

## MEDIUM TERM FISCAL POLICY CUM FISCAL POLICY STRATEGY STATEMENT

### FISCAL INDICATORS - ROLLING TARGETS AS A PERCENTAGE OF GDP

Table 1: Fiscal indicators

	Revised Estimates 2018-19	Budget Estimates 2019-20	(Projections)	
			2020-21	2021-22
1. Fiscal Deficit	3.4	3.3	3.0	3.0
2. Revenue Deficit	2.2	2.3	1.9	1.7
3. Primary Deficit	0.2	0.2	0.0	0.0
4. Gross Tax Revenue	11.9	11.7	11.6	11.6
5. Non-tax Revenue	1.3	1.5	1.4	1.4
6. Central Government debt	48.4	48.0	46.2	44.4
7. Of which				
Liabilities on account of EBR		0.7	0.8	0.9

1. The Budget Estimates for 2019-20 and the rolling targets for 2020-21 and 2021-22 are presented in the table above. Fiscal deficit target for 2019-20 is 3.3 per cent of GDP in BE 2019-20. This is compared to the RE 2018-19 FD target of 3.4 per cent and the interim budget target of 3.4 per cent. Total expenditure is anticipated to grow @ 13.4 per cent compared to RE, whereas the Total Non Debt Receipts are projected to grow by 14.3 per cent. This implies a gradual path of reduction of FD towards the target of 3 per cent of GDP to be achieved by March 31st, 2021. It may be mentioned that Rule 3 of the FRBM Rules, 2004 specifies Annual Targets and mandates the Central Government to reduce the fiscal deficit by an amount equivalent to 0.1 per cent or more of the Gross Domestic Product per year.

2. The other fiscal indicators depicted in Table 1 above, are statutorily non-binding fiscal indicators in nature and include, the Revenue Deficit and the Primary Deficit targets. Compared to RE 2018-19, where the RD was pegged at 2.2 percent of GDP, BE 2019-20, shows a marginal increase of RD to 2.3 per cent. While Revenue Expenditure grew at the rate of 14.3 per cent, Revenue Receipts grew at the rate of 13.5 per cent. There has been an increase of 0.7 percentage point in the share of revenue expenditure in total expenditure -- from 87.1 per cent to 87.8 per cent. The marginal increase in RD is expected to be reversed in the medium-term, where it is expected that Revenue Deficit will touch 1.9 per cent in

2020-21 and 1.7 per cent in 2021-22. It is anticipated that measures undertaken for subsidy rationalisation will start bearing fruit in the medium-term. Primary Deficit, fiscal deficit net of interest payments is projected to be 0.2 per cent of GDP in BE 2019-20. In the medium term it is anticipated to reduce to 0 per cent of GDP, where it is anticipated to remain unchanged.

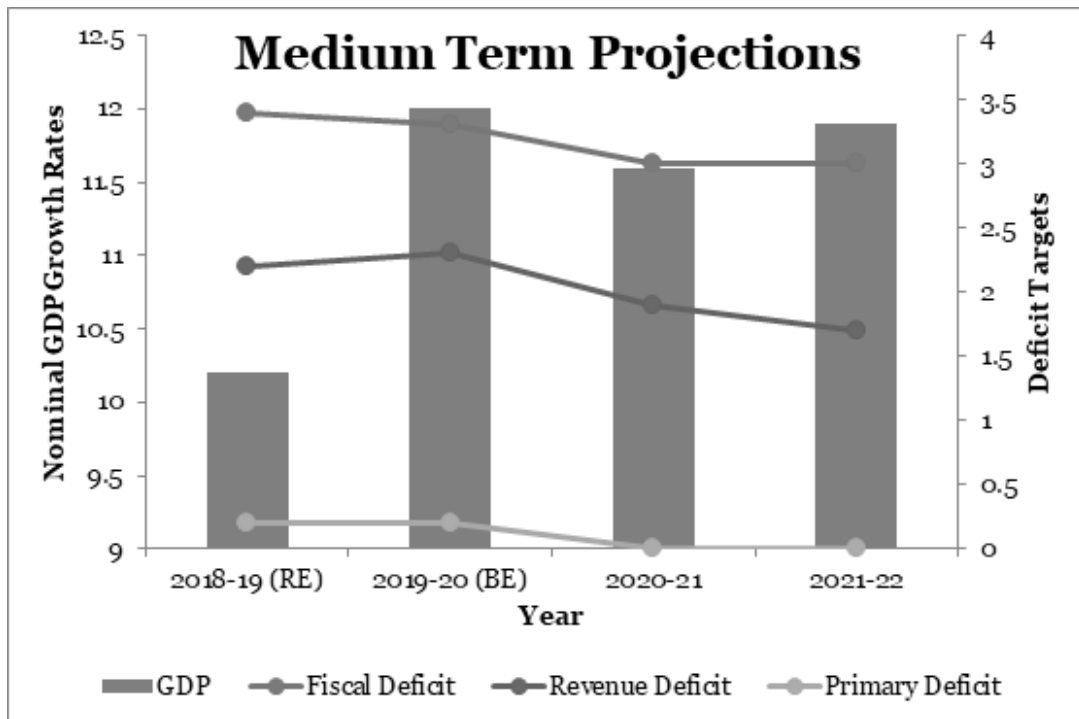
3. In BE 2019-20, the Gross Tax Revenue is projected to show a growth rate of 9.5 per cent and as a percentage of GDP is expected to be 11.7 per cent. Non-Tax Revenue as a percentage of GDP in BE 2019-20 is expected to be 1.5 per cent. The increase of 0.2 percentage points over RE 2018-19 are on account mainly of increased dividend receipts. It is expected that in the projection years NTR will stabilise at around 1.4 per cent of GDP.

4. The Central Government Debt, as defined in the FRBM Act ( Section 2 (aa)), includes all liabilities of central government against the Consolidated Fund of India, all public account liabilities, reduced by the cash balance available at the end of that date. External debt is to be valued at current exchange rate. Extra Budgetary Resources, (fully serviced Government Bonds) have been included from BE 2019-20, as it falls within the purview of the definition of debt as the repayment of principal and interest are through the Annual Financial Statement.

5. Central government debt, reduced by cash

balance, shows a declining trend. The Central Government Debt as a percentage of GDP for RE 2018-19 is expected to be 48.4 per cent. It is 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 is 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. The main reason for the decline in debt is the sharp reduction in fiscal deficit projected in the medium term. A stable inflation regime (expected to hover around the RBI Inflation target of 4 per cent) will help in reducing the interest cost of borrowing and thus reduce the accretions to debt stock.

6. As indicated in MTFP cum FPSS presented with Interim Budget 2019-20, a mechanism for budgeting for EBRs (fully serviced bonds) has been operationalized. Extra Budgetary Resources are those financial liabilities that are raised by public sector undertakings for which repayment of entire principal and interest is done from the Union Government Budget. EBRs have been budgeted at 0.7 per cent of GDP in 2019-20. The target is to reduce the accretions to the EBR stock to zero in five years' time. Central Government Debt for RE 2018-19 does not include EBRs. However, at the end of March, 2019, outstanding liabilities on account of EBRs (fully serviced bonds) stood at ₹88,454.10 crore which is 0.5 per cent of GDP.



#### Medium-Term prospects about Revenue Receipts

7. The Gross Tax Revenue is anticipated to grow at the rate of 10.6 per cent in 2020-21 and 12.4 per cent in 2021-22 over previous years. With these increases in the gross tax revenues, it is anticipated that the GTR-GDP ratio will be 11.6 per cent in 2020-21 and 2021-22. Whereas direct taxes are expected to show a growth rate of 13.4 per cent and 14 per cent compared to previous year, the growth rate in indirect taxes are expected to be 7.3 and 10.3 per cent in the years 2020-21 and 2021-22 respectively. Among the indirect taxes the growth rate of GST and Customs is expected to remain roughly at the rate of growth of the economy and hence show a buoyancy of 1.

8. Direct taxes have shown high buoyancy in the last few years and have been consistently growing at a higher growth rate than that of the nominal GDP. This has led to an increase in direct tax collections. It has gone up from 5.7 per cent of GDP in 2010-11 to 5.9 per cent of GDP in 2017-18. This buoyancy is expected to continue and the direct tax- GDP ratio is expected to reach 6.6 per cent of GDP in 2021-22. Indirect taxes have also grown from 4.5 per cent of GDP in 2010-11 to 5.3 per cent of GDP in 2017-18.

#### Fiscal Outlook for BE 2019-20

9. As indicated in Table 1 above, the FD target for 2019-20 has been pegged at 3.3 per cent of GDP.

10. The Gross Tax Revenue is budgeted at

₹24,61,195 crore in BE 2019-20 which reflects a growth of ₹2,13,020 crore (9.5 per cent) over RE 2018-19. Direct taxes are expected to reach ₹13,35,000 crore in BE 2019-20 compared to ₹12,00,000 crore in RE 2018-19 indicating an increase of 11.3 per cent over RE 2018-19. It is expected that direct taxes would be 6.3 per cent of GDP at the end of 2019-20. Indirect taxes are budgeted at ₹11,22,015 crore in BE 2019-20 which is 5.3 per cent of GDP. Non-tax revenue collections in 2019-20 is budgeted at ₹3,13,179 crore as compared to ₹2,45,276 crore in RE 2018-19.

11. Non-Debt capital receipts (NDCR) are expected to be ₹1,19,828 crore in BE 2019-20 indicating an increase of ₹26,673 crore over RE 2018-19. Increase in NDCR is mostly on account of disinvestment which is budgeted at ₹1,05,000 crore (RE 2018-19 - ₹80,000 crore). Total net borrowings in 2019-20 are projected at ₹7,03,760 crore as compared to ₹6,34,397 crore in RE 2018-19. This reflects an increase of 10.9 per cent over RE.

12. Total expenditure in 2019-20 is pegged at ₹27,86,349 crore which is an increase of ₹3,29,114 crore (13.4 per cent) over RE 2018-19. Revenue Expenditure is estimated to be ₹24,47,780 crore in BE 2019-20 as compared to ₹21,40,612 crore in RE 2018-19 which reflects an increase of ₹3,07,168 crore in BE 2019-20 over RE. This increase is mainly on account of support to the agricultural sector. Capital expenditure is expected to increase to ₹3,38,569 crore in BE 2019-20 from ₹3,16,624 crore in RE 2018-19.

13. Accrual of the full benefit of GST reforms and revenues is expected to take some more time and therefore the stabilisation phase is expected to continue in 2019-20 too.

### **Fiscal Outlook for 2020-21 and 2021-22**

14. The gross tax revenue is anticipated to grow by 10.6 per cent and 12.4 per cent over previous year in 2020-21 and 2021-22 respectively reflecting a Tax-GDP ratio of 11.6 per cent in both years. These figures are inclusive of GST compensation cess. Non-tax revenue receipts of the Central Government are expected to be 1.4 per cent of GDP in 2020-21 and 2021-22.

15. Total Government expenditure is expected to grow at a lower rate in 2020-21 and 2021-22 as compared to 2019-20. The decreased growth rate is expected mainly on account of revenue expenditure. Capital expenditure on the other hand is anticipated

to grow at 9.5 per cent and 15 per cent over previous year in 2020-21 and 2021-22. The debt of central government as a per cent of GDP is also expected to decline to 46.2 per cent and 44.4 per cent in 2020-21 and 2021-22 respectively. This figure is inclusive of EBR projection.

16. It is expected that the targeted fiscal deficit of 3 per cent of GDP will be achieved in FY 2020-21 and continued thereafter. Rationalisation of expenditure and synchronisation of schemes with the award periods of Finance Commission would be the major driver for this in FY 2020-21. The full benefits of GST reforms should start accruing from FY 2020-21 and completely stabilise thereafter to ensure sustainable fiscal path. But certain risk factors would also need to be acknowledged. The recommendations of fifteenth Finance Commission will lay the basis for transfer of resources to states from 2020-21 onwards. This apart, overall national and global condition will also have an impact on fiscal parameters.

### **Assumptions underlying the Fiscal Indicators -**

#### **Revenue receipts**

##### *Tax-Revenue*

17. The receipts estimates for 2020-21 and 2021-22 have been made conservatively. In 2019-20, Gross Tax Revenue has been budgeted at ₹24,61,195 crore which works out to be 11.7 per cent of GDP. GTR is expected to grow at 10.6 per cent in 2020-21 before growth rate picks up to 12.4 per cent in 2021-22 respectively over previous year. The buoyancy for GTR is 0.8. Direct tax is budgeted at ₹13,35,000 crore while Indirect tax is budgeted at ₹11,22,015 crore in BE 2019-20 which, as a percentage of GDP, works out to be 6.3 per cent and 5.3 per cent respectively. These taxes show a buoyancy of 0.9 and 0.6 respectively.

18. Direct taxes are expected to grow at 13.4 per cent and 14.0 per cent over previous year in 2020-21 and 2021-22 respectively. The computation of BE 2019-20 and estimates for FY 2020-21 and 2021-22 are based on the assumptions that there is no change in tax rate or slabs or any of the tax provisions in the Income Tax Act, 1961. The eight year average buoyancy of Corporation Tax for the years 2020-21 and 2021-22 is 1.00 and 1.03 respectively and of Personal Income Tax is 1.36 for both years. Education Cess comprising Primary Education Cess and Secondary & Higher Education Cess @ 3% are discontinued from FY 2018-19 onwards and 'Health and Education Cess' @ 4% of income-tax (including surcharge) is levied from FY 2018-19 onwards.

19. Tax devolution to states in 2020-21 and 2021-22 will be governed by fifteenth finance commission recommendation which is not currently available. Therefore, the devolution formula of fourteenth FC period has been used for calculation of centre's share of tax revenue in the projection period.

20. Indirect taxes are calculated to grow at 7.3 per cent and 10.3 per cent over previous year in 2020-21 and 2021-22 respectively. It is based on the assumption that there would be no major change in the indirect tax policy in the projection years. For the financial years 2020-21 and 2021-22, Central GST, UT GST and GST Compensation Cess are expected to have a buoyancy of 1.0 with respect to nominal GSP growth rates of the respective years.

21. The estimate of Customs Duty has been made with the assumption that Customs will grow at the same rate as nominal GDP. In case of Central Excise, due to specific rate structure on MS/HSD, an average annual growth of 6 per cent has been applied for CS (POL) revenue projections for FY 2020-21 and 2021-22. This is at par with an average domestic POL consumption growth in the previous five years as per PPAC, Ministry of Petroleum and Natural Gas.

#### **Non-tax-revenue - Policy stance**

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

23. In BE 2019-20, NTR is estimated at ₹3,13,179 crore. It is anticipated that NTRs will be at a level of 1.4 per cent of GDP in the medium term.

#### **Devolution to States - Finance Commission**

24. Devolution to states in BE 2019-20 is budgeted at ₹8,11,613 crore. The devolution to states for the year 2019-20 is based on the recommendations provided by the XIV Finance Commission. The recommendations of 14th FC are applicable till FY 2019-20. At present, it will not be possible to make any assumptions or estimations of devolutions to

states from 2020-21 and 2021-22 as it will fall in the award period of 15th FC.

#### **Capital receipts**

##### *Recovery of loans*

25. The Non-debt capital receipts have two main components, viz. recovery of loans and advances and disinvestment receipts. Recovery of loans has been budgeted at ₹14,828 crore in 2019-20. In the medium term, it is estimated at ₹12,000 crore in 2020-21 and ₹11,000 crore in 2021-22.

##### **Other non-debt capital receipts**

26. Disinvestment is the second major component of non-debt capital receipts. Disinvestment receipts accrue to the government on sale of public sector enterprises which are owned by the government. It also includes sale of strategic assets. Disinvestments are budgeted at ₹1,05,000 crore in 2019-20. It is anticipated that disinvestment receipts will be ₹80,000 crore in FY 2020-21 and FY 2021-22 both.

#### **Borrowings - Public Debt and Other Liabilities**

27. In BE 2019-20, gross and net market borrowing by the Government of India (GoI) through dated securities, excluding buyback/switches are budgeted at ₹7,10,000 crore and ₹4,23,122 crore, respectively, which represented an increase of 24.3 per cent in gross and increase of 0.09 per cent in net borrowing, respectively, over the borrowings of ₹5,71,000 crore and ₹4,22,737 crore in the RE 2018-19. Actual gross and net market borrowings in 2017-18, through dated securities during the year stood at ₹6,47,160 crore and ₹4,10,258 crore respectively. Net market borrowings through dated securities are budgeted to finance 60 per cent of Gross Fiscal Deficit (RE).

28. Other sources of the GFD financing such as net borrowing from Treasury Bills, small savings collections, state provident funds, net external assistance and cash draw down were budgeted to finance the remaining 40 per cent of the GFD. The realization from external assistance was negative implying that there are more repayment than uses of external assistance for the purpose of FD financing.

29. During 2018-19, 6 tranches of Sovereign Gold Bond (SGB) scheme were launched during the financial year, with a total subscription of 2031.2 kilograms of gold amounting to ₹641.6 crore received.

30. Of the overall Central Government liabilities, about 93.8 per cent are domestic and 6.2 per cent are external as at end-March 2018. Dated securities

are primarily held by domestic institutional investors. Commercial banks are the largest investors and currently hold about 40.51 per cent of outstanding dated securities (at end-Dec 2018), which is lower than 41.4 per cent share in December 2017. Insurance companies are another major investor category in the government securities, who generally prefer longer tenor securities due to their long term liabilities. As at end of December 2018, the share of insurance companies holdings in the central Government dated securities marginally increased to 24.57 per cent from 23.63 per cent at end of previous financial year. Provident funds are another stable source of demand for Government securities whose share is at 5.54 per cent. Continued strong demand from banking sector and more so from insurance sector combined with a strong Primary Dealers' network implies that the Government borrowings programme for 2019-20 would be completed comfortably without exerting any pressure on availability of financial resources for the private sector. Furthermore, improved share of insurance companies and stability in the share of provident funds in holding of Government securities provide space for further elongating the maturity profile of the Government debt without any huge increase in the cost as the yield curve has been broadly flat in the long end. Investment limits for the Foreign Portfolio Investors (FPIs) has also been increased in the revised MTF published by Reserve Bank in April 2018 which, along with relaxation in holding conditions is expected to bring more such investors in the Government securities.

31. Debt-GDP ratio has been on the decline. Central Government Debt is estimated to be 48.0 per cent of GDP in 2019-20. Continuing the declining trend, it is likely to further reduce to 46.2 per cent in 2020-21 and 44.4 per cent in 2021-22. 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**

32. Total expenditure in BE 2019-20 has been kept at ₹27,86,349 crore which is 13.2 per cent of GDP. The growth of total expenditure is expected to be 6.8 per cent and 10.3 per cent respectively over previous year in 2020-21 and 2021-22. As a per cent of GDP,

Total Expenditure is expected to come down to 12.6 per cent of GDP in 2020-21 before increasing slightly to 12.7 per cent in 2021-22. Revenue expenditure is expected to grow at a slower rate than earlier in 2020-21 and 2021-22 to reach a level of 11.1 per cent of GDP and 11.0 per cent of GDP respectively. Capital expenditure is anticipated to drive the overall expenditure growth leading to improvement in capex to total expenditure ratio from 12.2 per cent in BE 2019-20 to 13 per cent in 2021-22.

### **Revenue account**

33. BE figure for revenue expenditure in 2019-20 is ₹24,47,780 crore which reflects an increase of ₹3,07,168 crore (14.3 per cent) over RE 2018-19. Revenue expenditure is estimated at 87.8 per cent of the total expenditure in 2019-20. In the medium term however, revenue expenditure as a percentage of total expenditure is anticipated to decline marginally to 87 per cent in 2021-22.

34. The major components of the revenue expenditure of the Government include Interest payments, Subsidies, Salaries, Pensions, Defence revenue expenditures, expenditure on Central Police Organizations and the revenue transfers made to the State/UT Governments in the form of Finance Commission grants, Centrally Sponsored Schemes and Other Transfers. In the other transfers category is included the transfer to State Governments for compensating revenue losses on account of implementation of GST. The grants to Central autonomous bodies are also a substantial part of the Central sector schemes are also in the nature of revenue expenditure. These are discussed briefly in the following paragraphs.

### **Interest payments**

35. Interest payments constitute the largest component of Centre's revenue expenditure. Interest payment expenditure were kept at ₹5,87,570 crore in RE 2018-19. In 2019-20, outgo towards interest payments is expected to be ₹6,60,471 crore which is 33.7 per cent of revenue receipts. The interest payments are expected to come down in the medium term as global uncertainties relating to trade wars and higher oil prices are expected to ease the pressure on the currency. This is anticipated to provide a positive feedback loop and a reduction in interest rates. Reflecting this trend, the total interest payments outgo in 2020-21 and 2021-22 as a per cent of revenue receipts is expected to be 33.1 per cent and 32.4 per cent respectively.

### Major subsidies

36. The expenditure on Major subsidies on Food, Fertilizer and Petroleum remains the second significant component of revenue expenditure. In BE 2019-20, expenditure on account of subsidies is expected to be ₹3,01,694 crore. This reflects an increase of 13.3 per cent from RE 2018-19. As a percentage of GDP, these remain unchanged at 1.4%. In the medium term, it is expected that the measure of subsidy rationalisation will bear fruits and subsidy outgo as a percentage of GDP will come down to 1.3 per cent of GDP in 2020-21 and 2021-22.

### Defence Services

37. 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. BE 2019-20 for Defence Service revenue expenditure is estimated at ₹2,01,902 crore against RE 2018-19 of ₹1,91,431 crore reflecting an increase of 5.5 per cent in BE 2019-20 over RE of previous year. It is expected that expenditure on this component will increase by 10 per cent each year in medium term.

### Finance Commission Grants

38. The Finance Commission grants are given to the State Governments under the statutory provisions under Article 275(1) of the Constitution. The current transfer to states under FC grants are based on recommendations of 14th Finance Commission in relation to revenue deficit grants, Grants in aid for State disaster response funds and Grants in aid for the rural and urban local bodies. Budgeted estimate in 2019-20 under this component of revenue expenditure is ₹1,20,466 crore. The recommendations of 14th finance commission are in force till 2019-20. The projections of outgo under Finance Commission grants in 2020-21 and 2021-22 cannot be ascertained at this stage as the report of Fifteenth Finance Commission is still to be received.

### Pension

39. Revenue expenditure under Pension has three main components, i.e. civil pensions which caters to pension expenditure to all Ministries/ Departments of the Union Govt. barring few exceptions, defence pensions and pensions under Department of Telecommunication. Pension expenditure in RE 2018-19 was estimated to be ₹1,66,618 crore. The increase in pension in the last couple of years has mainly been

on account of implementation of the recommendations of 7th Pay Commission. In BE 2019-20, pension expenditure is budgeted to be ₹1,74,300 crore which reflects a growth of 4.6 per cent over RE 2018-19. In the medium term also, the payments on account of pensions is expected to grow at around 6 per cent over previous year. As a per cent of GDP, it is expected that pension payment will come down from 0.8 per cent in BE 2019-20 to 0.7 per cent in 2021-22.

### Capital Outlay

40. Capital expenditure of the Government is budgeted at ₹3,38,569 crore in BE 2019-20 which reflects a growth of 6.9 per cent over RE 2018-19. Capital expenditure is expected to increase at a fast pace in the medium term. It is anticipated that capital expenditure growth in 2020-21 and 2021-22 over previous year will be 9.5 per cent and 15 per cent respectively. As a percentage of GDP, capex is expected to be stable at 1.6 per cent of GDP in the medium term.

41. The Capital expenditure in Railways has increased over the years but has taken a quantum jump since 2015-16. As against a capital expenditure of ₹1,33,397 crore in 2018-19, a capital outlay of ₹1,60,176 crore has been envisaged in BE 2019-20 which is 20.1 per cent higher over previous year. Out of this, an amount of ₹65,837 crore has been provided through Gross Budgetary Support for capital expenditure.

### GDP Growth

42. Nominal Gross Domestic Product for 2019-20 is expected to be ₹2,11,00,607 crore which indicates a growth of 11 per cent of previous year. The GDP growth in the short to medium term is expected to hold steady and stabilise at current levels. The nominal gross domestic product is projected to grow at 11.6 per cent and 11.9 per cent respectively in 2020-21 and 2021-22. In real terms, the growth rates for 2020-21 and 2021-22 work out to 7.3 and 7.5 percent. In nominal terms the GDP works out to be ₹2,35,46,590 crore and ₹2,63,50,400 crore and in real terms these are projected to be ₹1,61,62,617 crore and ₹1,73,74,814 crore in 2020-21 and 2021-22 respectively.

### Assessment of sustainability relating to

#### The balance between revenue receipts and revenue expenditure

43. Total revenue receipts comprise of tax revenue

(net) and non-tax revenue receipts. Total revenue receipts are expected to be ₹19,62,761 crore in BE 2019-20 which reflects an increase of 13.5 per cent over RE 2018-19. As a percentage of GDP, it is 9.3 per cent. Tax revenue (net) is budgeted at ₹16,49,582 crore which is 7.8 per cent of GDP. Non-tax revenue in BE 2019-20 is expected to be ₹3,13,179 crore which is 1.5 per cent of GDP. On the expenditure side, revenue expenditure is budgeted at ₹24,47,780 crore in BE 2019-20 which works out to be 11.6 per cent of GDP. Revenue deficit in BE 2019-20 is calculated to be ₹4,85,019 crore which is 2.3 per cent of GDP.

44. Total revenue receipts in 2020-21 and 2021-22 are expected to grow at 10.3 per cent and 11 per cent respectively over previous year and will be 9.1 per cent of GDP in the last projection year. Tax revenue (net) is expected to be at the level of 7.7 per cent of GDP in the medium term while non-tax revenue is expected to be at the level of 1.4 per cent of GDP. Revenue expenditure is however expected to grow at a lower rate than revenue receipts in the medium term. It is expected that revenue expenditure as a per cent of GDP will come to 11.1 per cent in 2020-21 before reducing further to 11.0 per cent in 2021-22. This will in turn bring down revenue deficit to 1.9 per cent of GDP and 1.7 per cent of GDP in 2020-21 and 2021-22 respectively.

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

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

46. The ratio of revenue deficit to fiscal deficit broadly measures the extent of borrowings used for financing current expenditure of the Government. It is expected to be 68.9 per cent in BE 2019-20. RD to FD ratio is expected to improve to 61.1 per cent in 2020-21 and 57.4 per cent in 2021-22 on account of fall in revenue expenditure growth in comparison to capital expenditure. The major fall in the revenue expenditure is based on the assumption of low levels of interest rates which is based on the assumption of benign inflation and aided by lower pressures on the external front. Year-on-year growth in revenue expenditure on account of subsidies, pension etc. is also expected to reduce.

### **Fiscal Policy Strategy Overview:**

#### **Indirect Tax Policy**

47. GST Policy: It has been now around two years since GST was rolled out. Implementation of various aspects/provisions of GST has now smoothed. The main features of GST may be enumerated as under:

- i. More than 17 taxes and 13 cesses have been subsumed in GST.
- ii. It makes India - "One Nation One Tax". It is also an economic independence - an independence which liberate from the strangles of black economy and corruption.
- iii. The fulcrum of GST is Self-policing where buyer and seller depends upon each other in terms of availing any input tax credit.
- iv. Further, PAN based registration brings the Government a step closer to finding persons with intentions of evading tax.
- v. GST laws were enacted and rate of tax for more than 1200 items to be levied uniformly throughout the country was decided by the council without going through any process of voting. All decisions (1064 decisions including 219 decision taken by GIC - 1006 decisions already implemented) taken by consensus by GST Council in 34 meetings held so far.
- vi. GST is an Information Technology driven system. Right from the very first step of taking registration to filing returns to making payment to claiming refund is online.
- vii. Threshold limit of aggregate turnover for exemption from registration and payment of GST for suppliers of services would be ₹20 lakhs and ₹10 lakhs (in the States of Manipur, Mizoram, Nagaland & Tripura).
- viii. Threshold limit of aggregate turnover for exemption from registration and payment of GST for the suppliers of goods i.e. ₹40 lakhs and ₹20 lakhs (in the States of Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Puducherry, Sikkim, Telangana, Tripura and Uttarakhand) with effect from 01.04.2019.
- ix. Composition scheme has been formulated for small businessman being supplier of

goods and supplier of restaurant services. Under the scheme, person with turnover up to ₹1.5 crore ( ₹75 lakhs in States of Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura and Uttarakhand) needs to pay tax equal to 1 per cent to 5 per cent on his turnover and needs to file his returns annually with quarterly payment from FY 2019-20.

- x. Composition scheme has been formulated for supplier of services. Under the scheme, person with turnover up to ₹50 lakhs needs to pay tax equal to 6% on his turnover and needs to file his returns annually with quarterly payment from FY 2019-20.
- xi. GST on essential items has been kept as nil. Similarly, farmers & agriculturist are not required to take registration under GST. Items of mass consumption are being taxed at 5%. Most of the manufactured items have been kept under 12% and 18% bracket. Very few items (only 29) such as luxurious and sin goods are now being taxed at the rate of 28%. [NIL - 158 items (11.7%); 5% - 296 (21.9%); 12% - 235 (17.4%); 18% - 632 (46.8%) and 28% - 29 (2.2%)].

48. Implementation of GST - Following points with respect to implementation of GST are pertinent to mention here:

- i. As of now, around 1.35 crore taxpayers (more than 70 lakh new) have been registered under GST. The online process of registration has smoothed and is going on without any hassle. During the initial days of implementation, it was realised that registration would need concentrated effort and hence centralised processing centres were established for the same. Migration window was opened for one more time till 31.01.2019.
- ii. GSTR-1 was first implemented in the month of October, 2017. But based on the experience, it was postponed further. Taxpayers were given new schedule for filing GSTR-1 which had its first deadline in January, 2018 i.e. after 6 months of roll-out of GST. Date for filing of return in FORM GSTR-1 for the months of July 2017 to September 2018 was extended till

31.10.2018. Filing of FORM GSTR-2 and FORM GSTR-3 were kept in abeyance.

- iii. GST Council once again allowed the migration process for taxpayers from erstwhile tax regimes. Due dates for furnishing return in FORM GSTR-3B & FORM GSTR-1 (for taxpayers with turnover more than ₹1.5 crore) for such newly migrated taxpayers for the months from July, 2017 to December, 2018 was extended till 31.03.2019. Similarly, FORM GSTR-1 (for taxpayers with turnover upto ₹1.5 crore) for the quarters from July, 2017 to December, 2018 was extended till 31.03.2019.
- iv. As per the new return filing system, there would be only one return form to be filed monthly. Frequency for filing of return for small taxpayers having turnover upto 5 cr. in previous FY will be quarterly [Sahaj (only B2C), Sugam (B2B and B2C) and normal quarterly]. In the new system, supplier will be allowed to upload the invoices continuously anytime during the month and the recipient would also be able to continuously view the uploaded invoice. Misuse of ITC due to default in payment of tax by the supplier shall be controlled primarily by recovery of tax from the supplier however reversal of credit from buyer shall also be an option available with the revenue authorities in certain exceptional circumstances. The new return system will be implemented in phases from October, 2019 and latest by January, 2020.
- v. A simplified return form (FORM GSTR-3B) is being furnished by taxpayers. As a result, the online process of payment of tax along with monthly return filing has smoothed. Around 17.24 crore returns (FORM GSTR-3B) for the months of July 2017 to April, 2019 have been filed till 31.05.2019 (around 80% taxpayers are filing). Around 99.68 lakh of GSTR-4 and 9.42 crore of GSTR-1 (only around 65% taxpayers are filing) have been filed till 31.05.2019. There is a gap in filing of GSTR-1 and GSTR-3B.
- vi. Data analytics is being used to find the gap between (GSTR-1 Vs GSTR-3B and GSTR-3B Vs GSTR-2A).



- vii. Total GST collection for the financial year 2017-18 was ₹7.41 lakh crore. For these eight months, the average monthly collection has been ₹89,885 crore.
- viii. Total Gross GST revenue collected for the financial year 2018-19 was ₹11.77 lakh crore (₹1,03,458 crore, ₹94,016 crore, ₹95,609 crore, ₹96,483 crore, ₹93,961 crore, ₹94,442 crore, ₹1,00,709 crore, ₹97,637 crore, ₹94,725 crore, ₹1,02,503 crore, ₹97,274 crore and ₹1,06,577 crore for April, 2018 to March, 2019). The average monthly collection during FY 2018-19 has been ₹98,083 crore.
- ix. Revenue Collection in the month of April, 2019 and May, 2019 was ₹1,13,865 crore and ₹1,00,289 crore respectively.
- x. Government has been very pro-active in ensuring that GST gets implemented smoothly. GST Law / Rules / procedures have been adapting to the needs of the needs of trade and industry. To this effect, since the date of introduction, Centre as on 31.05.2019 has issued 507 notifications [178-CT; 19-IT; 34-UT; 3-CS (234 -non tax related); 87-CTR; 90-ITR; 87-UTR & 9-CSR (273 tax related)], 106 circulars (101-CT; 4-IT & 1-CS), 18 orders [17-CT & 1-UT], 13 removal of difficulties orders [10-CT & 3-UT] & more than 125 press releases.
- xi. Provisions of Tax Collection at Source (TCS) and Tax Deducted at Source (TDS) have been introduced wef 01.10.2018. Further, to provide some more time to TDS deductor to familiarize themselves with the new system, last date for furnishing return in FORM GSTR-7 and FORM GSTR-8 for the months of October, November & December was extended upto 28.02.2019 and 07.02.2019 respectively. Also, the last date for furnishing returns in FORM GSTR-7 for the month of January, 2019 was extended upto 28.02.2019.
- xii. Exemption from TDS has been granted in case of supply made by any Government authority / PSU to another Government authority / PSU.
- xiii. Relief has been given to exporters by giving them an option to export without payment of tax. The exporters can export their goods or services by submitting a simple letter of undertaking on their letter heads. This is in line with the philosophy of charging no tax on exports.
- xiv. Glitches in the refund process were overcome by devising a manual process for the same. Requisite circulars (7) were issued in order to bring clarity and make the procedure certain. A concentrated drive was taken to make refund to the taxpayers. Three refund fortnights were organized from 15.03.2018 to 31.03.2018; from 31.05.2018 to 16.06.2018 and from 16.07.2018 to 31.07.2018 with the objective of expediting the processing/sanction of pending refund claims. These refund fortnights provided a lot of relief to the trade.
- xv. In the 1st refund fortnight, ₹4,265 crore IGST refunds and ₹1,136 crore ITC refunds were sanctioned by field formations of CBIC.
- xvi. During the 2nd refund fortnight, ₹6,087 crore IGST refunds and ₹1,548 crore ITC refunds were sanctioned by CBIC. In case of IGST refunds for goods exported out of India, the percentage of amount of refund claims disposed by CBIC is already more than 90%.
- xvii. In the 3rd fortnight, for the first time officers of CBIC reached out to doorsteps of the exporters for sanctioning of refunds by the way of GST refund Help Desks. The GST refund Help Desks were established at 11 locations in the offices of FIEO, EEPIC and AEPC for the ease of exporters. These Help Desks were manned by officers of CBIC who were tasked with assisting the exporters in resolving issues related to refunds. By the end of 31.07.2018, the total amount of IGST refund claims disposed by CBIC was ₹29,829 crore taking the disposal rate to 93%. During the third refund fortnight, the IGST refund amounting to ₹3,391 crore was sanctioned by CBIC. As on 31.07.2018, in case of RFD-01A refunds, the amount disposed by the CBIC was ₹16,074 crore and that by State authorities was ₹8475 crore, taking total amount of RFD-01A refunds to ₹24,549 crore.

- xviii. Total amount of RFD-01A claims disposed by Centre and States is ₹90,930 crore (approx.). Further, IGST refund claims to the tune of ₹78,321 crore (approx) have also been disposed. Thus refund claims totalling to ₹1,69,251 crore have been disposed off till 31.05.2019.
- xix. Relief has been given to exporters by allowing utilization of the Advance Authorization (AA) / Export Promotion Capital Goods (EPCG) / 100% EOU schemes for sourcing inputs etc. from abroad as well as domestic suppliers. Also, domestic supplies to holders of AA/ EPCG and EOUs would be treated as deemed exports. This will provide a big thrust to the growth of the export sector and ease the pressure on their working capital requirements.
- xx. Merchant exporters have to pay nominal GST of 0.1 per cent for procuring goods from domestic suppliers for export. This was done in order to provide a big thrust to the growth of the export sector and resolve their working capital issues. The permanent solution to cash blockage is "e-Wallet" scheme which is proposed to be launched with effect from 01.04.2020.
- xxi. E-way Bill system for inter-State movement of goods has been implemented from 01.04.2018. The said system, for intra-State movement, has also been brought into force in a staggered manner by 16.06.2018. Till 31.05.2019 around 66.45 crore e-waybills have been generated which includes 37.11 crore e-way bills for intra-State movement.
- xxii. Check-posts by State Authorities have been removed. It has been reported that average distance travelled by a vehicle/truck has considerably increased.
- xxiii. National Anti-profiteering Authority, to deal with the anti-profiteering issues, has been established.
- xxiv. Procedure for manual filing of application for advance ruling has been devised.
- xxv. Late fees paid for not filing return on the due date for the months of July to September, 2017 was exempted. For subsequent months, the amount of late fee payable by a taxpayer whose tax liability for that month was 'NIL' has been reduced to ₹20/- per day and for all other, the late fee will be ₹50/- per day. The amount of late fees paid for the month of July to September, 2017 has already been credited back.
- xxvi. Late fees for delayed filing of FORM GSTR-1, FORM GSTR-3B and FORM GSTR-4 for the months / quarters July, 2017 to September, 2018 has been completely waived if such forms are filed from 22.12.2018 to 31.03.2019.
- xxvii. The requirement for payment of tax on advance received for supply of goods has been removed. The liability to pay GST on receipt of advances for supply of services continues.
- xxviii. There is no provision for payment of tax on reverse charge basis (RCM) in respect of procurement by registered persons from unregistered persons as the same has not been notified under the amended section 9(4) of the CGST Act.
- xxix. Exemption from registration has been provided for inter-State supply of services upto ₹20 lakh.
- xxx. In order to lessen the compliance burden on Foreign Diplomatic Missions / UN Organizations, a centralized UIN will be issued to every Foreign Diplomatic Mission/UN Organization by the Central Government and all compliance for such agencies will be done by the Central Government in coordination with the Ministry of External Affairs.
- xxxi. UIN is not being mentioned on invoices by suppliers which is a mandatory requirement under Law.
- xxxii. Free Accounting and Billing Software shall be provided to Small Taxpayers by GSTN.
- xxxiii. Certain amendments in the Act have been gazetted on 29.08.2018 to make GST more tax friendly. The same have been brought into force from 01.02.2019. Some of the salient features are :-
- (a) Limit for composition scheme will be increased to ₹1.5 crore from 01.04.2019. Composition taxpayers

- are allowed to supply services (other than restaurant services), for upto a value not exceeding 10% of turnover in the preceding financial year, or ₹5 lakh, whichever is higher.
- (b) Reverse charge for purchase from unregistered supplier will be only on those supplies and in respect of specified taxable persons which are notified by the Government.
  - (c) Threshold exemption limit for registration in the States of Assam, Arunachal Pradesh, Himachal Pradesh, Meghalaya, Sikkim and Uttarakhand will be increased to ₹20 lakh from ₹10 lakh.
  - (d) Registration will remain temporarily suspended while process of cancellation of registration is under process, so that the taxpayer is relieved of continued compliance under the law.
  - (e) Supply of goods from a place in the non-taxable territory to another place in the non-taxable territory without such goods entering into India (merchandising trade); supply of warehoused goods to any person before clearance for home consumption and supply of goods in case of high sea sales have been declared as NO SUPPLY.
  - (f) Full ITC would be available in case of NO SUPPLY except in one case.
  - (g) Scope of input tax credit scheme has been rationalised.
  - (h) Amount of pre-deposit payable for filing of appeal before the Appellate Authority and the Appellate Tribunal will be capped at ₹25 crore and ₹50 crore, respectively.
  - (i) Commissioner has been empowered to extend the time limit for return of inputs and capital sent on job work, upto a period of one year and two years, respectively.
  - (j) Supply of services will qualify as exports, even if payment is received in Indian Rupees, where permitted by the RBI.
  - (k) Place of supply in case of job work of any treatment or process done on goods temporarily imported into India and then exported without putting them to any other use in India, will be treated as outside India.
  - (l) Recovery can be made from distinct persons, even if present in different State/Union territories.
  - (m) The order of cross-utilisation of input tax credit has been rationalised.
- (i) The GST Council in its 31st meeting held on 22.12.2018 gave in principle approval to the following trade friendly measures:
- (a) Creation of a Centralized Appellate Authority for Advance Ruling (AAAR) to deal with cases of conflicting decisions by two or more State Appellate Advance Ruling Authorities on the same issue. This would require law amendment.
  - (b) Amendment of section 50 of the CGST Act to provide that interest should be charged only on the net tax liability of the taxpayer, after taking into account the admissible input tax credit, i.e. interest would be leviable only on the amount payable through the electronic cash ledger. This would require law amendment.
  - (c) There would be a single cash ledger for each tax head. The modalities for implementation would be finalized in consultation with GSTN and the Accounting authorities.
  - (d) A scheme of single authority for disbursement of the refund amount sanctioned by either the Centre or the State tax authorities would be implemented on pilot basis. The modalities for the same are being finalized in consultation with GSTN and the Accounting authorities.
  - (e) The due date for furnishing the annual returns and reconciliation statement for the Financial Year 2017 - 2018 has been extended till 30.06.2019.
  - (f) ITC in relation to invoices issued by the supplier during FY 2017-18 may

be availed by the recipient till the due date for furnishing of FORM GSTR-3B for the month of March, 2019, subject to specified conditions.

- (ii) The GST Council in its 33rd & 34th meetings held on 24.02.2019 & 19.03.2019 respectively have made following decisions with respect to the real estate sector:

**Option in respect of ongoing projects:**

- (a) Promoters shall be given a one-time option to continue to pay tax at the old rates (effective rate of 8% or 12% with ITC) on ongoing projects (buildings where construction and actual booking have both started before 01.04.2019) which have not been completed by 31.03.2019. The option shall be exercised once before 20.05.2019 and where the option is not exercised within the prescribed time limit, new rates shall apply.

**New tax rates:**

- (b) New tax rates which shall be applicable to new projects or ongoing projects which have exercised the above option to pay tax in the new regime are as follows:

- New rate of 1% without input tax credit (ITC) on construction of affordable houses shall be available for,
  - ◆ all houses which meet the definition of affordable houses (area 60 sqm in metros / 90 sqm in non-metros and value upto ₹45 lakhs); and
  - ◆ affordable houses being constructed in ongoing projects under the existing central and state housing schemes presently eligible for concessional rate of 8% GST (after 1/3rd land abatement).
- New rate of 5% without input tax credit shall be applicable on construction of,-
  - ◆ all houses other than affordable houses in ongoing projects whether booked prior to or after

01.04.2019. In case of houses booked prior to 01.04.2019, new rate shall be available on instalments payable on or after 01.04.2019;

- ◆ all houses other than affordable houses in new projects;
- ◆ commercial apartments such as shops, offices etc. in a residential real estate project (RREP) in which the carpet area of commercial apartments is not more than 15% of total carpet area of all apartments.

**Conditions for the new tax rates:**

- (c) New tax rates of 1% (on construction of affordable) and 5% (on other than affordable houses) shall be available subject to following conditions,-

- Input tax credit shall not be available,
- 80% of inputs and input services [other than capital goods, TDR/JDA, FSI, long term lease (premiums)] shall be purchased from registered persons. On shortfall of purchases from 80%, tax shall be paid by the builder @ 18% on RCM basis. However, Tax on cement purchased from unregistered person shall be paid @ 28% under RCM, and on capital goods under RCM at applicable rates.

**Transition for ongoing projects opting for the new tax rate:**

- (d) Ongoing projects (buildings where construction and booking both had started before 01.04.2019) and have not been completed by 31.03.2019 and opting for new tax rates, shall be allowed transition of ITC as per the prescribed method.
- ◆ Transition formula approved by the GST Council [for residential projects (refer to para xix(ii))] extrapolates ITC taken for percentage completion of construction as on 01.04.2019 to

arrive at ITC for the entire project. Then based on percentage booking of flats and percentage invoicing, ITC eligibility is determined. Thus, transition would be on pro-rata basis based on a simple formula such that credit in proportion to booking of the flat and invoicing done for the booked flat is available subject to a few safeguards.

- ◆ For a mixed project transition shall also allow ITC on pro-rata basis in proportion to carpet area of the commercial portion in the ongoing projects (on which tax will be payable @ 12% with ITC even after 1.4.2019) to the total carpet area of the project.

**Treatment of TDR/ FSI and Long term lease for projects commencing after 01.04.2019**

- (e) Supply of TDR, FSI, long term lease (premium) of land by a landowner to a developer shall be exempted subject to the condition that the constructed flats are sold before issuance of completion certificate and tax is paid on them. Exemption of TDR, FSI, long term lease (premium) shall be withdrawn in case of flats sold after issue of completion certificate, but such withdrawal shall be limited to 1% of value in case of affordable houses and 5% of value in case of other than affordable houses. This will achieve a fair degree of taxation parity between under construction and ready to move property.
- (f) The liability to pay tax on TDR, FSI, long term lease (premium) shall be shifted from land owner to builder under the reverse charge mechanism (RCM).
- (g) The date on which builder shall be liable to pay tax on TDR, FSI, long term lease (premium) of land under RCM in respect of flats sold after completion certificate is being shifted to date of issue of completion certificate.
- (h) The liability of builder to pay tax on construction of houses given to land owner in a JDA is also being shifted to the date of completion.
- (iii) Group of Ministers (GoM) has been constituted for promoting digital payment has recommended to allow cashback to an amount equal to 20% of GST paid or ₹100/-, whichever is lower for cases where payment is made by BHIM or Rupay card. The necessary infrastructure is being developed and soon the scheme would be implemented on pilot basis in State of Assam and few other States which volunteer for the same.
- (iv) GoM has been constituted on Revenue Mobilisation.
- (v) State of Kerala has been allowed to levy cess at the rate of 1% for not more than two years in order to overcome losses due to natural calamity.
- (vi) Kerala Government has accordingly decided to levy one per cent. 'Kerala Flood Cess' on value of intra-state supply of all goods by registered dealers, at the last supply point, coming within the GST tax bracket of 12%, 18% and 28%. 0.25% flood cess will be levied on all goods coming under the fifth schedule including gold, silver and platinum ornaments on the value of supply. All services will attract one per cent cess. The Kerala government has also decided to allow local bodies to collect entertainment tax on movie tickets up to 10 per cent. The said cess would be levied **w.e.f. 01.07.2019**.
- (vii) GoM has been constituted to study the revenue trend, including analysing the reasons for structural patterns affecting the revenue collection in some of the States. The study would include the underlying reasons for deviation from the revenue collection targets vis-a-vis original assumptions discussed during the design of GST system, its implementation and related structural issues.
- (viii) GoM has been constituted to address issues related to taxation on lottery under the GST regime.
- (ix) A Removal of Difficulty order has been issued to allow revocation of cancellation

of those registrations, which were cancelled till 31.03.2019. The application for revocation can be filed till 22.07.2019.

- (x) Further rationalisation of utilisation of input tax credit for payment of tax has been done in order to facilitate trade.
- (xi) Generation of e-way bill would be barred if a supplier or recipient does not file GST returns for 2 consecutive tax periods. This will be made applicable with effect from 21.06.2019.

#### 49. Major Proposal in GST Architecture

##### (i) Trade facilitation

###### ■ Short term proposals

- ◆ Complete automation of the RFD-01 refund process
- ◆ Single disbursement of refunds under all heads
- ◆ Introduction of New Return Model
- ◆ Introduction of Unified cash ledger
- ◆ Extension of validity period of e-way bill for multi modal transportation
- ◆ Removal of requirement of annual return for OIDAR registered under rule 14 of CGST Rule, 2017
- ◆ Other amendments to the CGST Act already recommended by the Council, viz-
- ◆ Levy of interest only on the net tax liability of the taxpayer
- ◆ Constitution of National Appellate Authority for Advance Ruling
- ◆ Exemptions to duty free shops and Duty paid shops at Airport by way of refund of ITC on goods procured domestically, when supplied to tourist leaving India
- ◆ Resolve sector specific issues doe example Gems and Jewellery / Imports by UIN agencies

###### ■ Long term proposals

- ◆ International Tourist refunds
- ◆ Rationalizing of penal provisions under GST

- ◆ Using dynamic QR code on invoices for incentivising digital payments by consumers
- ◆ Deliberation on requirement of registration as casual taxable person with concept of sale on approval
- ◆ Suitable amendments to place of supply provisions to facilitate intermediaries /R & D Services earning forex
- ◆ Refund of input services to be allowed as part of refund of ITC accumulated due to inverted duty structure
- ◆ Exempting inter-state supplies of services from compulsory registration
- ◆ Zero-rating of supplies made to cruise ships. Also supply of bunker fuel to be zero-rated
- ◆ Other legal amendments in GST Law/ Rules after taking inputs from various stakeholders/ field formations / States
- ◆ Creating Client Relationship Manager (CRM) in various GST Zones to service sector specific issues

##### (ii) Improving compliance

###### ■ Short term proposals

- ◆ Electronic invoicing
- ◆ Blocking of e-way bills if two successive returns not filed
- ◆ Identification and initiation of action against exporters claiming fraudulent IGST refunds
- ◆ Implementing the refund withholding process under GST to protect revenue interest
- ◆ Scrutiny and investigation based on risk based selection of tax payers. (DGARM)

###### ■ Long term proposals

- ◆ Using geo-tagging information to detect tax evasion
- ◆ Using third party information (CBDT data , MCA data) to develop risk parameters
- ◆ Linking FASTAG and e-way bills to monitor cargo movement

- ◆ Better alignment of recovery proceedings under GST with the Insolvency and Bankruptcy Code
- ◆ Allowing adjustment and withholding of confirmed demands from provisional refunds

### Direct Tax Policy -

50. A number of initiatives have been taken in respect of income tax administration to improve compliance, augment revenue collections and streamline tax payer services, some of which are as under:-

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

promoting voluntary compliance and deterring non-compliance, imparting confidence that all eligible persons pay appropriate tax and promoting a fair and judicious tax administration. Under this initiative, the following measures have been taken:

- ◆ A state-of-the-art data warehouse has been established with end-of-day integration of key projects/data sources of the Income Tax Department. The Income Tax Transaction Analysis Centre (INTRAC) has also been operationalized for handling data integration, data warehousing, data quality management, data enrichment and data analytics. The new platform is being used for identifying high risk non-filers, selection of cases for scrutiny and processing of information received under Automatic Exchange of Information (AEOI), FATCA etc.
- ◆ A dedicated reporting portal (<https://report.insight.gov.in>) has been rolled out to provide a comprehensive interface between Reporting Entities and the Income-tax Department. The Reporting Portal enables seamless data processing, data quality monitoring and report rectification.
- ◆ A dedicated compliance portal (<https://compliance.insight.gov.in>) has been rolled out to capture response on compliance issues in a structured manner for effective compliance monitoring and evaluation. Compliance Management Central Processing Centre (CMCPC) has also been operationalized for leveraging campaign management approach (consisting of emails, SMS, reminders, outbound calls, letters) to support voluntary compliance and resolution of compliance issues.
- ◆ The roll-out of the systems under Project Insight is expected to be completed by 2019.
- The Integrated E-filing & Centralized Processing Center 2.0 Project (CPC 2.0), which was approved by the Union Cabinet

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

As part of this project, the Department notified new format of Form No. 24Q and Form No. 16 for salaried tax payers. The information reported by employers to the Department in the TDS Statement furnished in Form No. 24Q is now synchronized with the data required to be filled in his return of income by the taxpayer. The employer also has to now compulsorily generate Form No. 16, which provides the details of the salary income of the employee, his tax liability and the tax deducted at source, in its entirety from the Departmental website on the basis of the data uploaded by him in Form No. 24Q. This will ensure that there is only one version of data with the employer, the Department and the taxpayer with regard to salary payments. Thus, the employer will only have to ensure that the data in Form No. 16 issued to taxpayer is correct so that the salary section of his return of income can be completely pre-filled for the taxpayer.

The Department is also enhancing the coverage of fields in the return of income to be pre-filled with effect from A.Y. 2019-20. This will reduce the time taken to file a return of income, improve accuracy by avoiding data gaps or mismatches and also

provide the taxpayer an easy reference of the data to be filled. This measure is expected to simplify the process of electronic filing of return of income and further reduce the turnaround time for processing of income tax returns filed.

- Electronic filing of IT returns through the e-filing portal of the Income-tax Department (<https://www.incometaxindiaefiling.gov.in>) picked up from around 4 lakh in FY 2006-07 to 674.74 Lakh in FY 2017-18. As part of a continuing effort to become more taxpayer-friendly, the e-filing portal has been continuously upgraded to provide a number of services besides filing of income-tax returns. These include submission of other income-tax forms such as application for registration of trusts under section 12AA of the Income-tax Act, 1961, submission of application for nil/lower deduction of tax at source, facilitating PAN-Aadhaar linking, submission of request for re-issue of refund, viewing of form 26AS and tax credit mismatch summary, submission of response to outstanding tax demand, adding/registration of representative, submission of grievance applications (through e-nivaran) and submission of PAN applications (e-PAN). The portal also provides help and static content in Hindi for users.
- Further, e-Proceedings have been initiated by the Department in the Income Tax Business Application (ITBA) project which was launched in 2013. Under e-Proceedings, all letters, notices, questionnaires, orders issued by any Officer/Assessing Officer to an assessee will be visible to the assessee in his account on the e-filing portal (<https://www.incometaxindiaefiling.gov.in>), under the header "e-Proceedings". Responses submitted by the assessee on the e-filing portal will likewise be visible to the Officer/Assessing Officer. This has drastically reduced the necessity of the assessee to visit the Income-tax office.
- In this direction, e-assessment through



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

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

- ◆ A total of 400 Aaykar Sewa Kendras (ASKs), a single window system for implementation of Citizen's Charter of the Income Tax Department and a mechanism for achieving excellence in public service delivery, have been set up across all buildings of the Income Tax Department upto 31-03-2018, with 50 more being set up in FY 2018-19.
- ◆ The Department also participated in trade exhibitions including the India International Trade Fair 2019 at Delhi and the India International Mega Trade Fair 2018 at Bhubaneswar with the objective of reaching out to the public at large, answering their queries regarding the Income Tax Laws and Procedures and also to generate interest among the visitors with regard to the benefits of paying Income Tax. Various activities like caricature making, Quiz, Nukkad Natak and Drawing competition were also organized for engaging school children.
- ◆ The Department also has a well-defined electronic grievance redressal system called e-Nivaran which is available on the e-filing portal. This system helps in recording grievances and monitoring the redressal of these Grievances are also received through Centralized Public Grievance Redressal and Monitoring System (CPGRAMS) of Government of India and through the designated PAN service providers.
- ◆ The Department has initiated extensive taxpayer outreach through awareness campaigns using emails and SMS regarding the various topical issues. Many campaigns have been launched in the previous months regarding PAN-Bank Linkage, PAN-Aadhaar linkage, ITR filing before due date, refund FAQ, etc. Taking the initiative further, campaigns are also proposed to be triggered on social media to enable greater outreach across various sections of society who are now extensively using social media.

#### **Expenditure Policy:**

51. Total expenditure in BE 2019-20 is pegged at ₹27,86,349 crore which is 13.4 per cent higher than the revised estimates of total expenditure in 2018-19 (₹24,57,235 crore). The estimates of total expenditure in BE 2019-20 and RE 2018-19 include GST compensation cess. Total expenditure in RE 2018-19 and BE 2019-20 has been estimates after considering all requirements of Ministries/ Departments along with factors such as pace of expenditure, unspent balances etc.

#### **EXPENDITURE MANAGEMENT**

- i. Revision of appraisal and approval guidelines (last issued in 2016) under process: changes include subsuming CEE (Committee on Establishment Expenditure) within EFC/PIB and streamlining processes and procedures on the basis of feedback from Ministries. The monitoring and evaluation guidelines are proposed to be strengthened.
- ii. Strengthening of monitoring mechanisms: Through a modification in guidelines for appraisal and approval of projects it was directed that all Ministries/Departments should upload details of Sanctioned projects on OCMS (Online computerized monitoring System) and include this as part of PIB/DIB Memorandum. The OCMS

monitoring system of MoSPI which monitors Central Sector Projects of more than 150 crore has thus been extended to projects in the social sector also where the total cost is beyond ₹150cr.

- iii. Performance budgeting through compulsory evaluation of schemes before continuation in 15th FC cycle: Instructions have been issued to all Ministries/ Departments to carry out independent third party evaluation in respect of Central sector schemes before they are brought for appraisal in the next Finance Commission cycle. Evaluation of 28 centrally sponsored schemes including 6 core of core, 22 core and 2 optional schemes was entrusted to NITI Aayog. Sample TOR (Terms of Reference) of Central Sector Schemes which can be utilized as a template by the Ministries/Departments was also issued in collaboration with NITI Aayog. OOMF (Output-Outcome Monitoring Framework) will also be developed for select schemes of all Ministries as identified by NITI Aayog.
- iv. Realistic projection of demands and planning within budget: The MTEF Statement as required in terms of Section 3 of the FRBM Act (Fiscal Responsibility and Budget Management) has ensured that the Budget making exercise is made more professional and realistic by giving the Ministry/Department an estimate of the available fiscal envelope for their respective Ministry/Department which also serves as a guideline and facilitates expenditure planning for the EFC/PIB Committee while providing fixed goalposts to the Ministry/Department.

### **DIRECT BENEFIT TRANSFER (DBT)**

52. Direct Benefit Transfer (DBT) is a landmark initiative of the Government to ensure that benefits promised under various welfare and subsidy programmes of the country reach eligible and rightful beneficiaries and are delivered to them at their doorstep or in their bank accounts. DBT framework has effectively leveraged digital technology for better targeting of beneficiaries, timely delivery of benefits

and removal of middlemen, thereby lending greater transparency and accountability in the public delivery system. Pradhan Mantri Jan Dhan Yojana (PMJDY) aimed at financial inclusion of the poor and the legislative approval for use of Aadhaar as proof of identity for delivery of subsidies, services and benefits under Section 7 of the Aadhaar Act, 2016 have given further fillip to DBT efforts.

53. DBT in Central Ministries and Departments - DBT since inception continues to be a success story with 439 schemes of 55 Central Ministries and Departments under its ambit today. Under the present DBT framework, schemes are broadly classified into the following categories based on the type of benefit given under the schemes:

- i. Cash schemes: This category includes 302 schemes or components of schemes where subsidies/benefits are transferred directly into the bank accounts of the beneficiaries. For example, under PAHAL, beneficiaries buy LPG cylinders at market price and receive subsidy directly in their bank accounts. In MGNREGS, all wage payments to workers are directly transferred into their bank accounts.
- ii. In-kind schemes: This category includes 69 schemes or components of schemes where beneficiaries receive subsidies in the form of goods, commodities, etc. after conducting Aadhaar-based authentication preferably at Point of Sale (PoS). For instance, under PDS, foodgrains are distributed at subsidized rates via Fair Price Shops to authenticated beneficiaries. Under Fertilizer Subsidy scheme, fertilizer companies release fertilizers to farmers at subsidised rates after conducting Aadhaar authentication at PoS.
- iii. The remaining 68 schemes are composite schemes which have both cash and in-kind components. One such scheme is 'Swachh Bharat Mission-Grameen' of M/o Drinking Water & Sanitation, wherein funds for constructing household latrines are transferred into the bank accounts of identified beneficiaries in certain areas while in others, latrines are constructed under community approach for

beneficiaries without involving any direct fund transfer to beneficiary.

54. DBT in States and UTs - All States and UTs have set up DBT Cells and developed active State Portals for effective monitoring of progress of all DBT schemes implemented in their respective States. So far, a total of 3,500 schemes (2,078 Centrally sponsored and 1,422 State schemes) have been identified by States/ UTs for DBT implementation. States such as Andhra Pradesh, Madhya Pradesh and Rajasthan are forerunners in adoption of DBT with formation of unified public service delivery management solutions such as 'AP CORE' (CM Office Real Time), 'Samagra' and 'Bhamashah' respectively. These best practices in DBT, have allowed States to not only identify eligible beneficiaries in a transparent manner, but also to build systems to target schemes and programs based on their precise socio-economic and demographic information.

55. The National Scholarship Portal (NSP) launched by Hon'ble Prime Minister on 1st July 2015 is a key

initiative under Digital India programme aimed at providing one-stop solution for scholarships. It facilitates a gamut of activities ranging from student registration to application submission, verification, national level de-duplication, merit list generation, sanction and electronic transfer of funds; thereby providing an end-to-end comprehensive solution towards enabling effective disbursal of scholarships. In Academic Year 2018-19, 60 Scholarship Schemes (pertaining to 10 Ministries and 9 States) were on-boarded on NSP and more than ₹2100 crore scholarship amount was disbursed to around 68 lakh students.

56. Progress and Present Status - The progress of DBT implementation in the above schemes is being regularly monitored through the DBT Bharat Portal. Since the adoption of DBT in 2013-14 till 31st March, 2019, a sum of ₹7,03,593 crore has been transferred through DBT to about 129.2 crore eligible beneficiaries under cash and in-kind schemes. Year wise break up is shown below -

Financial Year	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Total Funds Transferred (in ₹crore)	7,368	38,926	61,943	74,689	1,90,871	3,29,796
Eligible Beneficiaries (in crore)	10.8	22.8	31.2	35.7	124.0	129.2
Transactions (in crore)		62.5	134.6	153.0	191.3	376.4

Source: <https://dbtbharat.gov.in/>

57. In the Financial year 2018-19, ₹3,29,796 crore has been transferred through DBT to 129.2 crore eligible beneficiaries under identified DBT schemes. The break up in terms of cash and in-kind schemes is given below-

FY 2018-19	Cash schemes	In-kind schemes	Total
Fund Transferred (in ₹crore)	2,14,092	1,15,704	3,29,796
Eligible Beneficiaries (in crore)	59	70.2	129.2

Source: <https://dbtbharat.gov.in/>

58. Estimated Gains - Benefits from DBT accrue both to the beneficiaries as well as the Government. At the beneficiary level, DBT has led to empowerment of citizens by facilitating seamless benefit delivery. For Government, benefits from DBT include improved quality of service delivery, reduced manual processes, rationalization of fund flows, reduced leakages and reduced cost of delivery.

59. Key Ministries and Departments have reported estimated gains from DBT and associated governance reforms to the tune of ₹1,41,677.6 crore primarily as a result of removal of duplicate or fake beneficiaries. Scheme wise break-up of the estimated gains as reported on DBT Bharat Portal is given below -

S. No	Ministry/ Department	Scheme	Estimated Savings/ Benefits (in ₹Cr) - Cumulative up to March 2019	Remarks
1	Petroleum & Natural Gas	PAHAL	59,599	4.23 crore duplicate, fake/ non-existent, inactive LPG connections eliminated. In addition there are 1.86 crore Non-subsidized LPG consumers, including 1.03 crore 'Give It Up' consumers.
2	Food & Public Distribution	PDS	47,633	Deletion of 2.98 crore duplicate and fake/ non-existent Ration Cards (including some due to migration, death etc.)
3	Rural Development	MGNREGS	20,790.45	Based on field studies Ministry has estimated 10% savings on wages on account of deletion of duplicate, fake/ non-existent, ineligible beneficiaries
		NSAP	516.01	Deletion of 4.77 lakh duplicate, fake/ non-existent, ineligible beneficiaries (including some due to migration, death etc.).
4	Minority Affairs	Scholarship Schemes	159.15	Deletion of 5.26 lakh duplicate, fake/ non-existent beneficiaries.
5	Social Justice & Empowerment	Scholarship Schemes	335.51	Deletion of 1.91 lakh duplicate, fake/non-existent beneficiaries.
6	Women and Child Development	Supplementary Nutrition Program of Aanganwadi Services	1,523.75	Reduction of 98.8 lakh duplicate, fake/non-existent beneficiaries
7	Department of Fertilizers	Fertilizer Subsidy	10,000	Reduction of 120.88 Lakh Metric Tonnes of fertilizer sale to retailers
8	Others	Others	1,120.69	
<b>Total</b>			<b>1,41,677.56</b>	

#### Subsidies:

60. Allocation for expenditure on major subsidies has been kept at ₹3,01,694 crore in BE 2019-20 which is equivalent to 1.4 per cent of GDP. Fertilizer: New Urea Policy- 2015, effective from 1st June, 2015, with the objectives of maximizing indigenous urea production; promoting energy efficiency in urea production; and rationalizing subsidy burden on the government. NUP - 2015 has resulted in additional production over the years without adding any capacity.

- i. Neem Coating of Urea - Government made Neem Coating of Urea mandatory on 25th May, 2015. Neem Coating of Urea in respect of indigenously produced urea has been introduced from 1st September, 2015; and in respect of imported urea w.e.f.1st December, 2015. As per the interim report of study by DAC&FW in 2016, the benefits of use of Neem Coated Urea are (i) Improvement in soil health; (ii) Reduction in usage of plant protection

- chemicals; (iii) Reduction in pest and disease attack; (iv) An increase in yield of paddy, sugarcane, maize, soybean, Tur/ Red Gram; (v) Diversion towards non-agricultural purposes negligible; and (vi) Due to slow release of Nitrogen, Nitrogen Use Efficiency (NUE) of Neem Coated Urea increases resulting in reduced consumption of NCU as compared to Normal urea.
- ii. Introduction of 45 kg bag of urea - In order to ensure balanced use of fertilizers and reduce the consumption of urea, vide notification dated 4th September, 2017 Government of India has decided to introduce 45 kg bag of NCU. Vide Gazette notification dated 1st March, 2018, DAC&FW has notified the MRP of 45 kg bag of urea at `242/- per bag and a period of two months from the date of DAC&FW gazette notification given to urea units as lead time to ensure smooth implementation of the policy. DAC&FW has been requested to conduct a study regarding the impact of introduction of 45 kg bag on urea sales during the ongoing Kharif Season as well as the upcoming Rabi Season.
  - iii. New Urea Policy 2015 was notified on 25th May, 2015 with the objectives to (i) to maximize indigenous urea production; to promote energy efficiency in the urea units; and to rationalize the subsidy burden on the Government of India. This has resulted into production of 245 LMT during 2015-16. The production of Urea during the year 2016-17 and 2017-18 was 242.01 and 240.92 LMT. The production of Urea in 2018-19 has been 240 LMT.
  - iv. Revival of closed fertilizer units - Fertilizer Corporation of India Ltd. (FCIL) had five units at Sindri (Jharkhand), Talcher (Odisha), Ramagundam (Telangana), Gorakhpur (Uttar Pradesh) & Korba (Chhattisgarh) and Hindustan Fertilizer Corporation Ltd HFCL had three units at Barauni (Bihar), Haldia (West Bengal) and Durgapur (West Bengal). These units were closed during the period 1990-2002. Government of India decided to close down operation of all units of FCIL & HFCL in 2002 and released all its employees under Voluntary Separation Scheme (VSS). A Joint venture Company Hindustan Urvarak & Rasayan Limited (HURL) has been set up for revival of Gorakhpur, Sindri and Barauni units. Ramagundam Unit of FCIL is being revived by a JV called Ramagundam Fertilizers and Chemicals Limited (RFCL); and Talcher unit is being revived by Talcher Fertilizers Limited (TFL). Each of the five plants under revival would add a capacity of 12.7 LMT per annum to the existing production capacity. In these, RFCL is likely to commence production from this year. This measure would reduce dependence on import of Urea in the coming years, successively.
  - v. Direct Benefit Transfer - The Department of fertilizers has successfully implemented Direct Benefit Transfer in the entire country. Different states/U.T.s have been put on Go-Live mode w.e.f. 01.09.2017 and the Pan India rollout of DBT completed in March 2018 Under the fertilizer DBT system, 100% subsidy on various fertilizer grades is being released to the fertilizer companies on the basis of actual sales made by the retailers to the beneficiaries. Sale of all subsidised fertilizers to farmers/buyers is made through Point of Sale (PoS) devices installed at each retailer shop and the beneficiaries will be identified through Aadhaar Card, KCC, Voter Identity Card etc. A Project Monitoring Cell has been setup in the Department to oversee implementation of DBT exclusively. 24 State Coordinators have been appointed across all States to monitor the on-going DBT activities.
- Implementation of the DBT Scheme requires deployment of PoS devices at every retailer shop, training of retailers for operating PoS device. 2.23 Lakh PoS devices have been deployed across all States. Approximately 2.23 lakh retailers have been trained by Lead Fertilizer Suppliers & State Co-ordinators. 8943 training sessions have been conducted across the country. A total of 610.08 Lakh MT of Fertilizers have been sold under DBT scheme from March 2018 to May 2019.
- vi. Policy on Promotion of City Compost -

Government of India approved a policy on promotion of City Compost which was notified by the Department of Fertilizers on 10.02.2016 granting Market Development Assistance of ₹1500/- for scaling up production and consumption of city compost. During the year 2017-18 the production of City Compost was 196999.32 MT and sale was 96584 MT, in year 2017-18 production was 338701.38 MT and sale was 199061.91 MT and in year 2018-19 production was 363261.24 MT and sale was 306630.47 MT.

#### 61. Petrol and Diesel Subsidy

- i. The Prices of petrol and diesel have been made market-determined by the Government with effect from 26.06.2010 and 19.10.2014 respectively. Since then, the Public Sector Oil Marketing Companies (OMCs) accordingly namely, Indian Oil Corporation Limited, Hindustan Petroleum Corporation Limited and Bharat Petroleum Corporation Limited take appropriate decision on pricing of petrol and diesel in line with international product prices and other market conditions. The OMCs have not only increased but also decreased the prices accordingly.
- ii. For simplification of retail prices, Public Sector Oil Marketing Companies (OMCs) implemented daily pricing of Petrol and Diesel in the entire country effective 16th June, 2017. Daily price revisions of Petrol and Diesel make the retail prices more reflective of the current market conditions, minimizing the volatility in the RSP of Petrol and Diesel. Further, it leads to increased transparency in the system and enables smoother flow of products from refinery/depots to Retail Outlets. The Public Sector OMCs have informed that they have established appropriate mechanism to communicate the prices of the Petrol and Diesel on a daily basis through various communication medium such as -
  - Daily updates on their websites,
  - Update through Mobile Application,
  - SMS/IVRS,
  - Display at Retail Outlets

#### 62. PDS in Kerosene -

- i. The Government, effective 1st July, 2016,

had authorized PSU OMCs to increase the issue price of PDS SKO by ₹3.23/Litre in a period of 8 months (within a slab of ₹0.25/Litre per month/Fortnight excluding state taxes) till 1st Feb, 2017. Further, the Government had authorized PSU OMCs to increase the RSP of PDS Kerosene by ₹0.25 per litre (excluding state taxes) per fortnight from 1st April, 2017. PSU OMCs have increased the RSP of PDS Kerosene by ₹0.25 per litre on fortnight basis from 1st April, 2017 to 30th September, 2017. The RSP is further being increased by ₹0.25 per litre on fortnight basis from 1st January, 2018.

- ii. Based on the above Government authorizations, the total increase in RSP (excluding state taxes/GST and other elements) of PDS Kerosene since July, 2016 till May, 2019 is ₹14.73/litre. The total savings due to the above increase in RSP is estimated at ₹8,265 crore till April 2019.
- iii. Based on the current price effective 1st June, 2019, the OMCs are currently incurring under recovery of ₹9.80 per litre on PDS Kerosene (at Mumbai).
- iv. Effective 1st Oct, 2016, Direct Benefit Transfer in PDS Kerosene Scheme 2016 (DBTK) was implemented in 4 districts in Jharkhand State. This scheme was extended to another 6 districts effective 1st April, 2017 and the entire state of Jharkhand was covered under DBTK effective 1st July, 2017.
- v. Till date, 12 State Governments/UTs (Karnataka, Haryana, Telangana, Nagaland, Chandigarh, Gujarat, Andhra Pradesh, Bihar, Goa, Puducherry, Rajasthan and Maharashtra) have voluntarily surrendered their PDS kerosene allocations under DBTK Scheme. As on date, 8 State Governments/UTs have already cut down their PDS Kerosene allocation to nil.
- vi. In the year 2017-18 there was an overall reduction of 28% in the PDS Kerosene allocation given to the States in comparison to the allocation of 2016-17 and similarly a reduction of 12% for the year 2018-19 in comparison to the allocation of 2017-18. The allocation for Q1, 2019-20 has been

further reduced by 12% in comparison to the allocation of Q1, 2018-19. Details of the allocation of Public Distribution System (PDS) Kerosene made to the States/UTs during the last three years and the current year are as under:

S.No.	Year	PDS Kerosene allocation (in KL)
1.	2015-16	86,85,384
2.	2016-17	69,33,030
3.	2017-18	50,21,828
4.	2018-19	44,32,994

### 63. Domestic LPG

- i. PAHAL (DBTL) Scheme was launched in 54 districts of the country on 15.11.2014. Subsequently, the scheme was extended to rest of the country on 01st January, 2015. Under the Scheme, the LPG cylinders are being sold at non-subsidised price and subsidy, as admissible, is being transferred to consumers directly into his/her bank account. As on 07.06.2019, 24.72 crore LPG consumers have joined this scheme. The scheme aims to rationalize subsidies based on approach to cut subsidy leakages, but not subsidies themselves.
- ii. Government has taken steps to rationalize the subsidy outgo by excluding such LPG consumers or his/her spouse having taxable income of above ₹10 lakhs from availing LPG subsidy w.e.f. 01.01.2016. Necessary operational guidelines have been issued to OMCs to give effect to the

direction of the Ministry. As on 07.06.2019, nearly 8 lakh consumers have either submitted self-declaration or identified for exclusion using information provided by Department of Revenue.

- iii. In order to ensure one LPG connection for person or household, a mechanism to carry out de-duplication exercise on inter-OMC and intra-OMC basis has already been put in place. De-duplication exercise has resulted in identifying and blocking of 4.25 crore LPG connections as on 03.06.2019.
- iv. Government has launched an initiative to encourage domestic LPG consumers, who can afford to pay the non-subsidized price for LPG, to voluntarily surrender their LPG subsidy. This will enable the Government to utilize the limited resources to reach out to the BPL households. As on 07.06.2019, nearly 1.03 crore customers have given up LPG subsidy.
- v. The Government authorized PSU OMCs to increase the effective price of subsidized Domestic LPG by ₹2 per cylinder (of 14.2 kg) per month (excluding state taxes), from 1st July, 2016. Effective 1st June 2017, PSU OMCs increased the effective price of subsidized domestic LPG by ₹4 per cylinder per month (excluding VAT) till September, 2017. PSU OMCs have increased the effective price of subsidized Domestic LPG by ₹38 on account of above increases.
- vi. The details of Fuel Subsidy since 2014-15 is given below:

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Petrol-	-	-	-	-	-
Diesel	10,935	-	-	-	-
PDS Kerosene	24,799	11,496	7,595	4,672	5,950
Domestic LPG	36,580	18	-	-	-
Total Under-recoveries (A)	72,314	11,515	7,595	4,672	5,950
Total DBTL related subsidies (B)	3,971	22,011	12,905	20,905	31,539
DBTK Subsidy (claims) (C)	-	-	11	113	117
Other Subsidies (D)	23	-	3,293	-	-
Total Subsidy/ Under-recovery on Petroleum Products (A+B+C+D)	76,308	33,526	23,804	25,690	37,606

# on payment basis.

DBTK subsidy excludes cash incentive/ assistance for establishment of institutional mechanism for direct transfer of subsidy paid to States/UTs

#### Infrastructure Policy

64. - To improve public and private investment in infrastructure, the following initiatives have been taken.

vii. A number of innovative methods of financing Infrastructure such as Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs), have been devised.

■ **Achievement:** As a result of the innovative methods of financing, three InvITs have been launched: viz. IRB InvIT, IndiGrid, IndInfravit Trust that have collectively raised ₹10,040 crore (Rs.5,000 crore, ₹2,250 crore, ₹2,790 crore respectively). In March, 2019, first REIT, Embassy Office Parks raised around ₹4,750 crore through an IPO.

■ **Benefit:** Added infrastructure financing to the extent of ₹10,040 crore - this helps bridge the infrastructure deficit in the country; Financing of infrastructure without asset liability mismatch: One of the main sources of infrastructure finance is bank finance, which suffers from asset-liability mismatch as bank liabilities are short-term but infrastructure assets are long-term. This gives rise to various issues including the Non-Performing Assets of banks. Efforts are being made to attract institutional investors (pension funds, sovereign wealth funds etc.) into infrastructure, which does not suffer from asset-liability mismatch.

viii. Municipal bond financing of urban infrastructure: Government has initiated a project for developing a framework to build capacities of Urban Local Bodies (ULBs) to raise financing through the Capital Markets for financing infrastructure projects. The pilot initiative aims to develop a replicable model and related documents and demonstration of the model through a successful pilot transaction for a ULB.

Guidelines for issuance of Municipal Bonds in India have been notified by SEBI in 2015.

■ **Achievement:** Till 2016, the cumulative amount of municipal bond issuances in India was less than ₹2,000 crore. This has significantly gone up recently. There have been number of Municipal Bond issuances in the past two years. Pune Municipal Corporation had issued Municipal bonds worth ₹200 crore in June 2017, Greater Hyderabad Municipal Corporation ₹200 crore in February 2018 & ₹195 crore in August 2018, Indore Municipal Corporation ₹139 crore in June 2018, Bhopal Municipal Corporation ₹175 crore in September 2018, Greater Visakhapatnam Municipal Corporation ₹80 crore in December 2018, Ahmedabad Municipal Corporation ₹200 crore in January 2019 and Surat Municipal Corporation ₹200 crore in March 2019.

■ **Benefit:** Diversifying sources of finance for Urban Local Bodies thereby reducing dependence on budgetary resources; Deepening the bond market.

ix. Setting up of the Credit Enhancement (CE) Company to provide credit enhancement to infrastructure projects through raising the credit rating of bonds floated by infrastructure companies, as announced in Budget Speech 2016-17 is at an advanced stage. Committee of Establishment Expenditure in its meeting held on 13th March, 2019 had recommended the proposal for setting up the Special Purpose Vehicle for Credit Enhancement to Infra Projects subject to certain conditions. Draft Cabinet Note for this would be submitted as soon as the initial shareholding of the CE Company is finalized.

■ **Benefit:** Traditional source of infrastructure finance is bank finance, which suffers from asset-liability mismatch and leads to problems like NPA in banks. Bond financing of infrastructure is better. The proposed CE Company will enhance the rating of the bonds issued by infrastructure



companies, thereby making it amenable to investment from institutional investors.

65. Public-Private partnerships (PPPs) in infrastructure:

66. Recourse to PPP mode for implementation of infrastructure projects frees valuable fiscal space for the provision of public goods in areas where such financing may not be forthcoming. PPP projects are popular in sectors such as highways, airports and ports. Model Concession Agreements (MCAs) have also been adopted in the road and port sectors. Following initiatives have been taken in this direction:

i. Public Private Partnership Appraisal Committee: PPP projects are long-term projects and appropriate risk allocation lies at the heart of a good PPP project. The Government of India (GOI) notified the appraisal mechanism by setting up the Public Private Partnership Appraisal Committee (PPPAC) responsible for the appraisal of PPP projects in the Central Sector. The appraisal mechanism for PPP projects was streamlined to ensure speedy appraisal of projects, eliminate delays, adopt international best practices and have uniformity in appraisal mechanism and guidelines including risk allocation. The PPPAC is chaired by Secretary, DEA with Secretaries of Department of Expenditure, Department of Legal Affairs, the Sponsoring Ministry/Department and CEO, NITI Aayog as members to consider and approve the proposals for Central Sector PPP Projects.

- Achievement: During the FY 2014-15 up to FY 2018-19, PPPAC recommended 56 Projects with a Total Project Cost of ₹87,728 crore. Out of these 56 projects, 43 are Road sector Projects, 3 are Port sector Projects, 8 are Airport sector Projects and 1 each are Housing and Tourism sector projects.

- Benefit: Development of infrastructure through PPPs helps in economic growth and development, creates jobs, provides opportunities for private sector participation, and improves living conditions.

ii. Financial support to Public Private Partnerships in Infrastructure (Viability gap Funding): Infrastructure projects are often not commercially viable on account of high project cost, long gestation period and returns spread over decades. However, they continue to be economically viable. Accordingly, the Scheme for Financial Support to Public Private Partnerships in Infrastructure [Viability Gap Funding (VGF) Scheme] was formulated to provide financial support in the form of capital grants, one time or deferred, to infrastructure projects undertaken through PPPs with a view to make them commercially viable. The Scheme provides Viability Gap Funding up to 20% of the Total Project Cost (TPC). The Government or statutory entity that owns the project may, if it so decides, provide additional grants out of its budget up to further 20% of the TPC.

- Achievement: During the FY 2014-15 up to FY 2018-19, under the VGF Scheme, 48 projects amounting to a TPC of ₹19,952 crore were granted 'In-Principle' Approval and 21 projects were granted 'Final Approval' with a TPC of ₹6,136 crore. The total VGF disbursed during the last 5 Financial Years is ₹2,908 crore.

- Benefit: VGF Scheme has helped increased infrastructure investment as even those projects that are not financially viable may be taken up using the Scheme. Capital grant also incentivizes private sector participation in the projects, thus facilitating private sector efficiencies in infrastructure development.

### **Policy on Government Borrowings, Lending and Investments**

67. Prudent debt management is the corner stone of corner stone of the sound economic policy and important for financial stability. Strategy to be adopted for its management in medium term has been elaborated in 'Debt Management Strategy' (DMS) document on Central Government Debt, which includes various strategic benchmarks in terms of composition of securities issuance by the Government. Rollover risk in the Government debt portfolio

continues to be low as weighted average maturity of outstanding dated securities remains close to 10.40 years as on March 31, 2019, which is on higher side compared to international standards. Furthermore, share of short-term debt in outstanding dated securities<sup>1</sup> as on March 31, 2019 is around 4.3 per cent and securities maturing in next 5 years are around 28.3 per cent of total outstanding dated securities, which reinforces the low level of rollover risks in short term. During the 2018-19<sup>2</sup>, weighted average maturity of primary issuance continued to be high at 14.73 years through higher than 14.13 years in previous year. The weighted average yield of dated securities issued during the same period of 2018-19 stood at 7.77 per cent as compared to 6.98 per cent during 2017-18 indicating higher yield environment. Pursuing its strategy to borrow from market, borrowing from dated securities at ₹4,23,122 crore is budget to finance nearly 60 % of GFD in 2019-20.

68. The debt policy emphasizes maintaining stable, low cost and prudent debt structure. Further, GoI in consultation with RBI have used market-oriented active debt management tools since 2013-14 in the form of buyback and switching of shorter tenor G-secs with longer tenors G-secs, with an objective to spread the redemption pressure evenly, reduce rollover risk as well as utilizing the cash surplus prudently. In view of growing redemption pressures in coming years, particularly during 2021-22 and 2022-23, the Government will continue its active debt management strategy. During FY 2019-20, Government will carry out buyback of G-securities worth ₹50,000 crore and switch worth ₹50,000 crore.

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

70. During FY 2018-19 only six new securities were launched, resulting in consolidation of number of outstanding G-Securities. During 2019-20, so far six new securities have been launched. For the purpose of using debt strategy for better intra-year cash management as also to reduce redemption pressure in the first half of financial years, Government started issuances of non-standard maturity bonds during 2015-16, which continued in 2019-20. Out of the total six new securities issued during 2019-20, 5 securities are non standard maturity bonds. A portion of amount under G-Sec auctions is reserved for non-competitive investors to give them the benefit of issuance at weighted average price in auctions. Sovereign Gold Bonds Scheme launched by Government of India in November 2015 will broaden investment choice of investors as well as it will also diversify investor base for debt liabilities of central Government through more participation of retail investors. Features of the SGB scheme are being continuously improvised to make them more investor friendly and expanding the retail investor base.

71. With an objective of having a more predictable regime for investment by the Foreign Portfolio Investors (FPIs), RBI, in consultation with the Government had set out the medium term framework (MTF) for FPI investment limits in Government securities in April 2015. This framework was comprehensively revised in March 27, 2019 maintaining the FPI investment limit in G-Secs at 6 per cent of outstanding stock of government securities in 2019-20. The allocation of increase in G-sec limit over the two sub-categories - 'General' and 'Long-term' - was set at 50:50 for the year 2019-20. This is also expected to lead to more diversified holding of the Government securities.

72. Apart from greater focus on market borrowings, the Government is also moving toward alignment of administered interest rates with the market rates. Interest rates on small savings are now broadly linked to G-Sec yields. The interest rates are now reviewed every quarter. Collections under various small saving schemes, net of withdrawals, during the financial year form the source of funds for National Small Savings Fund (NSSF). The net collections under NSSF which were hitherto invested in Central and State Government special Securities are now mostly used by Government of India only after the recommendations of 14th Finance Commission to

<sup>1</sup> Including special securities, FRBs and IIBs

<sup>2</sup> Up to December 26, 2017

exclude State Governments from borrowings from the NSSF, with effect from 1 April, 2016.

73. Government is committed to bring transparency in public debt management operations. Government of India has been publishing a number of documents for the purpose detailing overall debt position of the country, consolidated public debt data, debt management strategies of Central Government, etc. These publications included an annual Status Paper on Government Debt (since 2010), Debt Management Strategy document (2015) and Handbook of Statistics on Central Government Debt (since 2013). Government has now consolidated all these publications into a single report to bring entire Government Debt related information at one place. This report 'Status Paper on Government Debt-December' for year 2017-18 was released last on January 18, 2019 and report for year 2018-19 is under compilation and will be published soon. The report covers various facets of public debt including overall debt position of the country, assessment on aspects of debt sustainability, debt management strategy covering various risks, etc. The publication brings all components of public debt under the Debt Management Strategy, thus widening its scope.

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

#### **Contingent and other Liabilities:**

75. In terms of Article 292 of the Constitution, Central Government gives guarantees for the repayment of borrowings upon the security of the Consolidated Fund of India. The FRBM Act mandates the Central Government to specify the annual target for assuming contingent liabilities in the form of guarantees. Accordingly, FRBM Rules prescribe a ceiling of 0.5 per cent of GDP for incremental guarantees that the Government can assume in a particular financial year. The Central Government extends guarantees primarily for the purpose of improving viability of projects or activities undertaken by the Government entities with significant social and economic benefits, to lower the cost of borrowing as well as to fulfil the requirement in cases where sovereign guarantee is a precondition for bilateral/

multilateral assistance. As the statutory corporations, government companies, co-operative institutions, financial institutions, autonomous bodies and authorities are distinct legal entities, they are responsible for their debts. In the process of guaranteeing their financial obligations the Government has the commitment to assess the fulfilment of such obligations and adequately disclose them.

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

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

#### **Strategic priorities for ensuing year:**

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