



सत्यमेव जयते

GOVERNMENT OF INDIA

**Statements of Fiscal Policy as required under
the Fiscal Responsibility and Budget
Management Act, 2003**

Nirmala Sitharaman
Minister of Finance

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MINISTRY OF FINANCE
BUDGET DIVISION

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PREFACE

The Fiscal Responsibility and Budget Management Act, 2003 was enacted with a view to provide a legislative framework for reduction of deficit and thereby debt, of the Central Government to a sustainable level over a medium term so as to ensure inter-generational equity in fiscal management and long term macro-economic stability. The Fiscal Responsibility and Budget Management Act, 2003 and the Fiscal Responsibility and Budget Management Rules, 2004 made under Section 8 of the Act have come into force with effect from 5th July 2004.

The FRBM framework mandated Central Government to limit the Fiscal Deficit upto three per cent of gross domestic product by the 31st March, 2021. It further provides that, the Central Government shall endeavour to limit the General Government Debt to 60 per cent of GDP and the Central Government Debt to 40 per cent of GDP, by 31st March, 2025.

As on date, the Fiscal Deficit is the only operational target for fiscal consolidation. In RE 2022-23, the Government has retained its Fiscal Deficit target at 6.4 per cent in spite of global headwinds, mainly on account robust GDP growth, buoyant tax collection, and better targeting of expenditure. The Government will continue to prioritise on improving the quality of expenditure and fiscal consolidation in ensuing financial year and beyond. With the Budgetary Capital Expenditure of over ₹10 lakh crore, the Fiscal Deficit in BE 2023-24 is estimated at 5.9 per cent of GDP.

Further, in line with the commitment made in the Budget Speech for FY 2021-22, the Government would pursue a broad path of fiscal consolidation to attain a level of Fiscal Deficit lower than 4.5 per cent of GDP by FY 2025-26.

This document contains the Macroeconomic Framework Statement and Medium-term Fiscal Policy cum Fiscal Policy Strategy Statement. The Statements provide an assessment of the growth prospects of the economy and strategies of the government for the ensuing financial year relating to taxation, expenditure, market borrowings and other liabilities. A Statement of deviation explaining the reasons for deviation from the fiscal path and other obligations as cast by the FRBM Act, 2003 on the Central Government has also been included. The FRBM policy statements are hereby laid before both the Houses of the Parliament.

1. MACRO-ECONOMIC FRAMEWORK STATEMENT

Overview of the Economy

1. The global economy was on the path of recovery after the waning of the CoVID-19 pandemic until the Russia-Ukraine conflict broke out in February 2022. The conflict further disrupted the global supply chains and led to a spike in prices of critical commodities such as crude oil, natural gas, fertilisers, and wheat. In turn, this aggravated the inflationary pressures already triggered by uneven demand recovery, loose monetary policy and fiscal stimulus given in many Advanced Economies (AEs). The spike in global commodity prices, accompanied by extreme weather conditions and China's zero CoVID-19 policy, triggered inflationary pressures in many Emerging Market Economies (EMEs).

2. To counter the inflationary pressures, many central banks worldwide have raised interest rates and ended their bond purchase programmes in pursuance of their mandate to maintain price stability. This has led to the tightening of global financial conditions and resulted in an outflow of capital from most of the EMEs into the traditionally safe-haven market of the US, thereby exerting pressures on the currencies of EMEs. The Nominal Effective Exchange Rate of the US dollar appreciated 11.1 per cent in 2022, up to November. A stronger dollar and higher commodity prices means higher current account deficit and inflation pressures for many emerging and developing economies.

3. The impact of increased borrowing costs and stubbornly high inflation is beginning to show in multiple leading indicators of global economic activity. The global manufacturing PMI has now dropped into the contractionary zone of below 50 since September 2022 and stood at a 30-month low of 48.6 in December 2022, while the global composite PMI, a measure of overall economic activity, has remained in the contractionary zone since August 2022 and stood at 48.2 in December 2022. Owing to unfavourable global developments, the IMF has projected global growth to slow from 6.2 per cent in 2021 to 3.4 per cent in 2022 and 2.9 per cent in 2023 (January 2023, World Economic Outlook).

4. Global developments posed downside risks to India's growth and overall macroeconomic stability. Rising international commodity prices and extreme weather conditions like excessive heat and unseasonal rains in many parts of the country kept food inflation high in India. Retail inflation crept above

the RBI's tolerance range in January 2022. It remained outside the target range for eleven months before returning to below the upper end of the target range of 6 per cent in November and December 2022, partially because of the easing of global commodity prices, pre-emptive measures taken by the government and monetary policy decisions of the Reserve Bank of India.

5. Monetary tightening by US Federal Reserve has also led to an outflow of portfolio investments from India, exerting pressure on the rupee. As a result, the rupee depreciated by 8.3 per cent between April 2022 and December 2022 against the US\$. Several other currencies lost even more value against the US dollar than the Indian rupee. India's current account deficit (CAD) widened in FY 2022-23 due to higher global prices for crude oil, edible oils and fertiliser, etc. Slower export growth in comparison to FY 2021-22 also contributed to the widening of the CAD. The outflow of portfolio investments led to a drawdown of foreign exchange reserves (forex) between January 2022 and December 2022.

6. As per the World Economic Outlook (October 2022, IMF) estimates, the Indian economy continues to be one of the fastest-growing major economies in FY 2022-23, which is a reflection of India's underlying economic resilience and strong macroeconomic fundamentals.

7. India's economy is relatively insulated from global spillovers compared to other EMEs, partly because of its large domestic market and relatively looser integration in global value chains and trade flows. As a result, despite external exogenous shocks, India's real GDP registered year-on-year (y-o-y) growth of 9.7 per cent in H1 of FY 2022-23, higher than major economies. The growth momentum of Q2 has been sustained in Q3 of FY 2022-23, as indicated in the performance of High-Frequency Indicators (HFIs) during October-December 2022. PMI Manufacturing at 57.8 in December 2022 reflects a robust improvement in the health of the manufacturing sector that was the best seen since October 2020, driven by an upturn in output and a rebound in domestic consumption. The Index of Eight Core Industries registered y-o-y growth of 5.4 per cent in November 2022, with growth witnessed in the production of all the sub-sectors except Crude Oil, Refinery Products and Natural Gas. The index of industrial production also rose to a 5-month high of

7.1 per cent in November 2022, driven by growth in all sub-sectors.

8. Rebound in consumption has also been driven by the pent-up demand for contact-intensive services. As a result, steady growth momentum in service activity has been witnessed in Q3 of FY 2022-23. PMI Services registered strong expansion during Q3 of FY 2022-23, which can be attributed to the growth in output and accommodative demand conditions, leading to a sustained upturn in sales. The growth impetus in rail freight and port traffic remains upbeat, with further improvement in the domestic aviation sector. Higher output in the manufacturing and services sectors raised the composite PMI to 59.4 in December 2022 from 56.7 in the previous month, signalling a strong pace of expansion.

9. GST collections, another indicator of economic activity, continue to register robust growth. GST collections during December 2022 were 15 per cent higher on a y-o-y basis, crossing the ₹1.4 lakh crore benchmark for successive nine months. Other HFIs, such as passenger traffic, e-way bills, electronic toll collection (ETC), etc., also point towards healthy domestic economic activity. Domestic auto sales registered y-o-y growth of 5.2 per cent in December 2022, indicating an improvement in demand conditions in urban and rural areas.

10. RBI Services and Infrastructure Outlook Survey suggests an improvement in demand conditions in Q3 and Q4 of 2022-23 for Services and Infrastructure businesses as reflected in their optimistic sentiments on turnover, job landscape, and overall business situation. While firms anticipate lower sales prices, they also anticipate input cost pressures easing, which is likely to boost output growth.

Economic Growth

11. As per the First Advance Estimates (FAE) of National Income, 2022-23, India's Real GDP and Nominal GDP are projected to grow by 7 per cent (y-o-y) and 15.4 per cent (y-o-y), respectively, in FY 2022-23.

12. On the demand side, private consumption has witnessed continued momentum. It is estimated to grow at 7.7 per cent in FY 2022-23 compared to 7.9 per cent in FY 2021-22. Gross Fixed Capital Formation (GFCF) is estimated to grow at 11.5 per cent in FY 2022-23, supported by various reforms and measures taken by the Government leading to the reinvigoration of the capex cycle and crowding-in of private investment. The government has continued to support the investment activity with capital expenditure reaching ₹4.5 lakh crore during April-November 2022,

which is 63.4 per cent higher than last year's corresponding period. Private investment also picked up in FY 2022-23, partially driven by increased public capex and because of the strengthening of the balance sheets of the Corporates and the consequent increase in credit flow. Exports are estimated to grow at 12.5 per cent in FY 2022-23 despite sustained supply chain disruptions and an uncertain geopolitical environment. The share of exports in GDP (at 2011-12 prices) also increased to 22.7 per cent in FY 2022-23 compared to 21.5 per cent in FY 2021-22.

13. On the supply side, agriculture, forestry and fishing are expected to witness y-o-y growth of 3.5 per cent in FY 2022-23. The growth in the agriculture sector is likely to remain buoyant, supported by healthy progress in Rabi sowing, with the area sown being higher than the previous year. This has led to a recovery in the rural economy. The improvement in rural demand can also be deduced from the robust domestic tractor, two and three-wheelers sales during Q3 of FY 2022-23. The industry sector is likely to witness modest growth of 4.1 per cent in FY 2022-23 compared to a strong growth of 10.3 per cent in FY 2021-22. The services sector is expected to rebound with y-o-y growth of 9.1 per cent in FY 2022-23 compared to 8.4 per cent in FY 2021-22, driven by a recovery of the contact-intensive service sector (Trade, hotels, transport, communication and services related to broadcasting) which is likely to witness the highest growth of 13.7 per cent on account of the release of pent-up demand.

Agriculture

14. The Indian agriculture sector is projected to grow by 3.5 per cent in FY 2022-23. Apart from meeting domestic requirements, India has also rapidly emerged as the net exporter of agricultural products in recent years. During FY 2021-22, agricultural exports reached an all-time high of US\$ 50.2 billion. The buoyant performance of the sector could be ascribed to the measures taken by the Government to promote farmer-producer organisations, encourage crop diversification, and improve productivity in agriculture through support provided for mechanisation and the creation of the Agriculture Infrastructure Fund.

15. As per Fourth Advance Estimates for FY 2021-22, the production of food grains and oilseeds witnessed significant increase. However, the year 2022 witnessed an early heat wave during the wheat-harvesting season, adversely affecting its production. The year also experienced a decline in the area sown under paddy in the Kharif season due to delayed monsoons and deficient rainfall. As of 30th September

2022, the area sown under paddy was about 20 lakh hectares less than compared to 2021. However, as per the First Advance Estimates for FY 2022-23 (Kharif only), total foodgrain production in the country is estimated at 149.9 million tonnes higher than the average Kharif food grain production of the previous five years.

16. During Kharif Marketing Season (KMS) 2021-22, 581.7 lakh metric tons (LMT) of rice was procured against an estimated target of 532.7 LMT. In the current year, KMS 2022-23, 399.4 LMT of rice has been procured up to 15th January 2023. In addition, during Rabi Marketing Season (RMS) 2022-23, 187.9 LMT wheat has been procured against 433.4 LMT procured during RMS 2021-22. The procurement was lower as the market price of wheat was higher than its MSP during its procurement season.

External Sector

17. After achieving an all-time high annual merchandise export of US\$ 422 billion in FY 2021-22, global headwinds following the Russia-Ukraine conflict and the ripple effect of the global trade slowdown impacted India's merchandise export growth, wherein moderation in pace was observed in 2022. Monthly merchandise exports declined from US\$ 39.7 billion in April 2022 to US\$ 34.5 billion in December 2022. As the pandemic ebbed, India witnessed a revival in domestic demand resulting in strong import growth. Merchandise imports for April-December 2022 were US\$ 551.7 billion against US\$ 441.5 billion during April-December 2021. Rising energy demand led to an increase in fuel imports, including crude oil and petroleum products, whose share in total imports rose to 29.7 per cent in April-December 2022 against 25.5 per cent in the corresponding period last year. However, export of goods and services together posted a growth of around 16% in US dollar terms in April-December 2022 over April-December 2021 (US\$ 568.57 billion vs US\$ 489.69 billion).

18. Moderation in exports accompanied by rising imports led to a widening of the Merchandise Trade deficit to US\$ (-)218.9 billion during April-December 2022 compared to US\$ (-)136.5 billion in the corresponding period of the previous year. Headwinds due to the Russia-Ukraine conflict, elevated global commodity prices and continued supply chain constraints led to a rise in India's CAD to US\$ 36.4 billion (4.4 per cent of GDP) in Q2 of FY 2022-23 in contrast to a deficit of US\$ 9.7 billion (1.3 per cent of GDP) in Q2 of FY 2021-22.

19. Repercussions of the Russia-Ukraine conflict and aggressive monetary policy tightening by the US

Federal Reserve caused global financial market volatility leading to heavy sell-off by Foreign Portfolio Investors in Q1 of FY 2022-23. However, these investors returned in Q2 of FY 2022-23 with a net inflow of FPI. Portfolio investment recorded a net outflow of US\$ 8.1 billion in H1 of FY 2022-23 as against an inflow of US\$ 4.3 billion a year ago, leading to a depletion of foreign exchange reserves to the tune of US\$ 25.8 billion in H1 of FY 2022-23 in contrast to an accretion of US\$ 63.1 billion in H1 of FY 2021-22. The outflow of FPI also exerted pressure on the rupee.

Prices

20. The first half of the current financial year saw a persistent rise in inflation. Consumer price inflation peaked in April 2022 at 7.8 per cent before moderating to 5.7 per cent in December 2022. Moderation in inflation in later months could be attributed to good monsoons as well as prompt government measures that ensured adequate food supply. The Central Government undertook fiscal and non-fiscal measures to moderate the price rise. They include reduction in the excise duty on petrol and diesel, prohibition of the export of wheat products, imposition of export duty on rice, reduction in import duties and cess on pulses, rationalisation of tariffs and imposition of stock limits on edible oils and oil seeds, maintenance of buffer stock for onion and pulses and rationalisation of import duties on raw materials used in the manufacturing products. Monetary policy did its part well too. RBI's Monetary Policy Committee increased the policy repo rate under the liquidity adjustment facility (LAF) by 225 basis points from 4.0 per cent to 6.25 per cent between May and December 2022.

21. Inflation also abated at the wholesale level and stood at a 22-month low of 4.95 per cent in December 2022. Global economic slowdown and interest rate increases brought down commodity prices, contributing to a substantial decline in wholesale price inflation. However, even as inflation declined at the wholesale level, there has been a pass-through of previously high input costs onto retail prices; as a result, core inflation remains sticky at nearly 6 per cent and reflects the second-round effects of the supply shocks witnessed earlier this year.

22. In line with moderating price pressures, the RBI's Household Inflation Expectations Survey reveals that households' inflation expectations for the three months and one year ahead declined by 40 bps and 20 bps to 10.4 per cent and 10.8 per cent, respectively, with the lowering of inflation expectations being broad-based across respondent categories for three months and one year ahead.

Money, Banking and Capital Markets

23. Change in RBI's policy stance in FY 2022-23, accompanied by monetary tightening to control rising inflation, led to the tightening of domestic financial conditions, which was reflected in the lower growth of monetary aggregates and moderation of surplus liquidity conditions. RBI's move to hike the CRR by 50 bps resulted in a withdrawal of primary liquidity to the tune of ₹87,000 crore from the banking system. Reserve money (M0) increased by 10.3 per cent year-on-year (y-o-y) as on 30th December 2022, compared to 14.5 per cent last year. On the component side, growth in Currency in Circulation (CIC) broadly remained stable at levels seen after CoVID-19.

24. Monetary policy transmission is well underway as lending and deposit rates increased following the hike in policy rates. During FY 2022-23 (up to December 2022), the external benchmark-based lending rate and 1-year median marginal cost of funds-based lending rate (MCLR) increased by 225 bps and 115 bps, respectively. On the deposit side, the weighted average domestic term deposit rate (WADTDR) on outstanding Rupee Term Deposits increased by 59 bps in FY 2022-23 (up to November 2022).

25. After remaining subdued through 2020 and 2021, the yields on the 10-year government bond increased in 2022. The weighted average yield spike reflects the domestic bond market volatility stemming from volatility in crude prices, hawkish stance from major central banks, hardening of global bond yields and the pressure on the rupee. The monthly average yield on the 10-year government bond stood at 7.3 per cent in December 2022 after having peaked at 7.5 per cent in June 2022. Yields moderated in November and December 2022 because of a decline in the pace of rate hikes by major central banks and the declining domestic inflation rate.

26. While the global tightening cycle has contributed to a dampened global outlook, domestic appetite for credit has been on an upswing. Non-food credit offtake by Scheduled Commercial Banks (SCBs) has been growing in double digits since April 2022, with the increase being broad-based. Credit disbursed by non-banking financial corporations (NBFCs) has also been on the rise. The balance sheet clean-up exercise has been vital in enhancing the lending ability of financial institutions. The Gross Non-Performing Assets (GNPA) ratio of SCBs has fallen to a seven-year low of 5.0, while the Capital-to-Risk Weighted Assets Ratio (CRAR) remains healthy at 16.0 and well above the regulatory requirement of 11.5. The health of NBFCs has continued to improve as well.

27. Economic developments in FY 2022-23 increased volatility in the capital markets around the world. However, domestic capital markets displayed some encouraging trends. The primary equity markets witnessed participation from all segments, especially with increased Small and Medium Enterprises (SME) contributions, while primary private debt markets saw a growth in placements and resource mobilisation. The FY 2022-23 also witnessed the largest IPO ever in the history of India. In May 2022, the Central Government diluted its stake in the Life Insurance Corporation (LIC) of India and listed it on the stock exchanges, thereby making LIC's IPO the largest IPO ever in India and the sixth biggest IPO globally of 2022. While secondary capital market indices of the Nifty 50 and the S&P BSE Sensex were not immune to the volatility in Foreign Portfolio Investment (FPI) flows, they performed better between April and December 2022 than their peers did. The indices have displayed a decreasing trend in volatility as measured by the India Volatility Index (VIX) over this period.

Central Government Finances

28. While India entered the pandemic with stretched fiscal situation, a prudent and calibrated fiscal response by the Government enabled stable public finances even amidst the present uncertainties. The fiscal deficit of the Union Government, estimated at 9.2 per cent of GDP during the pandemic year FY 2020-21, moderated to 6.7 per cent of GDP in FY 2021-22 and is budgeted to decline further to 6.4 per cent of GDP in FY 2022-23. The gradual decline in the Union government's fiscal deficit in line with the fiscal glide path envisioned by the Government.

29. The fiscal deficit of the Union Government at the end of November 2022 stood at 58.9 per cent of the Budget Estimates, lower than the five-year moving average of 104.6 per cent of BE during the same period. The revenue deficit for April-November 2022 is 57.8 per cent of BE compared to the corresponding figure of 38.8 per cent in the previous year. After plummeting during the pandemic-affected year FY 2020-21, revenue receipts registered robust growth in FY 2021-22, driven by a rebound in the collection of all major direct and indirect taxes (except excise duties). Last year's revenue buoyancy momentum is continuing into the current year. The Gross Tax Revenue registered a y-o-y growth of 15.5 per cent from April to November 2022, and the Net Tax Revenue to the Centre after the assignment to states registered a y-o-y growth of 7.9 per cent.

30. The total expenditure of the Union Government in FY 2020-21 rose to 17.7 per cent of GDP, higher than the previous 5-year average of 12.8 per cent of

GDP. The Government adopted a pragmatic approach of increasing its expenditure in a calibrated way. In the subsequent year, FY 2021-22, the total Union Government expenditure was 16 per cent of GDP and a larger proportion of this accrued to capital expenditure. The Government of India had budgeted an unprecedented ₹7.5 lakh crore of Capital Expenditure for FY 2022-23, of which more than 59.6 per cent has been spent from April to November 2022. With the winding up of the pandemic-related support, the revenue expenditure of the Union government has been rationalised from 15.6 per cent of GDP in the pandemic year FY 2020-21 to 13.4 per cent of GDP in FY 2021-22. This contraction was led by a reduction of the subsidy expenditure as the economy recovered from the pandemic. In FY 2022-23, due to the sudden outbreak of geopolitical conflict that jeopardised food and energy security, there was a higher food and fertiliser subsidy requirement for supporting the vulnerable and ensuring macroeconomic stability.

31. The Revised Estimates place fiscal and revenue deficits at 6.4 per cent of GDP and 4.1 per cent of GDP, respectively, in FY 2022-23.

Growth outlook

32. Growth in FY 2023-24 will be supported by solid domestic demand and a pickup in capital investment. The current growth trajectory will be supported by multiple structural changes like IBC and GST that have enhanced the efficiency and transparency of the economy and ensured financial discipline and better compliance. More importantly, strong balance sheets in the corporate and financial sectors provide a solid underpinning to growth, unlike in the pre-pandemic years of FY 2018-19 and FY2019-20. India's public digital infrastructure expansion is leading to

accelerated financial inclusion for low-income households, micro and small businesses, and the economy's rapid formalisation. Together these two factors - balance sheet strength and digital advancement - are growth differentiators not only for FY 2023-24 but also in the years ahead.

33. Further, the execution of various path-breaking policies such as the PM GatiShakti, National Logistics Policy and the PLI schemes will strengthen the infrastructural and manufacturing base while bringing down costs in the value chain. This will lay a strong foundation for sustained economic growth and improved resilience.

34. Near-time downside risks to stability and growth emanate from global inflationary pressures, tightening global financial conditions, prolonged supply chain disruptions, global trade slowdown, etc. A rapid return to normalcy in the Chinese economy would lead to higher demand for commodities such as crude oil, industrial metals and coal, etc. That would raise input costs and aggravate India's external deficit.

35. On the other hand, if recessionary tendencies take hold in major AEs in 2023, it may trigger cessation of monetary tightening and a return of capital flows to India amidst a stable domestic inflation rate below 6 per cent. That would also dampen global prices of industrial and energy goods such as copper, iron ore, coal and crude oil. This will lower input costs for manufacturing enterprises, lead to an improvement in animal spirits and provide further impetus to private sector investment.

36. Various international agencies such as the World Bank, the IMF, and the ADB project India to grow between 6-7 per cent in 2023-24.

MACROECONOMIC FRAMEWORK STATEMENT (ECONOMIC PERFORMANCE AT A GLANCE)					
Sl.	Item	Absolute value		Percentage change	
		April-December		April-December	
		2021-22	2022-23	2021-22	2022-23
Real Sector					
1	GDP at market prices (₹ thousand crore) [@]				
	a) at current prices	23664.6	27307.7	19.5	15.4
	b) at 2011-12 prices	14735.5	15760.4	8.7	7.0
2	Index of Industrial Production (2011-12=100) ^{@@}	127.6	134.6	17.6	5.5
3	Wholesale Price Index (2011-12=100) [^]	137.2	153	12.7	11.5
4	Consumer Price Index: Combined (2012=100) [^]	162.9	174	5.2	6.8
5	Money Supply (M3) (₹ thousand crore) ^{\$}	20114.0	21859.3	11.4	8.7
6	Imports at current prices [*]				
	a) In ₹ Crore	3281173	4397381.7	67.7	34
	b) In US \$ billion	441.5	551.7	68.5	25
7	Exports at current prices [*]				
	a) In ₹ Crore	2266224.9	2648132	51.1	16.8
	b) In US \$ billion	305.04	332.76	51.8	9.1
8	Trade Balance (US\$ billion) [*]	-136.45	-218.94	123.5	60.5
9	Foreign Exchange Reserves (at the end of March)				
	a) In ₹ Crore	4598819	4654920#	9.0	1.2
	b) In US \$ million	607309	562721#	5.3	-7.3
10	Current Account Balance (US\$ Billion) [#]	-3.1	-54.5	-	-
Government Finances (₹ Crore) ^{##}					
1.	Revenue Receipts	1358290	1423152	67.1	4.8
	Gross tax revenue	1541920	1780654	50.3	15.5
	Tax Revenue (net to Centre)	1135264	1224833	64.9	7.9
	Non-Tax	223026	198319	79.5	-11.1
2.	Capital Receipts, of which	716317	1019635	-34.5	42.3
	Recovery of loans	11339	13052	-5.2	15.1
	Other Receipts	9364	28429	51.5	203.6
	Borrowings and other liabilities	695614	978154	-35.3	40.6
3.	Total Expenditure	2074607	2442787	8.8	17.7
	(a) Revenue Expenditure	1800977	1995674	8.2	10.8
	(b) Capital Expenditure	273630	447113	13.5	63.4
5.	Revenue Deficit	442687	572522	-48.1	29.3
7.	Fiscal Deficit	695614	978154	-35.3	40.6
8.	Primary Deficit	233841	432955	-66.2	85.1
<p>[@]: GDP for April to March 2021-22 is Provisional estimates, and 2022-23 is the First Advance estimates. ^{@@}: April to November [^]: Provisional for 2022-23 and data for April to November. [*]: On Customs basis. ^{\$}: Outstanding as on December 30, 2022, and percentage change year-on-year. [#]: April – September. ^{##}: Based on data on monthly accounts for April to November 2022 released by Controller General of Accounts, Ministry of Finance and growth of April to November over the corresponding period the previous year.</p>					

2. MEDIUM TERM FISCAL POLICY CUM FISCAL POLICY STRATEGY STATEMENT

1. At the time of presentation of the Union Budget for FY 2022-23, the third CoVID-19 wave was on the wane in the country. As a result, signs of economic recovery and stabilization were visible. The Budget for FY 2022-23 outlined policy actions necessary to foster and sustain the process of economic revival through careful balancing of the country's development priorities and fiscal consolidation.

2. However, outbreak of hostilities between Ukraine and Russia within weeks of presentation of the Union Budget for FY 2022-23 caused severe disruption in the global supply chains. Problems were further compounded by spike in global commodity prices,

resurgence of CoVID-19 in China and other countries. The World Economic Outlook, published by International Monetary Fund (IMF) in January 2023, projected that the global economy could witness a sharper-than-expected slowdown - a slide from 6.2 per cent in 2021 to 3.4 per cent in 2022, and then to 2.9 per cent in 2023.

3. In the context of such a macro-economic environment, major fiscal indicators of the Central Government with respect to the Revised Estimates (RE) of 2022-23 and the Budget Estimates (BE) of 2023-24 as a per cent of GDP, are summarized in the table below.

Fiscal Indicators - Rolling Targets as a Percentage of GDP

	Revised Estimates	Budget Estimates
	2022-23	2023-24
1. Fiscal Deficit	6.4	5.9
2. Revenue Deficit	4.1	2.9
3. Primary Deficit	3.0	2.3
4. Tax Revenue (Gross)	11.1	11.1
5. Non-tax Revenue	1.0	1.0
6. Central Government Debt	57.0	57.2

Notes:

1. "GDP" is the Gross Domestic Product at Current Market Price.
2. Central Government Debt includes external public debt valued at current exchange rates, total outstanding liabilities on Public Account including investment in Special Securities of States under NSSF and EBR liabilities, etc.
3. Liabilities on account investment in Special Securities of States, under NSSF are 1.3 per cent and 1.1 per cent of GDP in RE 2022-23 and BE 2023-24, respectively. The Central Government Debt net of these liabilities comes at 55.7 per cent and 56.1 per cent of GDP in RE 2022-23 and BE 2023-24, respectively.

4. It is evident that the global macro-economic woes of 2022 have now spilled over into 2023. This impact is visible in the context of pace of global economic recovery and also signalling substantive economic downturn in major economies. Therefore, the Union Budget for 2023-24 aims at sustaining growth through renewed emphasis on capital expenditure, strengthening of the social safety net for the poor and vulnerable through prudent and responsible fiscal management.

5. Given continued global uncertainty, this Statement does not outline any medium term fiscal

projections. Instead and as announced in the Budget Speech for FY 2021-22, the Government would continue on the broad path of fiscal consolidation to reach a fiscal deficit to GDP level below 4.5 per cent by FY 2025-26. In line with this commitment, the Central Government attained the lower levels of Fiscal Deficit to GDP projected for FY 2021-22 and FY 2022-23.

6. A Statement explaining the reasons thereof for deviation from the fiscal commitments / obligations mentioned in Section 4 and compliance obligations under Section 7(3)(b) of the FRBM Act, 2003, is provided at the end of this Statement.

Fiscal Outlook and Fiscal Policy Strategy for FY 2022-23

7. According to the First Advance Estimates, the real GDP in FY 2022-23 is expected to grow by 7.0 per cent compared to 8.7 per cent in FY 2021-22. Further, the nominal GDP growth is expected to be at 15.4 per cent in FY 2022-23 against 19.5 per cent in FY 2021-22.

8. The Fiscal Deficit was projected at 6.4 per cent of GDP in the Budget Estimates of FY 2022-23. The same level of FD/GDP ratio has been retained in the Revised Estimates of FY 2022-23. Notwithstanding new development and welfare-related expenditure commitments, buoyancy in tax receipts and targeted expenditure rationalization during the year, have helped to continue with the thrust on rapid inclusive development. It needs to also be noted that the number of Supplementary Demand for Grants during FY 2022-23 were two instead of the usual three in a Financial Year.

9. The Central Government's total expenditure (Revenue and Capital) during April to November 2022 was ₹24.43 lakh crore, or 61.9 per cent of BE 2022-23, recording a year-on-year (y-o-y) growth of around 17.7 per cent over April-November 2021. Of the total expenditure of ₹24.43 lakh crore, ₹19.95 lakh crore (81.7 per cent) and ₹4.47 lakh crore (18.3 per cent) were spent on revenue account and capital account, respectively. With this distribution, the recorded growth in the first eight months was 10.8 per cent and 63.4 per cent for revenue expenditure and capital expenditure, respectively, over the corresponding period in FY 2021-22. Further, the effective capital expenditure (Capital Expenditure plus Grant-in-Aid for Creation of Capital Assets) during the same period was ₹6.06 lakh crore and recorded a growth of 49.5 per cent.

10. During April-November 2022, the Central Government finances have remained stable. In the first eight months of FY 2022-23, Gross Tax Revenue (GTR) recorded y-o-y growth of about 15.5 per cent over the corresponding period in FY 2021-22. During the same period, total Revenue Receipts of the Centre, at about 64.6 per cent of budget estimates, were significantly higher than the last five years' moving average of 54.0 per cent of BE. Tax Revenue (Net to Centre) and Non-Tax Revenue were at 63.3 per cent and 73.5 per cent of their budget estimates, respectively, during this period.

11. Both Direct and Indirect taxes recorded a y-o-y growth of around 23.5 per cent and 8.6 per cent, respectively, in the first eight months of the FY 2022-

23 which was substantially higher than the budgeted growth of 13.6 per cent and 5.3 per cent, respectively. Within the Direct taxes, the Corporation Tax and Taxes on Income recorded a growth of 21.1 per cent and 26.7 per cent, respectively, during April-November 2022 against the Budgeted growth of 13.4 per cent and 13.3 per cent, respectively. The momentum in the domestic economy led to a significant collection of Goods and Service Tax (GST). The Central Goods and Service Tax (CGST) grew by 30 per cent during April-November 2022 over April-November 2021.

12. Non-Tax Revenues (NTR) collection for eight months of FY 2022-23 was ₹1.98 lakh crore which was 73.5 per cent of BE and substantially higher than the five years' moving average of 58.3 per cent of BE. The NTR collection was driven by receipts from the telecom sector, dividends from PSBs and CPSEs including others.

13. Against the Budgeted target of Non-Debt Capital Receipts (NDCR) of ₹79,291 crore, the collection upto November 2022 was ₹41,481 crore which was 52.3 per cent of BE. The major contributor to NDCR is receipts from LIC IPO and others in RE 2022-23.

14. Due to the buoyant position of revenue receipts, the Centre's Fiscal Deficit at the end of November 2022, was ₹9.78 lakh crore which was 58.9 per cent of the budget estimates. This was much lower as compared to its five years' moving average of 104.6 per cent of BE. Similarly, the Revenue Deficit during this period was ₹5.73 lakh crore which was 57.8 per cent of BE, substantially lower than its five years' moving average of 118.3 per cent of BE.

15. The Central Government, in line with its commitment to cooperative federalism made a provision of ₹1 lakh crore towards interest-free loan to the States to boost their respective capital expenditures. In addition, the date for devolution of shareable proceeds of taxes was advanced from 20th to 10th of each month with effect from the FY 2022-23 to bolster resource availability with the States. This arrangement enabled the States to receive their due shares even before they were actually realized by the Union Government during the month. During the FY 2022-23, the Central Government has already released ₹6.68 lakh crore of shareable proceeds in 12 instalments (including 2 advance instalments) to the States till January 2023 against the BE 2022-23 target of ₹8.17 lakh crore.

16. About 69 per cent of the budgeted GST compensation cess collections were realised during the first eight months of current financial year. The Central Government released an amount of ₹17,000

crore to the States/UTs on 24.11.2022 towards the balance GST compensation for the period April to June 2022. The total amount of compensation released to the States/UTs so far, including the aforesaid amount, during the FY 2022-23 was ₹1,15,662 crore. This is despite the fact that total Cess collection till October 2022 was only ₹72,147 crore and the balance of ₹43,515 crore is being released by the Central Government from its own resources.

17. The Union Government has released, in advance, the entire amount of GST Compensation Cess estimated to be collected this financial year till March-end available for payment to the States. This decision was taken to assist the States in managing their resources and ensuring that their programmes especially the expenditure on capital account is carried out successfully during the financial year. Front-loading of resources to the States/UTs were aimed at enabling the States to plan and implement measures to step-up capital and other development related expenditure.

18. The Central Government expenditure is expected to further accelerate in the remaining months of the current financial year mainly on account of the additional net appropriation of over ₹3.25 lakh crore permitted through the first batch of Supplementary Demand for Grants (SDG). Major items of expenditure covered in the SDG pertained to food and fertilizer subsidies, Rural Development, etc. Capital outlays in Road Transport and Highways, Railways, etc. have also increased considerably.

19. The total expenditure in RE 2022-23 is estimated at ₹41.87 lakh crore which is ₹2.42 lakh crore higher than the BE 2022-23 and records an increase of 6.1 per cent. The Expenditure on Revenue account is estimated at ₹34.6 lakh crore in RE as against BE of ₹31.95 lakh crore in FY 2022-23. Expenditure under Capital account in RE is estimated at ₹7.28 lakh crore as against ₹7.50 lakh crore in the BE 2022-23.

20. The Central Government provides a substantial amount to the States/UTs-with Legislature (Centre Sponsored Schemes), many autonomous bodies, etc. in the form of Grants-in-Aid for Creation of Capital Assets (GiA-Capital). Though GiA-Capital is classified as a revenue expenditure (being a grant) in accounting, it is primarily of a capital nature in economic effect. The total GiA-Capital in RE 2022-23 is estimated to be ₹3.26 lakh crore. As a result of that, the Effective Capital Expenditure i.e. GiA-Capital plus Capital Expenditure is estimated to be around ₹10.54 lakh crore in RE 2022-23.

21. The Fiscal Deficit in RE 2022-23 is estimated at 6.4 per cent of GDP which is at par with the BE 2022-

23. This is attributed to proper expenditure targeting, buoyant tax collection, growth momentum, and prudent management of public finances. The Revenue Deficit is expected to be at 4.1 per cent of GDP in RE 2022-23 as compared to 3.8 per cent in BE 2022-23 mainly on account of higher subsidy bill due to global commodity price increases.

22. The gross and net borrowings through dated securities (G-Sec and T-Bills) were planned at ₹14.95 lakh crore and ₹11.68 lakh crore in BE 2022-23, respectively. Upto December 2022, the Government has successfully completed gross and net borrowings of ₹11.18 lakh crore and ₹8.05 lakh crore, respectively, with a weightage average yield of about 7.32 per cent and weightage average maturity of about 15.93 years. The gross and net borrowing through dated securities have been revised to ₹14.21 lakh crore and ₹12.08 lakh crore, respectively, in RE 2022-23. However, gross and net borrowings as per cent of GDP are estimated to decline from the BE levels to 5.2 percent and 4.4 percent in RE 2022-23.

23. The Central Government, as a part of its overall borrowing ceiling, decided to bring Sovereign Green Bond (SGrB) in FY 2022-23, as announced during the Budget Speech. Government is expected to raise ₹16,000 crore as part of SGrB, a framework document has already made public on September 9, 2022. SGrB, may facilitate the Union Government to garner additional finances from the potential investors for onward deployment in public projects directed towards green economy. The SGrB as part of overall borrowing umbrella of the Government may mainstream climate-related considerations into the budget making. On January 25, 2023, the RBI successfully auctioned SGrB of ₹8,000 crore for the maturity of 5 years and 10 years.

24. The Central Government debt is estimated to reduce from 58.8 per cent of GDP in FY 2021-22 to 57.0 per cent of GDP in RE 2022-23. Liabilities on account investment in Special Securities of the States, under the NSSF are 1.7 per cent and 1.3 per cent of GDP in FY 2021-22 and RE 2022-23, respectively. The Central Government debt net of these liabilities comes at 57.2 per cent and 55.7 per cent of GDP in FY 2021-22 and RE 2022-23, respectively.

25. The Central Government provides guarantees for repayment of borrowings upon the security of the Consolidated Fund of India. The FRBM Act, 2003 mandates the Central government to specify the annual target for assuming contingent liabilities in the form of guarantees. Accordingly, the FRBM Act, 2003 prescribes a ceiling of 0.5 per cent of GDP for assuming incremental guarantees in a financial year.

Guarantees given by the Union Government has increased in absolute terms from about ₹1.08 lakh crore in FY 2004-05 to about ₹5.19 lakh crore at the end of FY 2021-22. As a percentage of GDP, such liabilities have declined to 2.2 per cent of GDP in FY 2021-22 as compared to 3.3 per cent of GDP in FY 2004-05. During FY 2021-22, additional guarantees was ₹95,752 crore or 0.4 per cent of GDP, which was well within the limit of 0.5 per cent set under the FRBM Act, 2003. A disclosure statement on outstanding guarantees is appended in Part B of the Receipt Budget 2023-24.

Fiscal Outlook for FY 2023-24

26. Uncertainties plaguing the global economy are likely to continue in the near future. Therefore, efficient management of the domestic economy, especially macroeconomic fundamentals, amidst the global exogenous shocks, requires dynamic and resilient fiscal policy responses. The nominal GDP in the FY 2023-24 is projected to grow by 10.5 per cent over the Advance Estimates of FY 2022-23.

27. The Fiscal Deficit in BE 2023-24 is projected to be 5.9 per cent of GDP against the 6.4 per cent of GDP in RE 2022-23. In absolute terms, the Fiscal Deficit in BE 2023-24 is expected to be at ₹17.87 lakh crore as against ₹17.55 lakh crore in RE 2022-23. The Revenue Deficit is estimated at 2.9 per cent of GDP in BE 2023-24 against 4.1 per cent of GDP in RE 2022-23.

Revenue Receipts (Tax and Non-tax)

28. Gross Tax Revenue (GTR) is projected to grow at 10.4 per cent in BE 2023-24 over RE 2022-23. Both, the Direct and Indirect Tax receipts are individually estimated to grow at 10.5 per cent and 10.4 per cent, respectively. The overall tax (GTR) buoyancy is estimated at 0.99. As the tax collection from the Goods and Service Tax stabilises, it is likely to give boost to the Indirect tax collection with an estimated GST buoyancy of 1.14 in the ensuing year. In BE 2023-24, it is estimated that the Direct and Indirect taxes to contribute 54.4 per cent and 45.6 per cent, respectively, to GTR.

29. In BE 2023-24, the Tax to GDP ratio is estimated at 11.1 per cent which is at par with the RE of 2022-23. Tax collection in BE 2023-24 is anticipated to be in line with the growth of nominal GDP. In BE 2023-24, the Tax Revenue (Net to Centre) is projected at ₹23.31 lakh crore, which is around 11.7 per cent more than ₹20.87 lakh crore of RE 2022-23.

30. The Revenue Receipts of the Union Government consists of Tax Revenue (Net to Centre) and Non-

Tax Revenue (NTR). In BE 2023-24, the NTR is estimated to contribute 11.5 per cent of the Revenue Receipt and is projected to be at ₹3.02 lakh crore which is 15.2 per cent more than the RE 2022-23 of ₹2.62 lakh crore. Thus, the Revenue Receipts of the Central Government is estimated at ₹23.48 lakh crore and ₹26.32 lakh crore in RE 2022-23 and BE 2023-24, respectively.

Non-Debt Capital Receipts

31. Non-Debt Capital Receipts (NDCR) in BE 2023-24 is estimated at ₹84,000 crore which includes the receipts under the recovery of loans and advances (₹23,000 crore), receipts from Monetisation of Roads (₹10,000 crore), etc. The actual realisation of the Non-Debt Capital Receipts significantly depends on the prevailing market conditions, expected valuation assigned to the Government stake etc. Considering these facts, the Non-Debt Capital Receipts are estimated at ₹84,000 crore in BE 2023-24 compared ₹83,500 crore of RE 2022-23.

Expenditure

32. Total expenditure of the Centre in BE 2023-24 is estimated at about ₹45.03 lakh crore, representing an increase of 7.5 per cent over RE 2022-23. A major contributor to the growth of the total expenditure in BE 2023-24 is the capital expenditure.

Capital Expenditure

33. The Union Budget in FY 2023-24 proposes to boost thrust on infrastructure development through enhanced capital expenditure. It also seeks to ensure equity and equality of such investments across the country. This is in line with the Government's focus and commitment to Four I's - Infrastructure, Investment, Innovation and Inclusion in the next 25 years.

34. The Budget for FY 2023-24 provisions for above ₹10 lakh crore (3.3 per cent of GDP) for capital expenditure. This depicts a sharp increase of 37.4 per cent in capital budget in BE 2023-24 over ₹7.28 lakh crore of RE 2022-23. The budgeted capital expenditure is almost 3 times of the capital expenditure in FY 2019-20. The key infrastructure and strategic Ministries such as Road Transport and Highways, Railways, Defence, etc. will lead in driving the capital expenditure in FY 2023-24.

35. To strengthen the hands of the States in the spirit of cooperative fiscal federalism, the scheme for providing financial assistance to the States for capital expenditure introduced in FY 2022-23 has been extended in FY 2023-24, with the enhanced outlay of ₹1.30 lakh crore. This represents an increase of 30

per cent over BE 2022-23 allocation and accounts to nearly 0.4 per cent of GDP of FY 2023-24.

Revenue Expenditure

36. Expenditure on revenue account has been estimated at about ₹35.02 lakh crore (11.6 per cent of GDP) in BE 2023-24 recording a growth of 1.2 per cent over ₹34.59 lakh crore of RE 2022-23. Major components of the Centre's revenue expenditure include Interest payments, major subsidies, pay and allowances of government employees', pensions, defence revenue expenditure, and transfers to States in the form of Finance Commission grants, Centrally Sponsored Schemes, etc. Grants to Central autonomous bodies are a substantial part of the Central Sector schemes. A few significant items are discussed briefly in the following paragraphs.

(i) Interest Payments

37. In BE 2023-24, interest payments are estimated, based on the prevailing interest rate for different securities, at ₹10.80 lakh crore which is 30.8 per cent of the total revenue expenditure and 41.0 per cent of the Revenue Receipts of the Centre.

(ii) Major Subsidies

38. Another significant portion of the Revenue expenditures is the major subsidies which includes food, fertiliser, and petroleum subsidies. Major subsidies at ₹3.75 lakh crore (1.2 per cent of GDP) is 10.7 per cent of Revenue Expenditure in BE 2023-24. The subsidy bill was revised upward in RE 2022-23 to ₹5.22 lakh crore as compared to ₹3.18 lakh crore in BE 2022-23 mainly on account of the extension of the free food grain programme PMGKAY upto December 2022 and greater spending on fertiliser subsidies to shield farmers from the negative effects of an increase in global fertiliser prices.

(iii) Finance Commission Grants

39. Finance Commission grants are given to the State Governments under Article 275(1) of the Constitution. Total FC grants under various categories, such as Revenue Deficit Grants to the States, Grant for Urban and Rural Local Bodies and others are estimated to the tune of ₹1.65 lakh crore in FY 2023-24.

(iv) Pensions

40. Pension payments are mostly part of the three Government of India Demands for Grants: Defence (Pensions), Civil (Pensions), and Telecommunications. While Civil (Pensions) covers all departments, the other two demands cover pension expenses for specific Ministries/ Departments. The Central

Government's expenditure is expected to rise from about ₹2.07 lakh crore in BE 2022-23 to about ₹2.45 lakh crore in RE 2022-23. The main reason behind this increase in RE 2022-23 is clearing the dues of OROP with respect to Defence Personnel. Pension payments are expected to be at ₹2.34 lakh crore in BE 2023-24, representing 0.8 per cent of the estimated GDP. This includes a provision of about ₹1.38 lakh crore for Defence pensions.

41. Government has revised the pensions of Armed Forces Pensioners/Family Pensioners under 'One Rank One Pension' with retrospective effect from 1st July 2019. Arrears on account of this revision will be paid in four half-yearly instalments. While the provision for annual (regular) expenditure towards implementation of 'One Rank One Pension' has been made in the respective financial year, the provision for arrears has been made in full in the FY 2022-23, which is to be transferred to a 'non lapsable deposit account' for eventual payment to beneficiaries.

(v) Tax devolution to the States

42. FY 2023-24 will be a third year of the 15th Finance Commission (FFC) award period. Based on FFC recommendations, tax devolution to the States has been decided at 41 per cent of the divisible pool from FY 2022-23. The devolution of the States' share of taxes which was estimated at about ₹8.17 lakh crore in BE 2022-23 has been substantially enhanced in RE 2022-23 to about ₹9.48 lakh crore on account of increased tax receipts during the year and adjusting the amount of approximately ₹32,600 crore on account of prior period adjustments payable by the Union Government to the States. As per FFC recommendations, tax devolution to the States works out to be ₹10.21 lakh crore in BE 2023-24.

Borrowings- Public debt and other liabilities

43. The Central Government has planned gross and net borrowings through dated securities (G-Sec and T-Bills) of about ₹15.43 lakh crore and ₹12.31 lakh crore, respectively, in BE 2023-24 which is 8.6 per cent and 1.9 per cent higher than gross borrowings of ₹14.21 lakh crore and net borrowing of ₹12.08 lakh crore in RE 2022-23. However, in terms of per cent of GDP, the Gross and Net Borrowing is expected to go down to 5.1 per cent and 4.1 per cent, respectively, in BE 2023-24 as compared to 5.2 per cent and 4.4 per cent, respectively, in RE 2022-23.

44. Other sources of financing the Fiscal Deficit are NSSF investments in Special securities of the Central Government, short term treasury bills, net external assistance and the Public Account balances etc. For financing the Fiscal Deficit in BE 2023-24, borrowing from NSSF is estimated at about ₹4.71 lakh crore;

whereas, those from external sources and State Provident Funds are estimated at ₹22,118 crore and ₹20,000 crore, respectively. Of the total financing of Fiscal Deficit, the share of net market borrowings and NSSF is 68.9 per cent and 26.4 per cent, respectively, in BE 2023-24.

45. The total liability of the Central Government includes public debt (51.3 per cent of GDP in BE 2023-24) and other liabilities (5.6 Per cent of GDP in BE 2023-24) in the Public Account of India. In the public debt portion of the liabilities the major component pertains to internal public debt and the remaining is the external debt component. The external debt of the Centre is a very small component of the total liabilities (4.29 per cent of Total Liabilities in BE 2023-24) as the Government borrowings are mainly through domestic markets. Further, external borrowings are mainly through multilateral agencies.

46. Total public debt, including external debt at the book value of the Centre is estimated at ₹152.54 lakh crore in BE 2023-24 against ₹135.91 lakh crore in RE 2022-23. As a percentage of GDP, the total public debt is estimated to increase from 49.8 per cent of GDP in RE 2022-23 to 50.6 per cent of GDP in BE 2023-24. However, if the external debt is valued at the current exchange rate, the public debt to GDP ratio is estimated at 51.3 per cent in BE 2023-24.

47. The FRBM Act, 2003 has widened the coverage of the Central Government debt. In terms of this definition, Central Government debt includes all liabilities contracted on the Consolidated Fund of India including external debt valued at the current exchange rate, all outstanding liabilities on the Public Account, Extra Budgetary Resources (EBR) liabilities etc. With this comprehensive view, the Central Government debt is estimated at 57.2 per cent of GDP in BE 2023-24.

48. Significant portion of outstanding liabilities on Public Account of India is on account of NSSF investment in the State Government special securities (which are de facto a liabilities of the State Governments). If such investments are excluded to avoid the double counting, adjusted Central Government debt is estimated at 55.7 per cent of GDP at the end of FY 2023-24.

Assessment of Sustainability

(i) The balance between Revenue receipts and Revenue expenditure

49. Total revenue receipts and revenue expenditure of the Centre are estimated at ₹26.32 lakh crore and ₹35.02 lakh crore, respectively, in BE 2023-24. Based

on this, the ratio of revenue receipts to revenue expenditure is estimated at 75.2 per cent in BE 2023-24 improving from 67.9 per cent and 67.8 per cent in RE 2022-23 and FY 2021-22, respectively. The improvement of the ratio in BE 2023-24 is mainly on account rationalisation of revenue expenditure and stable tax to GDP ratio. Tax-GDP ratio has improved from 10.7 per cent in BE 2022-23 to 11.1 per cent in RE 2022-23 and BE 2023-24.

50. The ratio of revenue receipts to revenue expenditure needs to be evaluated keeping in mind the financial relation and nature of the financial transaction between the Centre and the States. It is important to note that the financial relations between the Centre and the States have important implications for the achievement of ideal balance between revenue receipts and revenue expenditure. Every year, a substantial amount of resources are transferred to the States/UTs through Centrally Sponsored Schemes/ Central Sector Schemes in the form of Grants-in-aid for creation capital assets. Even though the end use of such grants may be capital in nature, in accounting terms, such transfers are booked as revenue expenditure in the books of the Central Government. After adjusting the of Grants-in-aid for creation of capital assets, the ratio of revenue receipts to revenue expenditure is estimated at 83.9 per cent in BE 2023-24.

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

51. The ratio of capital expenditure to Fiscal Deficit (Capex-FD) broadly measures the extent of borrowed resources used for financing the capital expenditure of the Government. The ratio is estimated at 56.0 per cent in BE 2023-24 as compared to 41.5 per cent in RE 2022-23 and 37.4 per cent in FY 2021-22. Over the period of time, this ratio has been improving due to measures taken by the Government to boost the capital expenditure. Further, if wider definition of capex that is effective capital expenditure, capital expenditure plus the Grants-in-aid for creation of capital assets, the ratio is estimated at 76.7 per cent in BE 2023-24 as compared to 60.0 per cent in RE 2022-23.

Fiscal Policy Strategy for 2023-24

52. Fiscal policy strategy of the Central Government for FY 2023-24, is guided by the basic premise of augmenting and concretising the growth momentum in spite of global headwinds and challenges of hovering uncertainties across the globe while remaining committed to the path of fiscal consolidation and improving the quality of Government Expenditure. The boost to capex is expected to generate the

multiplier effect that may counter the drag in demand due to exogenous and unknown shocks, if any, emanating from the foreign territory.

Tax Policy

53. The overall medium term thrust of the tax policy is towards rationalizing tariff structure and widening the tax base. This is being achieved by removing tax inversions which have crept in the tax structure and pruning the exemptions. In addition, measures are being taken for widening the tax base, easing compliance for the taxpayers, formalization of the supply chain and improving ease of doing business. In Budget 2023-24, the gross tax revenue (GTR) has been estimated at 11.1 per cent of GDP.

54. On Indirect Taxes front, GST with a motto of "One Nation One market, One Tax" emerged as a transparent, neutral, efficient tax regime. Government is further leveraging GST to augment receipts under this, such as:

(i) From July, 2022 UPI and IMPS have been provided as an additional mode for payment of GST to facilitate taxpayers and to further encourage digital payment by amending Rule 87(3) of CGST Rules. This will provide them flexibility and ease in making their GST payment.

(ii) Transfer of CGST/IGST cash ledger balance has been allowed between 'distinct persons' (entities having same PAN but registered in different states).

(iii) Facility has been provided for withdrawal of refund applications made under GST by the taxpayers. A mechanism has also been prescribed for refund of accumulated ITC on export of electricity.

(iv) Procedure of sanction of IGST refund in case of export of goods, where the exporters have been identified as risky, has been streamlined, to expedite verification and processing of such claims.

55. The progressively higher GST collections are indicative of a maturing GST regime. GST receipts are estimated at ₹9.57 lakh crore in BE 2023-24, registering a growth of 12.0 per cent over Revised Estimates.

56. The Customs duty rate structure directed towards incentivizing the domestic value addition inter alia envisages imposition of lower duty on raw materials and providing reasonable tariff support to goods being manufactured in India.

57. Indian Customs has notified IGCRS (Import of Goods at Concessional Rate of Duty) Rules, 2022, come into effect from 10th September 2022. These

rules have introduced significant changes for simplifying and automating the procedures for import of goods at concessional Rate of Duty in accordance with the larger goals of "Ease of doing business" by accommodating long standing demands from the trade such as inclusion of job work, clearance of capital goods at depreciated value, making the entire process simple and online and doing away with any need for physical interface with officers.

58. To leverage the vast network of post offices across the country and enable MSME's (Micro Small and Medium Enterprises) to export to global markets using e-commerce or other regular channels, the CBIC in collaboration with the Department of Posts (DoP) has notified the Postal Exports (Electronic Declaration and processing) Regulations, 2022. Under the new system, an exporter need not visit a foreign post Office (FPO) to file the Postal Bill of Export (PBE) and present export parcel. Rather, the exporter is enabled to file the PBE online from his home/office and handover the export parcel to postal authorities at a nearby booking post office. Postal authorities shall arrange secure transport of export parcel from booking post office to an FPO, where customs clearance shall take place.

59. On Direct Taxes front, the policy is augmenting revenue generation and endeavours improved voluntary compliance. As a result of administrative and technological intervention in people friendly tax architecture, Corporation Tax is estimated at ₹9.23 lakh crore in BE 2023-24, indicating 10.5 per cent increase over RE 2022-23. Similarly, Taxes on Income estimated to grow by 10.5 per cent over RE 2022-23. Some of the important measures initiated in this regard are as under:

(a) Aadhar based Instant e-PAN, a free, completely online and single window option for first time PAN owner. Number of PAN allotted through this functionality till 16th January, 2023 since the inception of the project is 1,65,42,366.

(b) Simplification of compliance norms for star-ups: Star-ups have been provided hassle-free tax environment which includes simplification of assessment procedure, exemptions from Angle-tax, constitution of dedicated star-up cell.

(c) Expansion of scope of TDS/TCS: The scope of TDS and TCS has been widened by including new transactions like foreign remittance, purchase of luxury cars, e-commerce participants, a comprehensive taxation regime for Virtual Digital Asset (VDA) has been provided along with introduction of TDS on transfer of such VDAs to ensure tracking.

(d) Digitization of Indian economy further facilitated by carrying out, reduction in rate of presumptive profit on digital turnover, removal of MDR charges on prescribed modes of transactions, reducing the threshold of cash transactions, prohibition of certain cash transactions, etc.

(e) PAN, is now required for various activities like opening of a bank account, de-mat account, registering for GST, etc. The progressive number of PANs allotted upto January 16, 2023 (cumulative) is 65,36,01,023. Thus PAN is leveraged to become Business Identification Number (BIN) for providing registration to a number of government department and services.

(f) Integration of PAN with AADHAR: Aadhar seeding with PAN has dual purpose of preventing any of the duplicate PAN from being issued to any applicant as well as identify the applicant having an already issued PAN.

(g) Integration with MCA for issue of PAN and TAN/ Instant e-PAN for corporate entities: PAN and TAN allotment has been integrated with the Common Application Form SPICs at MCA portal. Number of PAN and TAN allotted through this facility till December, 2022 were 8,53,760 and 8,54,887, respectively.

(h) An integrated e-filing and COC 2.0 project was launched with a view to provide better e-filing experience, ease of compliance, more accurate and faster processing of ITRs. Over 7.61 crore ITRs have been e-filed on the portal till January 6, 2022 during FY 2022-23.

(i) An integrated data warehousing and business intelligence platform has been operationalised to enable tax administration to promote voluntary compliance and deter noncompliance, to impart compliance that all eligible persons pay appropriate tax and to promote fair and judicious tax administration.

Expenditure Policy

60. Fiscal rules aim at correcting distorted incentives and containing pressures to overspend so as to ensure fiscal responsibility and debt sustainability. In this context expenditure guidelines which are designed to attain such objectives are, easy to monitor and reduce the pro-cyclicality of fiscal policy. In order to promote sustained economic growth based on macroeconomic stability it is important to focus on the quality of expenditure.

61. The concepts of productive efficiency and optimal resource utilisation guide the government's

expenditure profile towards long-term, sustainable, and equitable growth and wellness. The Government's priority in Budget 2023-24 is to provide a larger outlay to areas that will support economic growth, job creation, social wellbeing, etc. This backdrop must be considered when looking at increased outlay for the Railways, Road transport and Highways and Defence and for health, education, rural development, and social welfare.

62. Some components of government expenditure, like output based fiscal incentives to promote industrial growth and jobs on the one hand and to focus on primary health and education on the other, are more productive than others and complement rather than compete with private expenditure. Therefore, such fiscal incentives contribute to supporting growth and stimulating investment and consumption. Improving the quality of fiscal expenditure is strongly associated with public infrastructure investments, education and training (together with active labour market policies), health care as well as research and development that support growth by improving the economy's endowment of production factors (labour and capital) or their productivity.

63. Technology has been leveraged as a tool for major public financial management reform. Central Nodal Agency (CNA), Single Nodal Agency (SNA) and Treasury Single Account (TSA) system bring about greater efficiency in Centrally Sponsored Scheme (CSS)/Central Sector Scheme (CS) fund utilization, tracking of funds, pragmatic and just-in-time release of funds; ultimately all contributing to better Cash Management of the Government.

64. Expenditure management premised on improving the quality of expenditure through better targeting facilitates the adjustment process in managing debt and the consequent financial risks. The response to the economic crisis unleashed by the CoVID-19 pandemic was rapid and extensive. While the fiscal package cushioned the immediate impact, care was taken not to make it too fiscally expansionary.

65. Initiatives taken by the Union Government in this regard are as under:

66. PM GatiShakti: The PM GatiShakti National Master Plan for Multi-modal Connectivity, was launched in October, 2021. It is essentially a digital platform desired to bring 16 Ministries including Railways and Roadways together for integrated planning and coordinated implementation of infrastructure connectivity projects. The multi-modal

connectivity will provide integrated and seamless connectivity for the movement of people, goods and services from one mode of transport to another. It will facilitate the last-mile connectivity of infrastructure and also reduce travel time for people.

67. It is incorporating the infrastructure schemes of various Ministries and the State Governments like Bharatmala, Sagarmala, inland waterways, dry/land ports, UDAN etc. Economic Zones like textile clusters, pharmaceutical clusters, defence corridors, electronic parks, industrial corridors, fishing clusters, agricultural zones to be covered to improve connectivity & make Indian businesses more competitive. It is to leverage technology extensively including spatial planning tools with ISRO (Indian Space Research Organisation) imagery developed by BiSAG-N (Bhaskaracharya National Institute for Space Applications and Geoinformatics).

68. The roll-out of the Pradhan Mantri GatiShakti National Master Plan is expected to provide a fillip to infrastructure development in the country. The PM GatiShakti National Master Plan for Multi-modal Connectivity, would bring different Ministries including Railways and Roadways together for integrated planning and coordinated implementation of infrastructure connectivity projects in the country. Approvals for individual projects of different Ministries are to be viewed from the perspective of conformity to the PM GatiShakti National Master Plan, thus ensuring a holistic and coordinated approach to infrastructure development.

69. Revision in Delegation of Financial Power Rules- Rule 8 of Delegation of Financial Power Rules (DFPR) prescribes the list of standard object heads viz. the last tier of classification in Government accounts. This list of standard object heads has been revised, effective from 1st April, 2023, in consultation with Comptroller and Auditor General of India and notified on 16.12.2022 with a view to enhance the granularity in Government expenditure. The genesis of the New Object Heads of accounts lies in recommendations of the Expenditure Management Commission, 2014.

70. Supporting efforts of the States for capital spending: In Budget for 2022-23, the Central Government prioritised the faster completion of ongoing project of the States and also providing interest-free long-term loan to the States to take up new capital projects to be completed in a time bound manner. The Central Government through a coordinated response by engaging the State Government in a spirit of cooperative and competitive

fiscal federalism enhance the budget from ₹10,000 crore in FY 2021-22 to ₹1.3 lakh crore in BE 2023-24.

Government Borrowings, Lending and Investments

71. One of the key features on Government's debt profile is the diminishing proportion of external debt as percentage of total liabilities, which, at the current exchange rate amounts to approximately five per cent of the Central Government's total liabilities as on 31st March, 2021. External borrowing is limited to multilateral/ bilateral loans from select development partners for financing development projects and, thus, not exposed to reversal of capital flows. The external funding at ₹19,251 crore in BE 2022-23 has a share of 1.16 per cent in FD. The BE 2023-24 external funding for FD financing is at ₹22,118 crore. Thus, Government will continue to rely on raising debts from domestic market borrowing or market linked domestic sources, with external sources financing only 1.2 per cent of the FD in BE 2023-24.

72. The rollover risk in the Government debt portfolio continues to be low with weighted average maturity of outstanding dated securities remaining close to 16.95 years as on 17th January, 2022. Furthermore, securities maturing in next 5 years are about 30 per cent of total outstanding dated securities.

73. During FY 2022-23 (upto September), the weighted average maturity of primary issuance of rupee dated securities has moderated to 15.55 years vis-à-vis 16.99 years in the previous year. The weighted average yield of dated securities issued during the same period of FY 2022-23 was increased to 7.33 per cent as compared to 5.79 per cent during same period of FY 2021-22 indicating high yield environment. The 'primary issuances' continuous high maturity and declining borrowing costs are a reflection of 'insurance companies' and 'provident funds' increased demand for securities with longer tenors, which support the Government's ongoing attempts to extend its maturity profile over the medium term.

74. In Union Budget 2022-23, it was mentioned that as a part of the financial stability and long-term sustainability of public finances depends on prudent debt management. The idea behind India's debt policy is to gradually lower the public debt to GDP ratio in order to lower debt servicing cost and free up funds for other essential expenditures. The debt strategy is focussing on maintaining a stable, inexpensive, and responsible debt architecture.

75. The Government's Medium Term Debt Management Strategy seeks to reduce the cost of

borrowing for the Government in the medium- and long-term through the issuance of appropriate instruments, and by controlling rollover risk by lengthening maturities and switching/buying back securities. It also reduces interest rate risk by keeping floating rate debt low, and manages foreign currency risk by issuing debt in the domestic currency.

76. Apart from greater focus on market borrowings, the Government is also moving toward the alignment of administered interest rates with the market rates. Interest rates on small savings are broadly linked to yields in the secondary market of dated securities and the interest rates are reviewed quarterly, albeit taking into account (in some cases) post-tax returns.

77. The Government is committed to bring transparency in public debt management operations. The Government of India publishes a report, 'Status Paper on Government Debt' from October, 2016. This report covers various facets of public debt including the overall debt position of the country, assessment on various aspects of debt sustainability, medium term debt management strategy for covering various risks, etc.

Strategic priorities for FY 2023-24:

78. The government's fiscal strategy priorities for FY 2023-24 rests on the principle of continuing on the path of gradual fiscal consolidation while retaining flexibility necessary to effectively respond to the prevailing economic conditions. The FY 2023-24 fiscal strategy of the government is based on the following broad intents:

- (a) Directing increased resources towards capital spending to sustain infrastructure development momentum;
- (b) Focus on integrated and coordinated planning and implementation of infrastructure projects in the country, embracing the principles of PM GatiShakti.
- (c) Prioritisation of expenditure towards the key developmental sectors viz., health, education, drinking water and sanitation, agriculture, rural development etc. to boost sustainable growth and employment;
- (d) Holistic approach towards enhancing the public infrastructure by supporting efforts of the States for capital spending;
- (e) Enhancing the effectiveness of cash management through just-in-time release of resources by using SNA/TSA system etc.

Conclusion and Policy Evaluation

79. Notwithstanding the global uncertainties and woes during the FY 2022-23 and looming fear of its extending in the ensuing year, the Central Government remains committed to adhere to the Fiscal Deficit target of 6.4 per cent of GDP in RE 2022-23 and continuing on the path of fiscal consolidation in Budget of FY 2023-24 by targeting the Fiscal Deficit at 5.9 per cent of GDP. The fiscal policy stance in the BE 2023-24 is to provide a positive impulse to the growth environment, sustain the growth momentum in ensuing year, and provide the necessary cushion to make the domestic economy more resilient in spite of global headwinds. The measures taken in the previous year and proposed for the ensuing year, mainly led by the expansion of capex with a multiplier effect, are expected to strengthen the growth momentum and to complement private investments for more rapid and inclusive growth over the medium term.

Statement explaining the reasons for deviation from the fiscal targets mentioned in Section 4 and compliance obligations under Section 7(3)(b) of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003.

1. Section 4(1)(a) of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 mandates the Central Government to take appropriate measures to limit the Fiscal Deficit to three per cent of Gross Domestic Product (GDP) by the 31st March, 2021. Section 4(1)(d) of the FRBM Act, 2003, further requires the Central Government to endeavour that the aforementioned fiscal targets are not exceeded after the stipulated dates. According to Section 7(3)(b)(i) of the FRBM Act, 2003, the Minister of Finance is required to make a statement in both Houses of Parliament explaining the deviation in meeting the obligations cast on the Central Government under this Act.

2. The CoVID-19 pandemic induced unprecedented economic and fiscal crisis across the globe, and in India. The pandemic caused the Central Government to raise the level of Fiscal Deficit to 9.2 per cent of GDP in FY 2020-21 as against 3.5 per cent of GDP estimated for BE 2020-21. Since then, the Central Government has been abiding by the principle of gradual fiscal consolidation to reach at the desired level. However, the back-to-back global headwinds and global economic uncertainties continue to pose constraints which are often beyond the direct control of domestic economic policy levers.

Therefore, the fiscal policy stance has been to make the domestic economy more resilient to exogenous shocks and to mitigate the risks of global economic downturn.

3. The Government was unable to place the Medium-term Expenditure Framework Statement in FY 2022-23 before both Houses of Parliament as mandated under Section 3(1B) of the FRBM Act amidst continued global turbulence.

4. In January 2023 release of the World Economic Outlook, published by the International Monetary Fund (IMF), the global economic growth projection has been scaled down from 6.2 per cent in 2021 to 3.4 per cent in 2022 and 2.9 per cent in 2023. Further, the World Bank in a report on Global Economic Prospects of January 2023, indicated a sharp, long-lasting slowdown, with global growth declining to 1.7 per cent in 2023 from 3.0 per cent expected just six months ago.

5. The Budget for FY 2023-24 is being presented amidst the ongoing geo-political tensions, looming fear of economic recession in major economies, resurgence and spread of CoVID-19 in China, among others. In this context, it is noteworthy that since, the emergence of CoVID-19 pandemic, the fiscal policy stance has been focussed on increased development/welfare-related expenditures to contain the pandemic and to provide succour to the people (FY 2021-22), followed by strengthening recovery by boosting capex (FY 2022-23). It now seeks to concretise the momentum of growth and development, and making

the domestic economy more resilient amid the global headwinds. The Central Government's Fiscal Deficit as percentage of GDP declined from 9.2 per cent of GDP in FY 2020-21 to 6.7 per cent in FY 2021-22. Further, the Fiscal Deficit is expected to decline to 6.4 per cent in RE 2022-23 and is estimated at 5.9 per cent of GDP in BE 2023-24.

6. The Government will continue its efforts and measures for ease of doing business, to improve ease of tax compliance and plugging of evasion, expenditure rationalisation for higher efficiencies in public spending along with discontinuance of extra budgetary resources and proactive fiscal disclosure in FY 2023-24 and beyond.

7. In the light of the above, it is necessary that the Government retains requisite fiscal flexibility to effectively respond to emerging challenges. Further, medium term projections amidst unprecedented global turbulence and headwinds may not be reliable. Hence, fiscal projections for the year FY 2024-25 and FY 2025-26 are not being placed alongside this Statement.

8. However, in line with the commitment made in the Budget Speech for FY 2021-22, the Government would pursue a broad path of fiscal consolidation to attain a level of Fiscal Deficit lower than 4.5 per cent of GDP by FY 2025-26. The Government would continue with its efforts to attain sustained, broad based economic growth, and take such measures as may be necessary to protect the lives/ livelihoods of the people, while adhering to the path of fiscal rectitude.
