Fiscal Developments

Economic Survey 2019-20: Volume 2: Chapter 2

Course : SEC – Contemporary Economic Issues

B.A. Hons Economics, Semester IV

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BUDGET

Receipts

Revenue

Tax

- CT
- IT
- CGST

Non Tax

- Interest Received
- Dividend*
- User Charges
- External Grants

Capital

Non Debt Making

- Disinvestment Proceeds
- Loan Repayment
- Strategic Sales

Debt Making

- Market Borrowing
- Borrowing from RBI
- Loans from PSU
- External Debt

FISCAL DEFICIT

Expenditure

Revenue

a. Interest Payments
b. Subsidies
c. Establishment Exp. (Salaries & Pension)
d. Govt. Services (Central sector Schemes – b)
e. CSS
f. Transfer to States

a. Grants to States for Capital creation (art. 275)

Remove for Effective Revenue Deficit

Capital

- Centre's expenditure (general, social, economic services)
- Loans & advances to States/ Foreign

TAXONOMY OF GOVERNMENT LIABILITIES

PUBLIC DEBT

Internal Debt

- **Dated Securities:** Fixed coupon securities of short, medium and long term maturity which have a specified redemption date.
- **Treasury-Bills:** Zero coupon securities issued at discount, redeemed in face value: 91,182 and 364 day.
- **14 Day Treasury Bills**
- **Securities issued to International Financial Institutions:** India's contributions
- **Securities issued against 'Small Savings':** deposits under small savings schemes credited to the National Small Savings Fund (NSSF). Net NSSF invested in special Government securities.
- **Market Stabilization Scheme (MSS) Bonds**: for sterilization operations

External Debt

- ***Multilateral & Bilateral*** debt
- ***IMF***
- ***Export Credit***
- ***Commercial Borrowings***
- ***NRI Deposits***
- ***Rupee Debt***(currency risk: Creditor)
  - ***a. Masala Bonds***
  - b. Rupee based NRI Deposits
  - c. FPI investment in T-bills, Dated Securities & Corporate Debt

Govt. planning to tap this to ***reduce Crowding out effect*** in domestic market, free credit for private investment

Liabilities in Public Account

- liability to repay the money received

a. NSSF

b. State PF

c. Reserve Funds & Deposits

- ***Govt's reliance on NSSF grown***: 1.8% in FY13, NSSF financed 19.7% of FD in FY19
- done to ***calm the bond markets yield***
- attractiveness of ***small savings schemes and demonetisation***, the NSSF flush with funds Net NSSF funds stood at Rs 1.57 lakh crore in FY18, from just Rs 3,094 crore in FY12

Fiscal Developments

02
CHAPTER

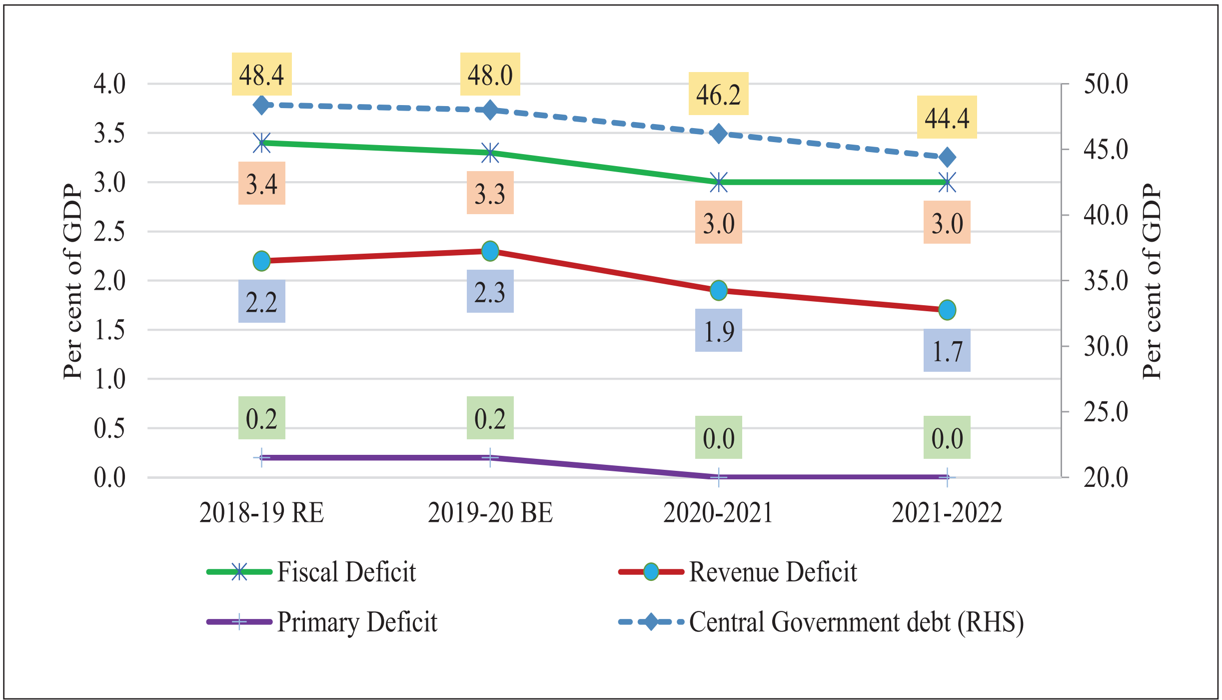
The year 2019-20 has been challenging for the Indian economy owing to the decelerating growth rate experienced in the first half of the year. Amongst the various reforms introduced during the year to promote growth and investment, reduction in corporate income tax rate was a major structural reform. The fiscal policy 2019-20 was characterized by sluggish growth in Tax revenue relative to the budget estimates. The Non-Tax revenue registered a considerably higher growth in the first eight months of this financial year compared to the same period last year. On the expenditure side, Total Expenditure has increased at a considerable pace during April to November 2019-20 with Capital Expenditure growing at roughly three times the growth registered during the same period last year. The fiscal deficit as a per cent of Budget Estimate during the first eight months of this financial year was at a similar level as that in the corresponding period last year. Going forward, considering the urgent priority of the Government to revive growth in the economy, the fiscal deficit target may have to be relaxed for the current year.

2.1 Amidst the global setting of subdued growth and intensified trade tensions, the Budget 2019-20 presented in July 2019 reaffirmed Government's commitment to growth with macroeconomic stability.

2.2 The Medium Term Fiscal Policy (MTFP) Statement presented with the Budget 2019-20, pegged the fiscal deficit target for 2019-20 at 3.3 per cent of GDP, which was further expected to follow a gradual path of reduction and attain the targeted level of 3 per cent of GDP in 2020-21, and continue at the same level in 2021-22. It was further projected that Central Government liabilities will come down to 48.0 per cent of GDP in 2019-20. The declining path of Central government debt was expected to continue with debt reaching 46.2 per cent of GDP and 44.4 per cent of GDP in 2020-21 and 2021-22, respectively. This declining debt trajectory was expected based on a stable inflation regime and reduction in fiscal deficit. The fiscal indicators of deficits and debt as presented in the MTFP (July 2019) may be seen in Figure 1.

2.3 This chapter reviews the fiscal developments in India during the year 2019-20. It begins with discussion of Central Government finances over the recent years, followed by analysis of the fiscal performance during the current financial year based on data released by the Controller General of Accounts (CGA) upto November 2019. Thereafter, it briefly touches upon

Figure 1: Medium Term Fiscal Policy Statement: Fiscal Indicators



Source: Medium Term Fiscal Policy Statement, Budget 2019-20 (July 2019)

the combined fiscal health of States and finally concludes with a snapshot of General Government finances, and an outline of the outlook for 2020-21.

CENTRAL GOVERNMENT FINANCES

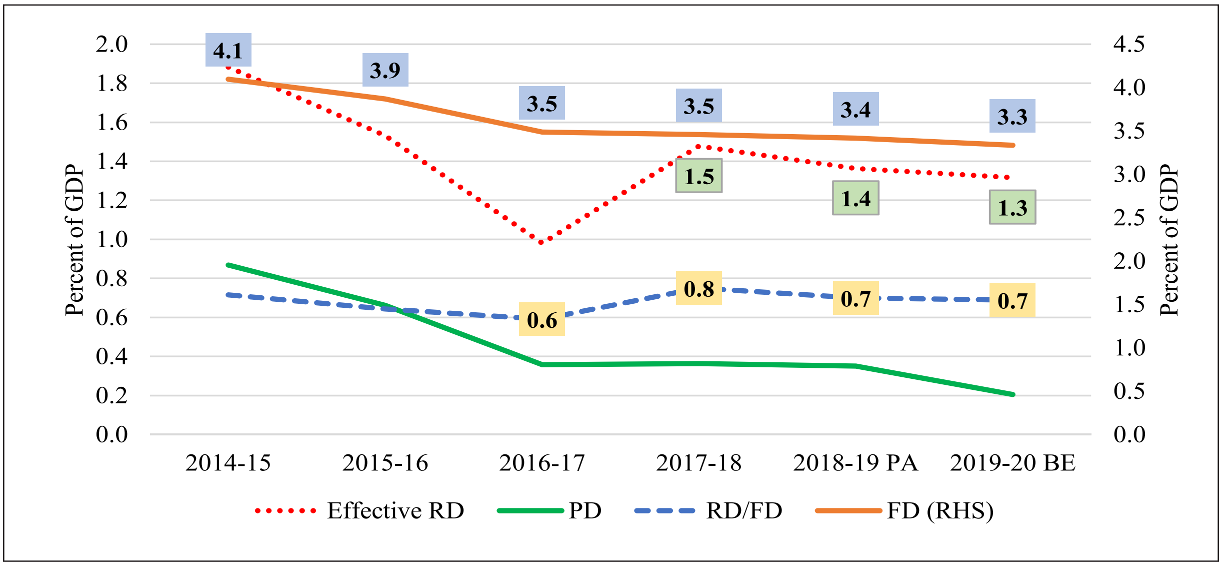
2.4 Following the path of fiscal consolidation, the Union Budget 2019-20 sought to contain the fiscal deficit, which is reflective of the total borrowing requirements of Government, at ₹ 7,03,760 crore i.e. 3.3 per cent of the GDP, as against 3.4 per cent of GDP in 2018-19 Provisional Actuals (PA) (refer to Figure 2). The ratio of revenue deficit to fiscal deficit broadly measures the extent of borrowings used for financing current expenditure of the Government. In 2019-20 BE, it was pegged at roughly the same level as in 2018-19 PA (Figure 2).

2.5 Major fiscal indicators of the Central Government and their growth rates are presented in Table 1 and Table 2, respectively. The prominent changes in the Central Government finances evident from these tables include improvement in the tax to GDP ratio and reduction in primary deficit as a per cent of GDP.

Trends in Receipts

2.6 Central government receipts can broadly be divided into Non-debt and debt receipts. The Non-debt receipts comprise of Tax revenue, Non-Tax revenue and Non-debt Capital receipts like recovery of loans and disinvestment receipts. Debt receipts mostly comprise of market borrowings and other liabilities, which the government is obliged to repay in the future. The Budget 2019-20 targeted a high growth in Non-debt receipts of the Central Government, which was driven by high expected growth in Net Tax

Figure 2: Trends in Deficits



Source: Union Budget Documents & CGA BE: Budget Estimate, PA: Provisional Actuals FD: Fiscal Deficit; RD: Revenue Deficit; PD: Primary Deficit.
Note: RD/FD has no units.

Table 1: Central Government's Fiscal Parameters

	2014-15	2015-16	2016-17	2017-18	2018-19 PA	2019-20 BE
(in ₹ Lakh crore) (Figures in parenthesis are as a per cent of GDP)						
Revenue Receipts	11.01	11.95	13.74	14.35	15.53	19.63
	(8.8)	(8.7)	(8.9)	(8.4)	(8.2)	(9.3)
Gross Tax Revenue	12.45	14.56	17.16	19.19	20.8	24.61
	(10)	(10.6)	(11.2)	(11.2)	(10.9)	(11.7)
Net Tax Revenue	9.04	9.44	11.01	12.42	13.17	16.5
	(7.2)	(6.9)	(7.2)	(7.3)	(6.9)	(7.8)
Non-Tax Revenue	1.98	2.51	2.73	1.93	2.36	3.13
	(1.6)	(1.8)	(1.8)	(1.1)	(1.2)	(1.5)
Non-debt Capital Receipts*	0.51	0.63	0.65	1.16	1.13	1.2
	(0.4)	(0.5)	(0.4)	(0.7)	(0.6)	(0.6)
Non-debt Receipts	11.53	12.58	14.4	15.51	16.66	20.83
	(9.2)	(9.1)	(9.4)	(9.1)	(8.8)	(9.9)
Total Expenditure	16.64	17.91	19.75	21.42	23.15	27.86
	(13.3)	(13.0)	(12.9)	(12.5)	(12.2)	(13.2)
Revenue Expenditure	14.67	15.38	16.91	18.79	20.07	24.48
	(11.8)	(11.2)	(11.0)	(11.0)	(10.6)	(11.6)

Capital Expenditure	1.97	2.53	2.85	2.63	3.08	3.39
	(1.6)	(1.8)	(1.9)	(1.5)	(1.6)	(1.6)
Fiscal Deficit	5.11	5.33	5.36	5.91	6.49	7.04
	(4.1)	(3.9)	(3.5)	(3.5)	(3.4)	(3.3)
Revenue Deficit	3.66	3.43	3.16	4.44	4.54	4.85
	(2.9)	(2.5)	(2.1)	(2.6)	(2.4)	(2.3)
Primary Deficit	1.08	0.91	0.55	0.62	0.67	0.43
	(0.9)	(0.7)	(0.4)	(0.4)	(0.4)	(0.2)
Memo Item						
GDP at Market Price	124.68	137.72	153.62	170.95	190.1	211.01

Source: Union Budget Documents & CGA
BE: Budget Estimate, PA: Provisional Actuals
*includes disinvestment proceeds

Table 2: Growth rate of Central Government's Fiscal Indicators (in per cent)

Items	2014-15	2015-16	2016-17	2017-18	2018-19 PA	2019-20 BE*
Revenue Receipts	8.5	8.5	15.0	4.4	8.2	26.4
Gross Tax Revenue	9.3	16.9	17.9	11.8	8.4	18.3
Net Tax Revenue	10.8	4.4	16.7	12.8	6.0	25.3
Non-Tax Revenue	-0.5	27.0	8.6	-29.4	22.3	32.9
Non-debt Capital Receipts#	23.0	22.3	3.8	77.0	-2.5	6.3
Non-debt Receipts	9.1	9.1	14.4	7.7	7.4	25.0
Total Expenditure	6.7	7.6	10.3	8.4	8.1	20.4
Revenue Expenditure	6.9	4.8	9.9	11.1	6.8	21.9
Capital Expenditure	4.8	28.6	12.5	-7.5	16.9	10.0

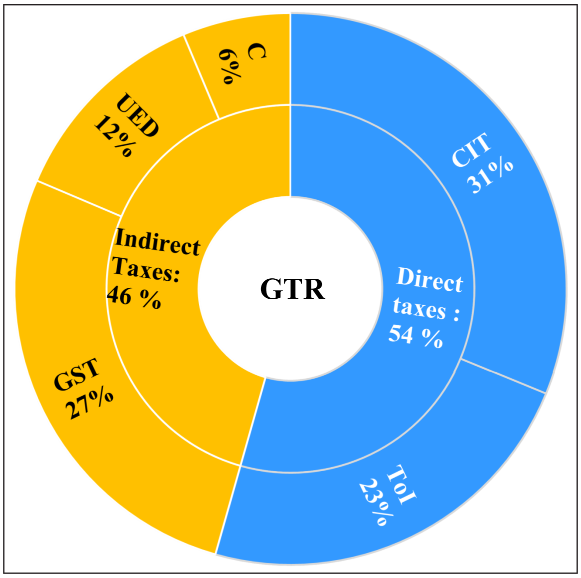
Source: Union Budget Documents & CGA
BE: Budget Estimate, PA: Provisional Actuals
* Rate of growth vis-à-vis 2018-19 PA
#includes disinvestment proceeds

revenue and Non-Tax revenue (refer to Table 2)

Tax Revenue

2.7 Budget 2019-20 estimated the Gross Tax Revenue (GTR) to be ₹24.61 lakh crore which is 11.7 per cent of GDP. This builds into growth of 9.5 per cent over the revised estimates (RE) of 2018-19 and 18.3 per cent over 2018-19 PA. The direct taxes, comprising mainly of corporate and personal income tax, constitute around 54 per cent of GTR. These were envisaged to grow at 11.3 per cent relative to 2018-19 RE and 18.7 per cent relative to 2018-19 PA. On the other hand, the indirect taxes were expected to grow at 7.3 per cent vis-a-vis 2018-19 RE and 20.6 per cent as against 2018-19 PA. The contribution of different taxes in GTR for 2019-20 BE is shown in Figure 3.

Figure 3: Composition of taxes in Gross Tax Revenue in 2019-20 BE



Source: Union Budget Documents & CGA
GTR: Gross Tax Revenue, CIT: Corporation Tax, ToI: Taxes on Income other than Corporation Tax (includes STT), C: Customs, UED: Union Excise Duties, GST: Goods and Services Tax

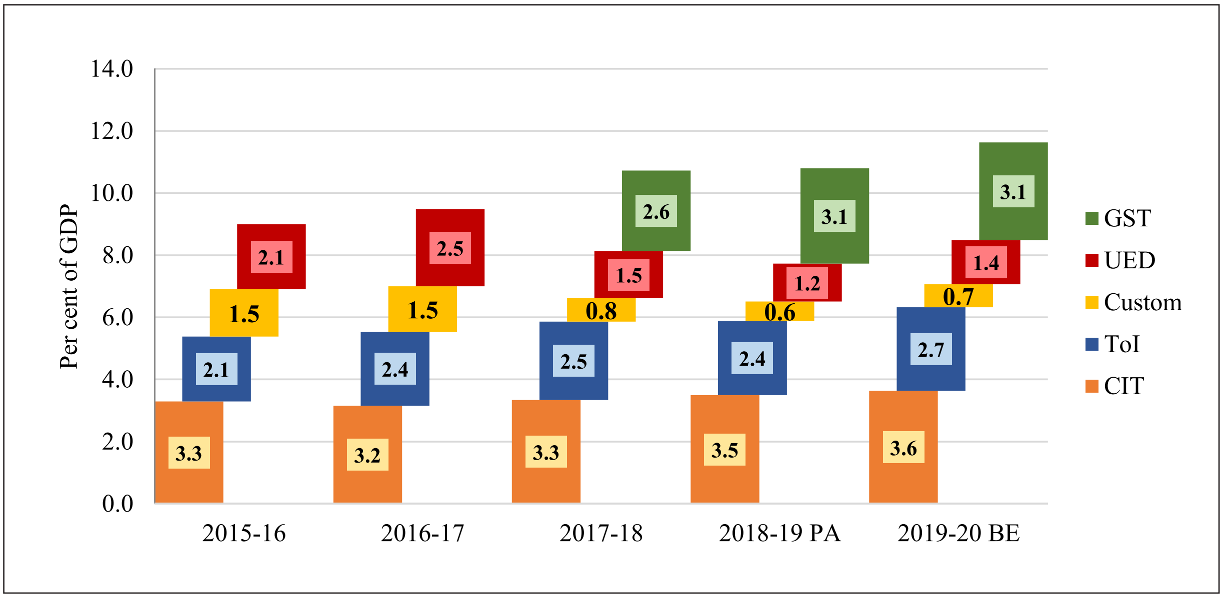
2.8 The direct taxes were estimated at 6.3 per cent of GDP in 2019-20 BE. Trends in major taxes in relation to GDP displayed in Figure 4 show that receipts from corporate and personal income tax have improved over the last few years. Better tax administration, widening of TDS carried over the years, anti-tax evasion measures and increase in effective tax payers base have contributed to direct tax buoyancy. Widening of tax base due to increase in the number of indirect tax filers in the GST regime has also led to improved tax buoyancy. Going forward, sustaining improvement in tax collection would depend on the revenue buoyancy of GST. Major measures taken for indirect and direct taxes in the year 2019-20 are presented at Annex.

2.9 During the year 2019-20 (upto November), the actual realization of Net Tax Revenue to the Center has been ₹ 7.51 lakh crore, which is 45.5 per cent of BE.

Non-Tax Revenue

2.10 Non-Tax revenue comprises mainly of interest receipts on loans to States and

Figure 4: Taxes as a percent of GDP



Source: Union Budget Documents & CGA
Note: 1. CIT: Corporation Tax, ToI: Taxes on Income other than Corporation Tax (includes STT), UED: Union Excise Duties, GST: Goods and Services Tax, 2. GST includes CGST, IGST and Compensation Cess

Table 3: Trends in Non-Tax Revenue of Central Government

	2014-15	2015-16	2016-17	2017-18	2018-19 PA	2019-20 BE
						(in ₹ Lakh crore)
Interest receipts	0.24	0.25	0.16	0.14	0.12	0.14
Dividends & Profits	0.90	1.12	1.23	0.91	1.13	1.64
External Grants	0.02	0.02	0.01	0.04	0.01	0.01
Others	0.83	1.12	1.32	0.84	1.09	1.35
Non-Tax Revenue	1.98	2.51	2.73	1.93	2.36	3.13

Source: Union Budget Documents & CGA
BE: Budget Estimate, PA: Provisional Actuals

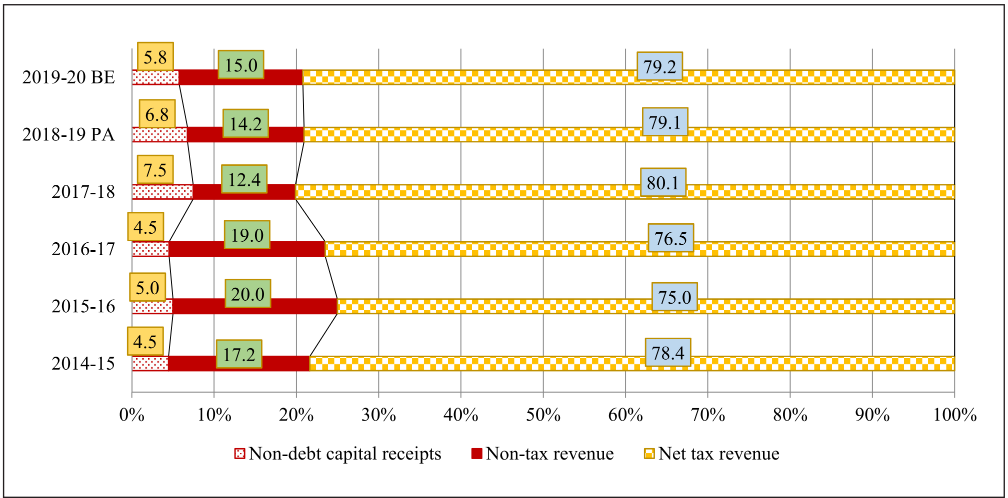
Union Territories, dividends and profits from Public Sector Enterprises including surplus of Reserve Bank of India (RBI) transferred to Government of India, receipts from services provided by the Central Government and external grants. The Budget 2019-20 aimed to raise ₹ 3.13 lakh crore of Non-Tax revenue, 1.5 per cent of the GDP, 0.3 percentage points more than that in 2018-19 PA. Roughly, two third of this increase in the BE is envisaged from dividends and profits especially surplus transferred by RBI (refer to Table 3).

2.11 As against the 2019-20 BE of ₹3.13 lakh crore for Non-Tax Revenue, the actual realization upto November 2019 has been 74.3 per cent of the BE.

Non-debt Capital receipts

2.12 Non-debt Capital receipts mainly consist of recovery of loans and advances, and disinvestment receipts. Over the last few years, the contribution of Non-debt Capital receipts have improved in the total pool of Non-debt receipts (Figure 5). They have been pegged at ₹1.20 lakh crore, 0.6 per cent of GDP, in 2019-20 BE owing to an envisaged growth of 6.3 per cent over 2018-19 PA. The receipts from recovery of loans and advances

Figure 5: Composition of Non-debt receipts of Central Government



Source: Union Budget Documents & CGA
BE: Budget Estimate, PA: Provisional Actuals

have been declining over the years and are pegged at 12.4 per cent of Non-debt Capital receipts in 2019-20 BE. The major component of Non-debt Capital receipts is disinvestment receipts that accrue to the government on sale of public sector enterprises owned by the government (including sale of strategic assets). Government aimed at mobilising ₹ 1.05 lakh crore on account of disinvestment proceeds as per 2019-20 BE.

2.13 During the year 2019-20 (upto November), the actual realization of Non-debt Capital receipts to the Centre has been ₹ 0.29 lakh crore as against BE of ₹ 1.20 lakh crore. Given the significant pipeline of deals that are in process, realizations are likely to accelerate.

Trends in Expenditure

2.14 It is imperative for any developing economy to optimally allocate the available resources without compromising on the crucial developmental and macroeconomic goals. As India's tax to GDP ratio is low, Government faces the challenge of providing sufficient funds for investment and infrastructure expansion while staying within the bounds of fiscal prudence. Therefore, improving the composition and quality of expenditure becomes significant.

2.15 The composition of government expenditure in the last few years reveals that expenditure on defence services, salaries, pensions, interest payments and major subsidies account for more than sixty per cent of total expenditure. Several initiatives have been undertaken by the Ministry of Defence to improve efficiency and utilization of defence expenditure, promote self-reliance, and encourage private sector participation in the defence sector. Expenditures on salaries, pensions and interest payments are, generally speaking, committed in nature and therefore have limited headroom for creation of additional fiscal space. Budgetary expenditure on subsidies has seen significant moderation through improved targeting. There is still headroom available for further

Table 4: Major Items of Revenue Expenditure

Items	2014-15	2015-16	2016-17	2017-18	2018-19 PA*	2019-20 BE
						In ₹ lakh crore
Revenue Expenditure	14.67	15.38	16.91	18.79	20.07	24.48
	(6.9)	(4.8)	(9.9)	(11.2)	(6.8)	(21.9)
of which,						
a. Salaries (pay & allowances)	1.34	1.45	1.77	1.94	2.18	2.35
	(13.6)	(7.9)	(22.6)	(9.3)	(12.7)	(7.5)
b. Pensions	0.94	0.97	1.31	1.46	1.60	1.74
	(25.0)	(3.4)	(35.8)	(10.9)	(9.9)	(8.9)
c. Interest payment	4.02	4.42	4.81	5.29	5.83	6.60
	(7.5)	(9.7)	(8.8)	(10.0)	(10.2)	(13.4)
d. Major subsidies	2.49	2.42	2.07	1.91	1.97	3.02
	(1.6)	(-2.7)	(-14.8)	(-7.5)	(3.1)	(53.1)
e. Defence Services	1.40	1.46	1.65	1.86	1.96	2.02
	(12.9)	(3.9)	(13.3)	(12.5)	(5.3)	(3.0)

Source: Union Budget Documents & CGA
BE: Budget Estimate, PA: Provisional Actuals
Numbers in parenthesis are growth rates
*The figure for Salaries (Pay & allowances) for 2018-19 is Revised Estimate (RE).

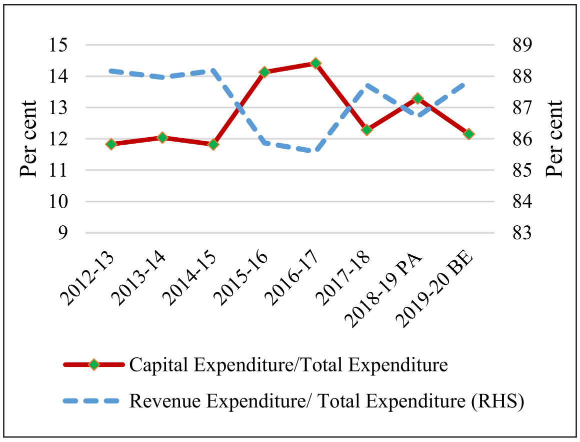
rationalization of subsidies especially food subsidy. There has been considerable restructuring and reclassification of Central sector and Centrally Sponsored Schemes in the recent years

2.16 Budget 2019-20 estimated total expenditure at 27.86 lakh crore, comprising revenue expenditure of ₹24.48 lakh crore and capital expenditure of ₹3.39 lakh crore, which work out to be 11.6 per cent and 1.6 per cent of GDP, respectively. Analysis of Budget Estimates of expenditure in 2019-20 over 2018-19 PA suggests that Central Government budgetary expenditure is envisaged to increase by one percentage point of GDP in 2019-20. The entire increase is on revenue account with capital spending remaining unchanged as per cent of GDP. Within revenue expenditure, more than forty per cent of the increase is explained by increase in interest payments and major subsidies (refer to Table 4).

2.17 The expenditure on major subsidies, which is a significant component of non-committed revenue expenditure was pegged at 1.4 per cent of GDP in 2019-20 BE. The budgetary expenditure on major subsidies has shown a declining trend over the past years. In 2019-20 BE, the major subsidies are estimated at ₹ 3.02 lakh crore owing to requirements for food, fertilizer and petroleum subsidies.

2.18 The quality of expenditure is captured by the share of capital expenditure in total expenditure. Figure 6 shows that share of capital expenditure in total expenditure is envisaged to decline roughly by a percentage point in 2019-20 BE over 2018-19 PA. However, capital spending in 2019-20 BE is estimated to grow by 10 per cent over 2018-19 PA to reach ₹3.39 lakh crore. Major sectors apart from defence services, that account for bulk of capital expenditure allocation in 2019-20 BE include internal security, investments in Financial Institutions, pass through assistance for metro projects, space technology and construction of Roads and Railways. Apart from budgetary spending, Extra Budgetary Resources (EBR) have also been mobilized to finance infrastructure investment since 2016-17. EBRs are those financial liabilities that are raised by public sector undertakings for which repayment of entire principal and interest is done from the Central Government Budget. Government has raised EBRs of ₹88,454 crore during three years from 2016-17 to 2018-19. It proposes to raise EBR of ₹57,004 crore in 2019-20 BE which is 0.27 per cent of GDP. These EBRs are not taken into account while calculating the Fiscal Deficit. However, they are considered in the calculations of Government Debt.

Figure 6: Share of Revenue and Capital Expenditure in Total Expenditure



Source: Union Budget Documents & CGA
BE: Budget Estimate, PA: Provisional Actuals.

Transfer to States

2.19 The Fourteenth Finance Commission (FFC) for the award period 2015-20 had made far-reaching changes to strengthen fiscal federalism in the country. Consequently, States have obtained larger fund transfers as well as greater autonomy to utilise funds as per their needs. Transfer of funds to States comprises essentially of three components: share of States in Central taxes devolved to the States, Finance Commission Grants, and Centrally Sponsored Schemes (CSS), and other transfers. Till 2013-14, funds for CSS were routed through two channels, the Consolidated Funds of the States and directly to the State implementing agencies. In 2014-15, direct transfers to State implementing agencies were discontinued and all transfers to States including for the CSS were routed through the Consolidated Funds of the States.

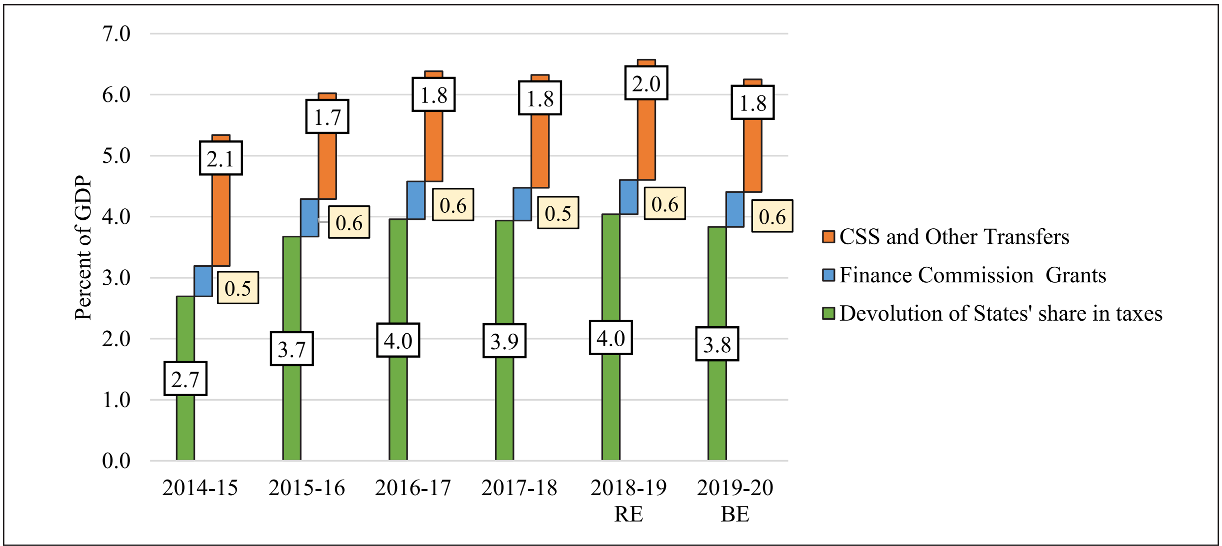
2.20 The total transfers to States are given in Table 5 and Figure7. Both in absolute terms, and as a percentage of GDP, total transfers to States have risen between 2014-15 and 2018-19 RE by 1.2 percentage points of GDP. The Budget 2019-20 envisages an increase in expected grants and loan to States by ₹73,963 crore relative to 2018-19 RE, on account of higher requirements under compensation to States for revenue losses on roll out of GST, grants to rural and urban bodies and releases under Samagra Shiksha.

Table 5: Transfers to States (in ₹ lakh crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19 RE	2019-20 BE
Devolution of States' share in Taxes	3.36	5.06	6.08	6.73	7.61	8.09
Finance Commission Grants	0.62	0.85	0.96	0.92	1.06	1.20
CSS and Other Transfers	2.68	2.39	2.77	3.16	3.71	3.90
Total transfers to States	6.66	8.29	9.81	10.81	12.38	13.19

Source: Union Budget Documents
BE: Budget Estimates, RE: Revised Estimates
Note: States includes only 29 States.

Figure 7: Central Government transfers to States



Source: Union Budget Documents
BE: Budget Estimates, RE: Revised Estimates
Note: States includes only 29 States.

Fiscal outcome in 2019-20 (upto November 2019) vis-à-vis 2019-20 BE

2.21 Indian economy registered a sluggish growth during first half of 2019-20. A series of measures were introduced by the Government during the financial year to boost the economy, which are expected to have a substantial direct and indirect impact on the fiscal performance of the economy.

2.22 The accounts for April to November 2019-20, released by the Controller General of Accounts, show that the fiscal deficit of the Central Government at end November 2019 stood at 114.8 per cent of the BE, same as in the corresponding period of the last year (Table 6)

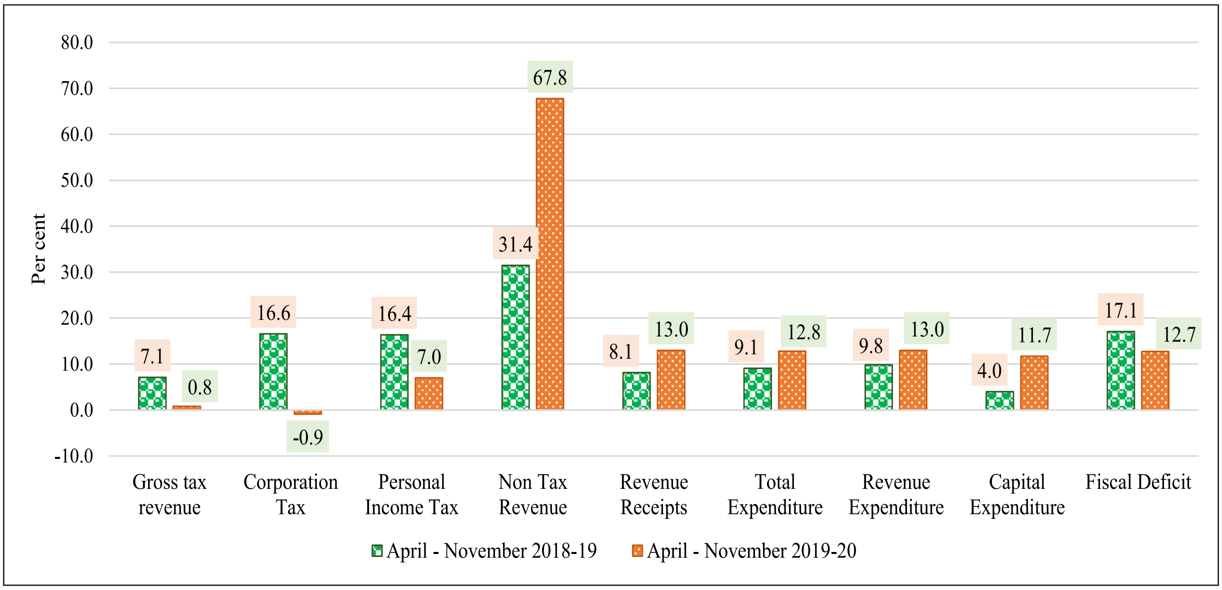
2.23 Revenue receipts have grown at a much higher pace during the current financial year (April to November 2019) over the corresponding period last year (Figure 8). Considerable growth in Non-Tax revenue, especially dividends and profits, which offset the low growth in Net Tax revenue, underlie it. Dividends and profits led by transfer from RBI grew at roughly three times in April-November 2019 over the same period last year. It was ₹1.58 lakh crore in April - November 2019 compared to ₹0.55 lakh crore in the same period last year.

Table 6: Fiscal Outcome for 2019-20 (till November 2019)

		2019-20 BE (In ₹ lakh crore)	April to November					
			In ₹ lakh crore		Percentage of respective BE		Growth over last year (per cent)	
			2018-19	2019-20	2018-19	2019-20	2018-19	2019-20
1	Revenue Receipts	19.63	8.70	9.83	50.4	50.1	8.1	13.0
2	Gross Tax Revenue	24.61	11.65	11.74	51.3	47.7	7.1	0.8
3	Assignment to States	8.09	4.32	4.22	54.8	52.1	12.1	-2.3
4	Tax Revenue (Net to Centre)	16.50	7.32	7.51	49.4	45.5	4.6	2.6
5	Non-Tax Revenue	3.13	1.39	2.33	56.6	74.3	31.4	67.8
6	Non-debt Capital receipts	1.20	0.26	0.29	28.5	24.2	-57.5	10.4
7	Non-debt receipts	20.83	8.97	10.12	49.3	48.6	3.4	12.9
8	Total Expenditure	27.86	16.13	18.20	66.1	65.3	9.1	12.8
9	Revenue Expenditure	24.48	14.22	16.06	66.4	65.6	9.8	13.0
10	Capital Expenditure	3.39	1.91	2.14	63.7	63.2	4.0	11.7
11	Revenue Deficit	4.85	5.51	6.23	132.6	128.4	12.6	13.0
12	Effective Revenue Deficit	2.78	4.17	4.94	188.8	177.8	15.3	18.5
13	Fiscal Deficit	7.04	7.17	8.08	114.8	114.8	17.1	12.7
14	Primary Deficit	0.43	3.68	4.66	759.9	1076.5	21.9	26.5

Source: CGA Monthly Accounts; BE: Budget Estimates

Figure 8: Growth rate of fiscal indicators in 2019-20 (upto November 2019)



Source: CGA Monthly Accounts

2.24 Net Tax revenue to the Centre, which was envisaged to grow at more than 25 per cent in 2019-20 BE relative to 2018-19 PA, grew at 2.6 per cent during April to November 2019, which was nearly half its' growth rate for the corresponding period last year. This is primarily owing to low growth in GTR of 0.8 per cent during first eight months of 2019-20 vis-a-vis 7.1 per cent growth for the corresponding period in 2018-19. Within direct taxes, personal income tax has grown at 7 per cent while corporate tax has registered a negative growth during the first eight months of the current financial year. This compares poorly with growth recorded by these taxes at 16.4 per cent and 16.6 per cent respectively, over the same period last year (Figure 8). Recently Government has undertaken major changes in the corporate tax rate which are given in Box 1.

Box 1: Major reform in corporate taxation

On Sept 20, 2019, the Government announced a major cut in the corporate income tax (CIT) rate applicable to the domestic companies. This was followed by the 'Taxation Laws (Amendment) Act, 2019 dated Dec 12, 2019, which introduced two new sections viz. 115BAA and 115BAB in the Income Tax Act. The existing companies have been given an option to forego certain deductions and exemptions availed under the Act and choose a new CIT rate structure with a maximum marginal rate (MMR), inclusive of surcharge and cess, of 25.17 per cent as against the existing MMR of 34.61 per cent. In order to give boost to the manufacturing sector, the new manufacturing companies registered on or after 1.10.2019 have been given an option to choose a CIT rate with MMR of 17.16 per cent. The new CIT rate structure is available with effect from the current financial year i.e. 2019-20. However the CIT rate applicable to the foreign companies remained unchanged. The table below gives an overview of the existing and new CIT rate structure applicable to the domestic companies for the financial year 2019-20.

Table- Comparison of existing and new rates of corporate income tax for domestic companies for the financial year 2019-20

	Existing rate		New rate	
	Criteria	Rate	Criteria	Rate
Base CIT rate	If Total turnover or gross receipt in the financial year 2017-18 does not exceed ₹ 400 Crore	25%	(a) If a company opts for section115BAA*	22%
	If a manufacturing company set up on or after 1.3.2016 opts for section 115BA		(b) If a manufacturing company set up on or after 1.10.2019 opts for section115BAB** and commences manufacturing on or before 31.03.2023.	15%
	If not covered by (a) or (b)	30%	If not covered by (a) or (b)	Old rate structure applicable
MAT rate	All companies	18.5%	If not in (a) or (b)	15%
			If in (a) or (b)	NIL
Surcharge rate	If Total Income not more than ₹1 crore	0%	All companies	10%
	If total income more than ₹ 1 crore but not more than ₹10 crore	7%		
	If total income is more than ₹10 crore	12%		
Cess rate	All companies	4%	All companies	4%

** Companies included under Section 115BAA: Existing domestic companies that opt for new CIT rate and satisfy the following pre-conditions:*

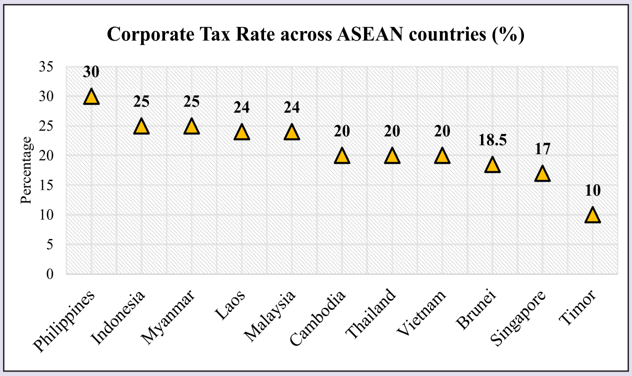
- *Deductions or exemptions are not claimed under section 10AA, or 32(1) (iia), or 32AD, or 33AB, or 33ABA, or 32(2AA)/(2AB) (1)(ii)/(iia)/(iii), or 35AD, or 35CCC, or 35 CCD, or under any provisions of Chap VI-A other than section 80JJAA.*
- *Set-off of carried forward / current losses or depreciation attributable to any of the aforesaid deductions is not availed.*
- *Only depreciation other than additional depreciation under section 32(1)(iia) is claimed*

*** Companies included under Section 115BAB: New manufacturing companies that are set up and registered on or after Oct 1, 2019, which bring in fresh investment, commence manufacturing on or before March 31, 2023 and satisfy certain pre-conditions including the aforesaid pre-conditions.*

Rationale behind the reform

All over the world, many countries had reduced CIT rate to attract investment and create employment opportunities. The act of reduction of CIT rate by other countries, in particular Asian developing countries, which compete with India to attract investments, provided an impetus to lower the CIT rates in India. It is expected that this would spur investment, stimulate growth and create job opportunities in India. A comparison of the CIT rates in ASEAN countries, with the reduced CIT rate in India (for new manufacturing companies in particular), presented in the figure below, shows that the CIT rate in India is now lower than most ASEAN countries. The stimulus provided by the corporate tax cut is also expected to have a multiplier effect on the economy. Fresh investments in the coming future are expected to not only result in creation of new jobs but also lead to increased income levels. As a result, tax collections are also likely to rise in the medium to long run.

Figure : Corporate Tax Rate across ASEAN countries



Who will benefit?

An analysis conducted by Tax Policy Research Unit (TPRU), based on income tax return (ITR) data of corporates for the financial year 2016-17, points out that most of the companies (99.1 per cent) have a gross turnover of below ₹ 400 crore (say small and medium companies) and are already taxed at the base CIT rate of 25 per cent. With surcharge and cess, their MMR varies from 26 per cent to 29.12 per cent. On the other hand, only 0.9 per cent of the companies i.e. 4,698 companies have gross turnover of over ₹ 400 crore (say large companies) and their MMR varies from 30.9 per cent to 34.61 per cent. Thus, the impact of CIT rate cut varies from gain of about 3.2 per cent to 13.5 per cent of the existing tax liability for small/medium companies to about 18.5 per cent to 27.3 per cent of the existing tax liability for large companies.

Source: Department of Revenue, Ministry of Finance

2.25 The indirect tax receipts have registered a growth of -0.9 per cent in the first eight months of this fiscal year. Gross GST collections, Centre and States taken together, was ₹ 8.05 lakh crore in April to November 2019, which is an increase of 3.7 per cent over the corresponding period last year. The GST collections for the Centre for the same period registered a growth of 4.1per cent over the corresponding period last year.

2.26 Notably, so far, during 2019-20, despite the rationalisation of GST rates, the gross GST monthly collections has crossed the mark of ₹ one lakh crore, for a total of five times, including the consecutive months of November 2019 and December 2019. An analysis to estimate the impact of GST rate rationalisation on GST revenue collection may be seen in Box 2. The increase in GST collections may be a result of concerted efforts taken by the government to improve tax compliance and Tax revenue collection. These include extensive automation of business processes, application of e-way bill mechanism, targeted action on compliance verification, enforcement based on risk assessment and proposed introduction of electronic invoice system. The details of reforms in GST may be seen at Annex 1. Amongst the reforms undertaken for increasing GST compliance, the GSTN has taken several initiatives to incorporate behavioural parameters to induce voluntary compliance by taxpayers. Some of these may be seen in Box 3.

Box 2: Vector Autoregression Analysis (VAR) of GST rate rationalisation on GST collections

Variable and Data

Variables: GDP, GST collection and GST rationalisation.

Variable description: GST rationalisation is the number of goods in the 28% category, as this is the only category which has witnessed drastic changes in the past GST Council meetings. The GST collection includes revenue from CGST, SGST, and IGST. Values of GDP and GST collections are taken in logarithmic form.

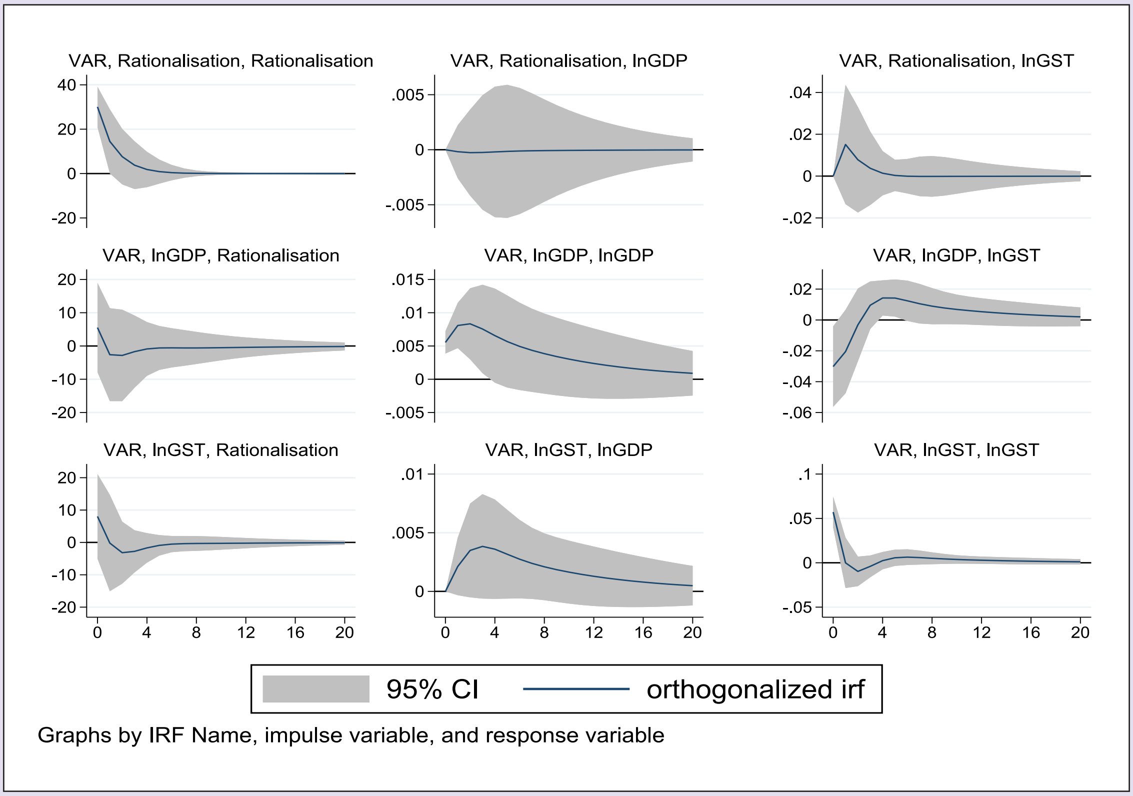
Data: The data for GST collections is from GSTN, GST rationalisation from CBIC, and GDP data from CSO, MOSPI. The data for GST rationalisation and GST collection are available on a monthly basis, whereas the GDP data is available at quarterly interval. Monthly data for GDP has been interpolated to make the data comparable with other data series.

Methodology

Using the Vector Autoregression (VAR) model we analysed the impact of a shock through GST rates on GST collection. We selected two lags for our analysis using AIC criterion and estimated the VAR model. Post estimation of the model, we used the standard impulse response function (IRF) to see the impact of a shock to the GST rates on GST collections. The IRFs from the VAR model is given in the graph below.

Conclusion

It is found that a positive shock to the GST rationalisation variable (implying increasing the number of goods under GST) leads to an increase in GST collection in first few months, specifically one to three months after the shock and then the impact tappers off.



Source: Survey calculations, CSO (MOSPI), CBIC, GSTN

Box 3: Use of Behavioural parameters by GSTN to enhance voluntary compliance

Amongst the various measures taken by the Government to simplify the GST tax system, several initiatives by GSTN to create an environment of voluntary compliance are based on taxpayers behaviour parameters incorporating factors such as deterrence, developing social and personal norms, reducing complexity, and enhancing fairness and trust. Some of these are discussed below:

- **E-way bill**

The GST rules provide for electronic generation of e-way bill for transportation of goods above a certain threshold of value of the goods being transported. Comparison of data from e-way bill portal to that in GST portal enables verification of the supply of goods involving physical movement. This acts as an effective tool of deterrence to prevent misreporting of information.

- **PIN code to PIN code distance mapping in e-way bill system**

The inclusion of origin and destination PIN Codes in the e-way bill portal prevents any over-reporting of distance which could lead to misuse of the e-way bill for multiple trips. This is enabled through a technology based solution. This deters misreporting by tax payers and help curb tax evasion.

- **Return filing status of a GSTIN visible in public domain on the GST Portal**

The publicly available information on the return filing status of GSTIN enables the buyers to choose the compliant taxpayers for doing business, and minimise the business risk by increasing the probability of availing a timely ITC. This initiative of the Government thus encourages a better compliance environment through social and market pressures.

- **Caution against mismatch in GSTR-2A & GSTR-3B; and GSTR-1 & GSTR-3B, above a certain threshold**

While filing the GST returns, tax liability is declared in both GSTR-1(invoice level detail) and GSTR-3B (summary), and ITC is declared in GSTR-3B (summary) and is also auto-populated in GSTR-2A (through GSTR-1). In case the liability declared in GSTR-3B is lesser than GSTR-1, or the ITC claimed in GSTR-3B is more than GSTR-2A, a comparison of this anomaly is visible on suppliers' GST dashboard to induce the taxpayer to correct it and avoid future litigation. Making this information available to the taxpayers, on a month-wise basis; and sending regular SMSs regarding such mismatch in data, encourages them to take timely corrective action, if so required.

- **SMSs for reminders of due date of monthly return (On 10th, 13th, and 15th of every month) and non-filing of return.**

SMS reminders are sent to Authorised Signatories of firms for gently reminding upcoming Due Date of filing summary return GSTR-3B, and, to both Authorised Signatories and Directors/Partners of the firms (non-filers) in case the Due Date is missed, induces taxpayers to inculcate the behaviour of timely filing of returns by way of creating internal organisational pressures and hence build on their personal norms.

- **Free accounting & billing software provided to small taxpayers**

In order to ease the compliance in the technology driven GST regime, GST Council has decided to offer free services like preparing invoices, GST returns, Income Tax returns, Balance sheet and Profit & Loss statement through accounting & billing software for the small businesses, which constituted more than 80% of all GST taxpayers in March 2019.

- **Questionnaire based filing of return and showing the relevant tables**

In order to reduce the complexity of returns and simplify the process, the GST portal adopts a questionnaire based return filing system, whereby based on the reply given by the taxpayer in the questionnaire, only relevant tables for filing will be visible to taxpayer on returns dashboard. This simplification is meant to ease compliance for the taxpayers.

- **Compliance rating score of the taxpayers available in the public domain**

GST Act provides for public display of compliance rating score of every registered GST tax-payer based on taxpayer record of compliance with provisions of GST Act. Government is in the process of finalising the method of computation of this compliance rating. Once finalised and made available in public domain, this would enable buyers to choose compliant taxpayers for doing business, as their timely ITC claim is dependent on timely filing of GST return by the seller. The deterrence of a possible loss of business on account of a low compliance rating score would induce taxpayers to be more compliant. In addition, public display of this information would increase the transparency and lead to improved trust of the businesses in the tax administration and develop a social norm of good compliance in the long run.

- **Acknowledging contribution of compliant taxpayers**

Government has decided to issue a certificate to compliant GST taxpayers, and acknowledge their contribution towards nation building. This appreciation serves to motivate taxpayers to continue their compliant behaviour in future as well.

Source: Goods and Services Tax Network (GSTN)

2.27 The Non-debt Capital receipts includes recovery of loans and disinvestment receipts. Government has targeted to mobilise ₹1.05 lakh crore from disinvestment proceeds. So far, it has been able to raise ₹0.18 lakh crore which is 17.2 per cent of 2019-20 BE. The details of disinvestment during 2019-20 and new initiatives being undertaken by Department of Investment and Public Asset Management (DIPAM) are given in Box 4.

Box 4: Disinvestment

The B.E. for disinvestment proceeds for the year 2019-20 was fixed at ₹1.05 lakh crore. As on 31st December 2019, the Government has mobilised ₹0.18 lakh crore using a variety of instruments like Initial Public Offers (IPOs), Offer for Sale (OFS), Exchange Traded Funds (ETF) etc. Details are as under:

Listing of shares (IPO): During the year 2019-20, two IPOs namely Indian Railway Catering and Tourism Corporation (IRCTC) and Rail Vikas Nigam Ltd (RVNL) were successfully listed yielding ₹636 crore and ₹475.89 crore respectively, while five more PSEs, namely, Indian Railway Finance Corporation (IRFC), Kudremukh Iron Ore Company Limited (KIOCL) (FPO), RailTel, Water and Power Consultancy Services (WAPCOS) and Telecommunications Consultants India Limited (TCIL) are in the process of listing (as on 31.12.2019).

Offer for sale (OFS): During the year 2019-20, OFS of Railway Infrastructure Technical and Economic Service (RITES) has been concluded yielding ₹729.45 crore.

ETFs: ETFs were the biggest source of receipts during current year with Further Fund Offer-5 (FFO) of CPSE-ETF fetching ₹10,000.39 crore and FFO-2 of Bharat 22 ETF fetching ₹4,368.80 crore in July 2019 and October 2019 respectively. In aggregate, ETFs have fetched ₹14,369.19 crore in 2019-20 (as on 31.12.2019).

Others: Sale of Enemy Shares by Custodian of Enemy Property for India (CEPI): ₹1,881.21 crore

Major Initiatives taken by DIPAM

1. Strategic Disinvestment:

The CCEA has given in-principle approval (on 20.11.2019) for strategic disinvestment of the GoI shareholding in five public sector enterprises along with management control. These are: Bharat Petroleum Corporation Ltd (BPCL); Shipping Corporation of India (SCI); Container Corporation of India (CONCOR); Tehri Hydro Power Development Corporation (THDCIL), and North Eastern Electric Power Corporation Ltd (NEEPCO). The strategic sale of THDC, NEEPCO and Numaligarh subsidiary of BPCL will be made to a CPSE buyer. The CCEA has also given in principle approval (on 08.01.2020) of strategic disinvestment of Government of India shareholding in Neelachal Ispat Nigam Ltd. (NINL). With this, a total of 34 CPSEs/Subsidiaries/Units of CPSEs (including Air India) have now been accorded 'in-principle' approval by the government for strategic disinvestment. The Government strategically sold its stake in 5 CPSEs namely Hindustan Petroleum Corporation Limited (HPCL), Rural Electrification Corporation Limited (REC), Dredging Corporation of India Limited (DCIL), Hospital Services Consultancy Corporation Limited (HSCC) & National Projects Construction Corporation Limited (NPCC) in last two years which resulted in a yield of ₹52,869 crore. The process for strategic disinvestment in identified CPSEs in the current year has been initiated.

Streamlining the procedure for strategic disinvestment: In order to make the procedure for strategic disinvestment more expeditious and result-oriented, CCEA has approved a modified procedure for strategic disinvestment, whereby, the Inter-Ministerial Group (IMG) chaired by the Secretary, DIPAM and Co-Chaired by Secretary of the Administrative ministry/department concerned will drive the procedure and play a pivotal role in the entire process.

2. Reduction of Shareholding in select CPSEs below 51% while retaining management control: In the Budget Speech of 2019-20 the Government had announced the decision to modify present policy of retaining 51% Government stake to retaining 51% stake inclusive of the stake of government controlled institutions. Accordingly, the CCEA has given in principle approval (on 20.11.2019) for reduction of Government of India paid-up share capital below 51% in select CPSEs while retaining the management control, taking into account the Government shareholding post such reduction and the shareholding of Government controlled institutions. This policy decision will increase the bandwidth for disinvestment through minority stake sale.

3. Asset Monetization Framework: The Union Cabinet in February 2019 approved the procedure and mechanism for Asset Monetization of CPSEs/PSUs/other Government organizations and Immovable Enemy Properties. This will enable monetization of identified non-core assets of CPSEs under strategic disinvestment and Immovable Enemy Property under the custody of Custodian of Enemy Property (CEPI), Ministry of Home Affairs. This Framework is also available to monetize assets of other CPSEs/PSUs/other Government Organizations and loss making/sick CPSEs.

4. Debt ETF: Cabinet Committee on Economic Affairs (CCEA) has approved the creation and launch of India's first corporate Debt Exchange Traded Fund (Debt ETF) which would create an additional source of funding for Central Public Sector Enterprises (CPSEs), Central Public Financial Institutions (CPFIs), and other Government organizations and would increase the retail participation in the Indian corporate bond market.

Bharat Bond ETF was launched on 12th December, 2019 which received a strong response from investors across different segments and was oversubscribed by 1.7 times. It has provided a new window of access to retail investors in bond market. With regular issuances, the Bharat bond ETF will help in deepening the bond market in India and develop a yield curve for CPSEs over a period of time.

Source: Department of Investment and Public Asset Management (DIPAM)

2.28 On the expenditure side, the capital expenditure during April to November 2019-20 has grown at roughly three times vis-à-vis the same period in 2018-19. Also revenue expenditure has grown at a higher rate during these eight months of 2019-20, compared to the same period previous year. Among the major subsidies, the growth in expenditure on Urea and Petroleum subsidies has been higher during this period as compared to April to November 2018-19 (refer to Table 7).

Table 7: Expenditure on major subsidies

Items	Budget Estimate (In ₹ lakh crore)	April to November (In ₹ lakh crore)		
	2019-20	2017	2018	2019
Total Major Subsidies	3.02	2.06	2.19	2.35
Food Subsidy	1.84	1.35	1.42	1.32
Nutrient Based Fertilizers Subsidy	0.26	0.18	0.20	0.22
Urea Subsidy	0.54	0.32	0.33	0.51
Petroleum	0.37	0.21	0.23	0.30

Source: CGA Monthly Accounts

2.29 Based on the above analysis there is an apprehension that the Tax revenue for the current fiscal year would be muted relative to the target envisaged in 2019-20 BE. The gap due to lower tax receipts could be to some extent compensated by higher mobilisation of Non-Tax revenue and disinvestment proceeds for 2019-20. However, high growth in Non-Tax revenue may not be sustainable year after year. The realization from Non-Tax revenue and disinvestment being uncertain adds to the volatility in revenue projection.

2.30 Thus in order to be on track with the fiscal path outlined by the Medium Term Fiscal Policy Statement, it would be imperative to rationalize expenditure. However, given the sluggish demand and decline in growth of private consumption expenditure reported in first half of the fiscal year, any cut in expenditure especially capital expenditure would have adverse implications for growth. Moreover, since a considerable proportion of revenue expenditure like interest payments, wages and salaries and pensions is committed in nature, this leaves a little fiscal headroom for manoeuvre. Therefore, the focus of the Government should lie on rationalization of non-committed revenue expenditure like subsidies. Further, to boost the domestic demand which is crucial for revival of growth, fiscal deficit target may have to be relaxed for the current year.

Central Government Debt

2.31 Total liabilities of the Central Government include debt contracted against the Consolidated Fund of India, technically defined as Public Debt, as well as liabilities in the Public Account. These liabilities include[1] external debt (end-of-the financial year) at current exchange rate but exclude part of NSSF liabilities to the extent of States' borrowings from the NSSF and investments in public agencies out of the NSSF, which do not finance Central Government deficit. Total liabilities of the Central Government at end March 2019 stood at ₹84.7 lakh crore and 90 per cent of which was public debt (refer to Table 8).

[1] As per Status Paper on Government Debt.

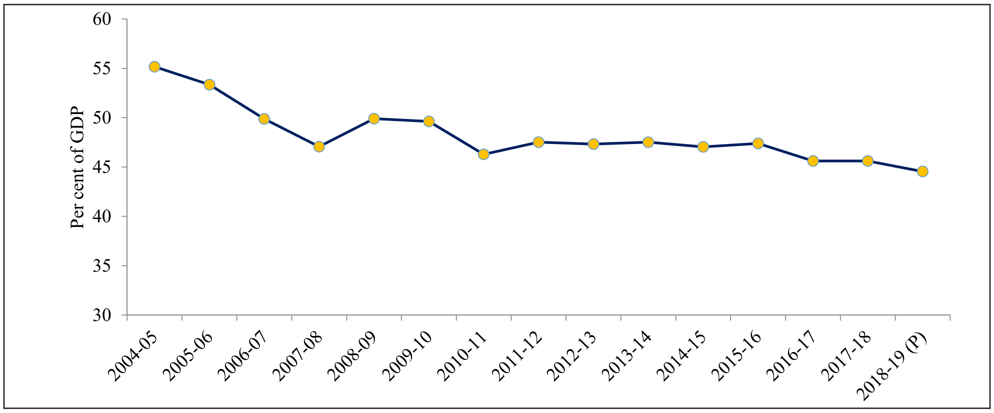
Table 8: Debt Position of the Central Government (in ₹ Lakh crore)

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19 (P)
A. Public Debt (A1+A2)	40.97	46.15	51.05	57.11	61.50	68.84	75.79
A1. Internal Debt (a+b)	37.65	42.41	47.38	53.05	57.42	64.01	70.66
a. Marketable Securities	33.61	38.54	43.09	47.28	50.49	55.10	59.68
b. Non-marketable Securities	4.04	3.87	4.29	5.77	6.93	8.91	10.98
A2. External Debt*	3.32	3.74	3.66	4.07	4.08	4.83	5.13
B. Public Account - Other Liabilities	6.10	7.23	7.62	8.16	8.57	9.15	8.89
C. Total Liabilities (A+B)	47.07	53.39	58.66	65.27	70.07	77.99	84.68

Source: Various issues of Status Paper on Government Debt and Quarterly Report on Public Debt for December 2018; P: Provisional * The external debt at current exchange rates from Aid, Account and Audit Division, Ministry of Finance. Data for 2017-18 and 2018-19 include net cumulative SDR allocations by the IMF.

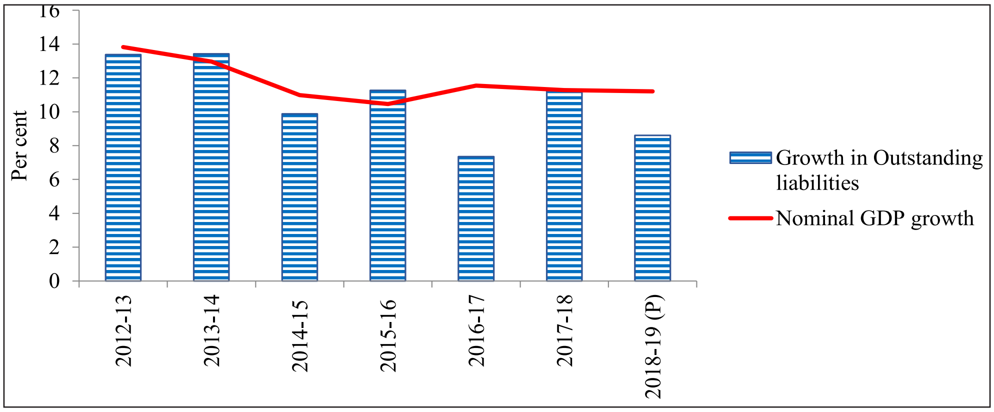
2.32 Figure 9 shows that total liabilities of the Central Government, as a ratio of GDP, has been consistently declining, particularly after the enactment of the FRBM Act, 2003. This is an outcome of both fiscal consolidation efforts as well as relatively high GDP growth (Figure 10).

Figure 9: Trend in Centre's Debt-GDP ratio



Source: Various issues of Status Paper on Government Debt; P: Provisional

Figure 10: GDP growth and growth in Outstanding Liabilities

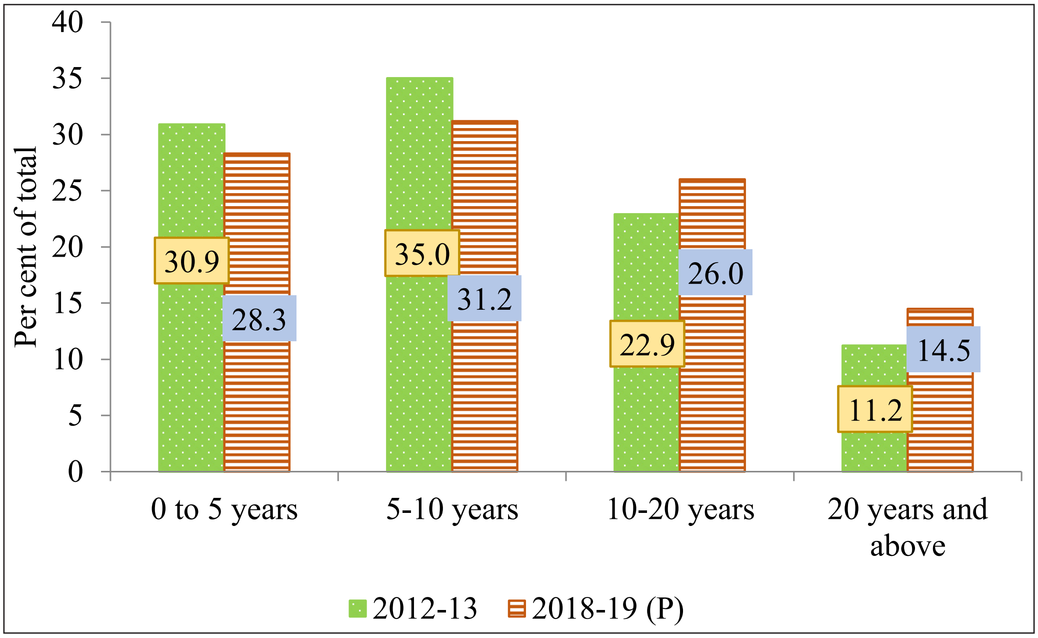


Source: Various issues of Status Paper on Government Debt; P: Provisional

2.33 Central Government debt is characterised by low currency and interest rate risks. This is owing to low share of external debt in the debt portfolio and almost entire external borrowings being from official sources. Further, most of the public debt has been contracted at fixed interest rate making India's debt stock virtually insulated from interest rate volatility. This lends certainty and stability to budget in terms of interest payments.

2.34 The other salient feature is the gradual elongation of the maturity profile of the Central Government's debt (refer to Figure 11) leading to reduced rollover risks. The proportion of dated securities maturing in less than five years has seen consistent decline in recent years. The weighted average maturity of outstanding stock of dated securities of the Government of India has increased from 9.7 years at end March 2010 to 10.4 years at end March 2019.

Figure 11: Maturity Profile of Outstanding Dated Central Government Securities (as per cent of Total)



Source: Status Paper on Government Debt, 2017-18; Quarterly Report on Public Debt Management for April- March 2018-19; P: Provisional

STATE FINANCES

2.35 As per 2019-20 budget estimates of the State Governments, the States' combined own Tax revenue and own Non-Tax revenue is anticipated to grow at 11.1 per cent and 9.9 per cent respectively, which is low relative to the robust growth displayed in 2018-19 RE. The envisaged growth of 8.4 per cent in total expenditure in 2019-20 BE w.r.t. 2018-19 RE is largely led by 9.4 per cent growth in revenue expenditure, whereas the capital expenditure is placed to grow at only 3.7 per cent (refer to Table 9). The rising trend in revenue expenditure is driven by rise in committed expenditure including pension and interest. In fact, the RBI Study on State Finances attributes the fiscal consolidation of the States in the last four to five years to the steep decline in expenditure, mainly capital, which may have adverse implications for the pace and quality of economic development, given the large welfare effects of a much wider interface with the lives of people at the federal level.

2.36 The States have thus continued on the path of fiscal consolidation and contained the fiscal deficit within the targets set out by the FRBM Act. For the year 2019-20, the States have budgeted for gross fiscal deficit of 2.6 per cent of GDP as against an estimate of 2.9 per cent in 2018-19 RE (2.4 per cent in 2018-19 PA) and 2.4 per cent in 2017-18. The financing pattern of Gross Fiscal Deficit for States has also changed over the years. Financing via market borrowings has increased from 61.6 per cent in 2015-16 to 73.7 per cent in 2018-19 RE and is further expected to rise to 87.9 per cent in 2019-20 BE.

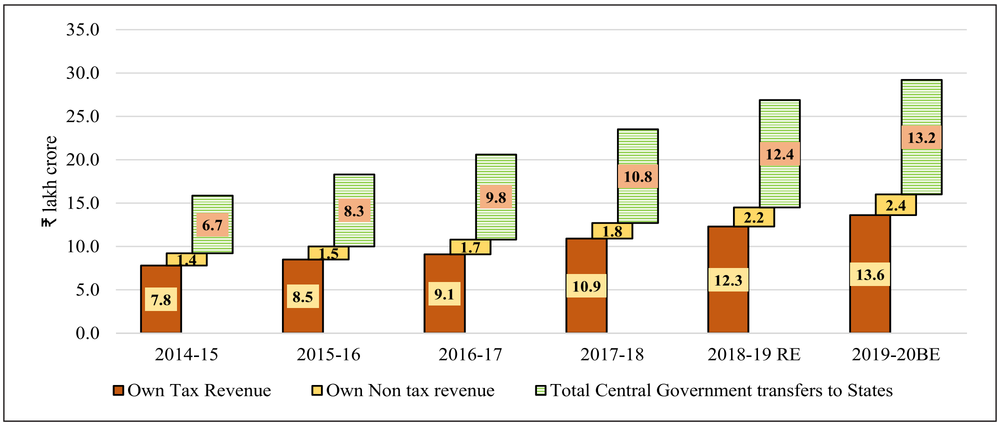
2.37 On the other hand, the debt to GDP ratio for States has risen since 2014-15 owing to the issuance of UDAY bonds in 2015-16 and 2016-17, farm loan waivers, and the

Table 9: Fiscal Indicators of States

Items	2014-15	2015-16	2016-17	2017-18	2018-19 RE	2019-20 BE
						(in ₹ lakh crore)
Own Tax Revenue	7.8	8.5	9.1	10.9	12.3	13.6
	(9.4)	(8.7)	(7.8)	(19.6)	(12.4)	(11.1)
Own Non-Tax Revenue	1.4	1.5	1.7	1.8	2.2	2.4
	(8.4)	(6.95)	(10.3)	(4.7)	(24.4)	(9.9)
Revenue Expenditure	16.4	18.4	20.9	23.0	28.3	30.9
	(18.7)	(12.3)	(13.5)	(10.2)	(22.9)	(9.4)
Capital Expenditure	3.0	4.2	5.1	4.3	5.9	6.1
	(23.3)	(40.5)	(20.4)	(-16.6)	(38.1)	(3.7)
Total Expenditure	19.4	22.6	26.0	27.3	34.2	37.0
	(19.4)	(16.7)	(14.8)	(5.0)	(25.3)	(8.4)

Source: RBI State Finances: A Study of Budget and Union Budget Documents,
RE: Revised Estimates; BE: Budget Estimates; Numbers in parenthesis are growth rates
Note: States include only 29 States

Figure 12: Revenue Receipts of States

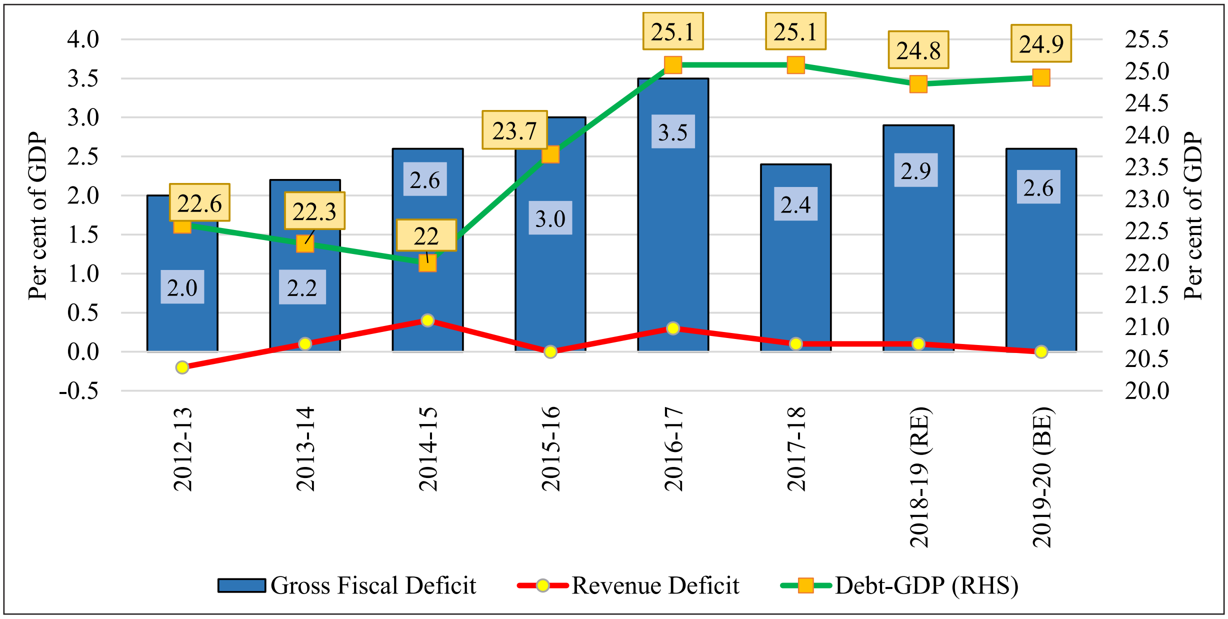


Source: RBI State Finances: A Study of Budget and Union Budget Documents
RE: Revised Estimates; BE: Budget Estimates
Note: States include only 29 States

implementation of Pay Commission awards (Figure 13). The Debt to GDP for States is likely to remain around 25 per cent of GDP in 2019-20, clearly making the sustainability of debt the main medium term fiscal challenge for States.

2.38 Net borrowing ceilings of the States for the year 2019-20 has been fixed at ₹6,11,186 crore anchoring the fiscal deficit target of 3 per cent of respective State GSDP as recommended by Fourteenth Finance Commission (FFC) for its award period

Figure 13: Major deficit and debt indicators of States



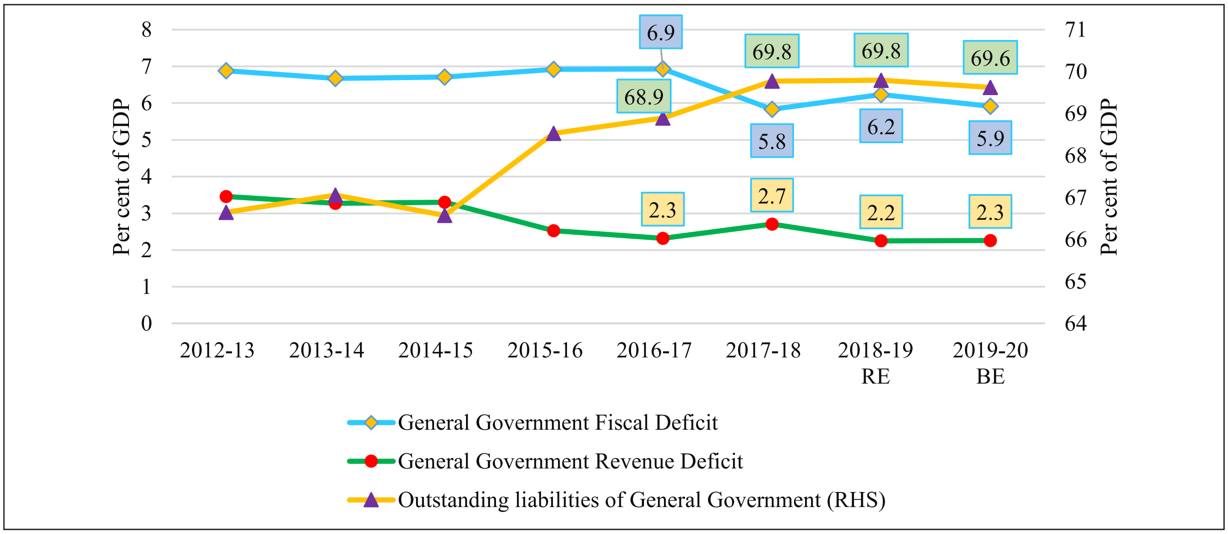
Source: RBI State Finances: A Study of Budget; RE: Revised Estimates; BE: Budget Estimates
Note: States include 29 states and 2 Union Territories with legislatures.

(2015-20). As per the recommendation of FFC, the Union Government has approved year-to-year flexibility for additional fiscal deficit to States for the period 2016-17 to 2019-20 to a maximum of 0.5 per cent over and above the normal limit of 3 per cent in any given year to the States subject to the States maintaining the debt-GSDP ratio within 25 per cent and Interest Payments to the Total Revenue Receipts ratio within 10 per cent in the previous year. However, the flexibility in availing the additional fiscal deficit will be available to State if there is no revenue deficit in the year in which borrowing limits are to be fixed and immediately preceding year. After complying with these conditions, the additional borrowings of ₹ 12,269 crore in 2016-17 to seven eligible States, ₹ 12,873 crore in 2017-18 to nine eligible States, ₹ 12,664 crore in 2018-19 to ten eligible States and ₹4,214 crore in 2019-20 (till 04 November, 2019) to four eligible States have been allowed under flexibility options recommended by FFC.

GENERAL GOVERNMENT FINANCES

2.39 It is critical to analyse the General Government finances to get an overview of fiscal position of the Government as a whole. The General Government (Centre plus States) is expected to continue on the path of fiscal consolidation as the fiscal deficit of General Government is expected to decline from 6.2

Figure 14: Trends in General Government Debt and Deficits (as a per cent of GDP)



Source: RBI
BE: Budget Estimates; RE: Revised Estimates

per cent of GDP in 2018-19 RE to 5.9 per cent of GDP in 2019-20 BE (Figure 14). However the combined liabilities of Centre and States have increased to 69.8 per cent of GDP as on end-March 2019 (RE) from 68.5 per cent of GDP as on end-March 2016.

OUTLOOK

2.40 The year 2020-21 is expected to pose challenges on the fiscal front. While on one hand the outlook for global growth persists to be weak, with escalated trade tensions adding to the risk; on the other hand, the pace of recovery of growth will have implications for revenue collections.

2.41 In order to boost the sluggish demand and consumer sentiments, counter-cyclical fiscal policy may have to be adopted to create additional fiscal headroom. During the first eight months of 2019-20, the indirect tax collections have been muted. Therefore, revenue buoyancy of GST would be key to the resource position of both Central and State Governments. On the expenditure side, rationalisation of subsidies especially food subsidy could be an important tool for expanding the headroom for fiscal manoeuvre. The Fifteenth Finance Commission reportedly has also submitted its Interim Report and its recommendations especially on tax devolution would have implications for Central Government finances.

2.42 Finally, the geopolitical situation unfolding in West Asia is likely to have implications for oil prices and thereby on the petroleum subsidy, apart from having implications for current account balance.

CHAPTER AT A GLANCE	
➢	During the first eight months of 2019-20, the Revenue Receipts registered a higher growth compared to the same period last year, which was led by considerable growth in Non-Tax revenue.
➢	During 2019-20 (upto December 2019), the gross GST monthly collections has crossed the mark of ₹ one lakh crore for a total of five times.
➢	Structural reforms undertaken in taxation during the current financial year include change in corporate tax rate and measures to ease the implementation of GST.
➢	The States have continued on the path of fiscal consolidation and contained the fiscal deficit within the targets set out by the FRBM Act.
➢	The General Government (Centre plus States) has been on path of fiscal consolidation
➢	Going forward, considering the urgent priority of the Government to revive growth in the economy, the fiscal deficit target may have to be relaxed for the current year.