:

61. The total revenue receipt of the Centre is estimated at ₹ 1505428 crore in the revised estimates of 2017-18. In the revised estimates of 2017-18, the revenue expenditure is estimated to increase by ₹ 107371 crore over the budgeted estimates of 2017-18. As a result, the revenue deficit as a percentage of GDP is estimated to increase from 1.9 per cent to 2.6 per cent of GDP in RE 2017-18. This is case of one-off blip. In BE 2018-19 the Revenue deficit is estimated at 2.2 per cent of GDP. In the medium term this figure is projected to follow a tapering trend touching 1.8 per cent in 2019-20 and 1.6 per cent in 2020-21 respectively. It may be mentioned that in a country with numerous development deficits such as India, an undue focus on revenue deficits may be detrimental to equitable development. Human capital and its development by focusing on schools and hospitals and also maintenance of assets, which are in nature of Revenue expenditure, are as important to improve productivity as buildings and roads.

62. With this focus in mind the Government has decided to remove the RD as a target for fiscal prudence. In its place it has decided to look at the sustainability of the government expenditure in a holistic manner. Nonetheless, efforts will continue to achieve revenue/expenditure balance in the Budget.

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

63. The ratio of revenue deficit to fiscal deficit broadly measures the extent of borrowings used for financing current expenditure of the Government. The ratio level of 66.6 per cent in BE 2018-19 was better than the ratio of 73.8 per cent in RE 2017-18. In the medium term this ratio is anticipated to improve to about 59 per cent in 2019-20 and 55 per cent in 2020-21 respectively. The high levels of revenue deficit as explained over the years is largely on account of structural reasons, whereby the Centre's expenditure allocations for creation of capital assets are budgeted largely for implementation in State domains or by the implementing agencies, with funds transferred in the form of revenue grants.