ECONOMY SURVEY 2020
VOLUME-2

CHAPTER 2: FISCAL DEVELOPMENTS

Overview

- In 2019-20, Centre's fiscal deficit was 3.3 per cent of GDP down from 3.4 per cent of GDP in 2018-19.
- The year 2019-20 has been challenging for the Indian economy owing to the decelerating growth rate experienced in the first half of the year.
- The Medium Term Fiscal Policy (MTFP) Statement presented with the Budget 2019-20, pegged the fiscal deficit target for 2019-20 at 3.3 per cent of GDP and 3 per cent of GDP in 2020-21, continuing at the same level in 2021-22.
- It was further projected that Central Government liabilities will come down to 48.0 per cent of GDP in 2019-20, 46.2 per cent of GDP in 2020-21 and 44.4 per cent of GDP in2021-22.

Understanding the problem

Central Government Receipts

- The non-debt receipts comprise of tax revenue, non-tax revenue, recovery of loans, and disinvestment receipts.
- The debt receipts mostly consist of market borrowings and other liabilities, which the government is obliged to repay in the future.

Measures for Direct taxes

- Mandatory furnishing of ITR for persons entering into high value transactions.
- Interchangeability of PAN and Aadhaar.
- Incentives to International Financial Services Centre (IFSC), start-ups, resolution of distressed companies and National Pension System (NPS) subscribers.

Measures for Indirect taxes

- Sabka Vishwas (Legacy Dispute Settlement) Scheme 2019
- Quick Response (QR) Code
- Generation and quoting of Document Identification Number

Central Government Finances Trends in Receipts

The Budget 2019-20 targeted a high growth in Non-debt receipts of the Central Government, which was driven by high expected growth in Net Tax revenue and Non-Tax revenue.

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

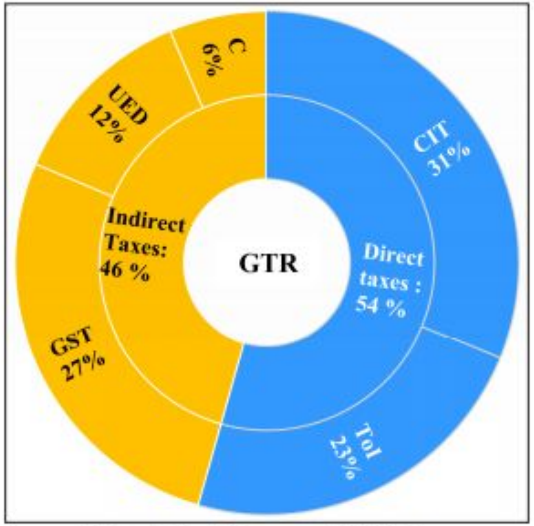
Items	2014-15	2015-16	2016-17	2017-18	2018-19 PA	2019-20 BE*
Revenue Receipts	8.5	8.5	15.0	4.4	8.2	26.4
Gross Tax Revenue	9.3	16.9	17.9	11.8	8.4	18.3
Net Tax Revenue	10.8	4.4	16.7	12.8	6.0	25.3
Non-Tax Revenue	-0.5	27.0	8.6	-29.4	22.3	32.9
Non-debt Capital Receipts#	23.0	22.3	3.8	77.0	-2.5	6.3
Non-debt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

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

Tax Revenue:

- The Budget 2019-20 estimated the Gross Tax Revenue (GTR) at 11.7 percent of GDP.
- The direct taxes, comprising mainly of corporate and personal income tax, constitute around 54 percent of GTR.
- Better tax administration, widening of TDS carried over the years, anti-tax evasion measures and increase in effective tax payers base have contributed to direct tax buoyancy.
- Widening of tax base due to increase in the number of indirect tax filers in the GST regime has also led to improved tax buoyancy.
- Going forward, sustaining improvement in tax collection would depend on the revenue buoyancy of GST.

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



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

Non-Tax Revenue:

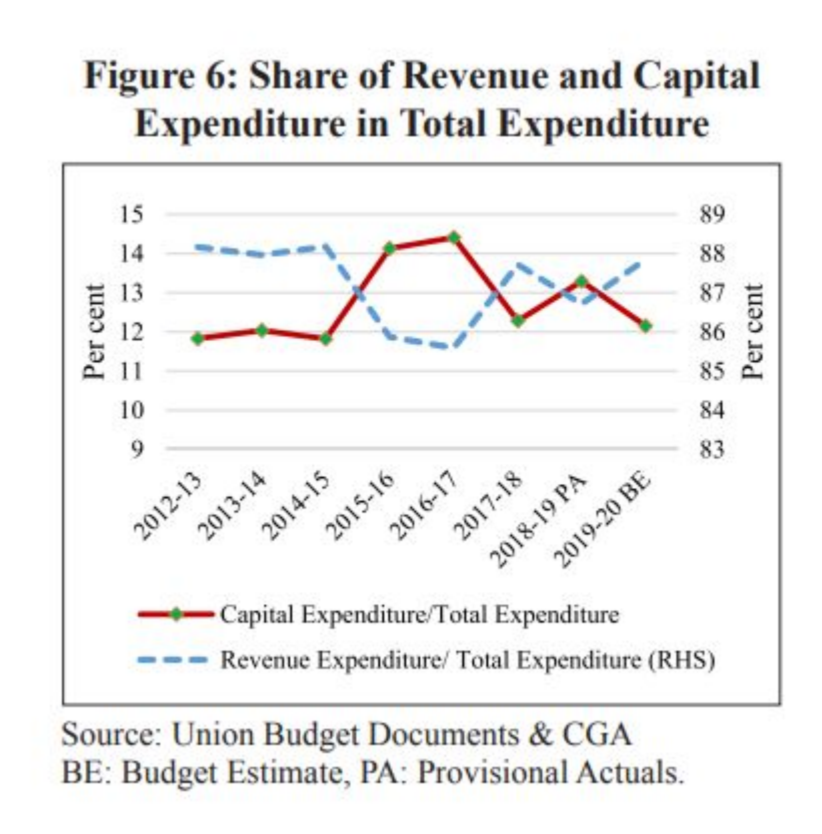
- Non-Tax revenue comprises mainly of interest receipts on loans to States and Union Territories, dividends and profits from Public Sector Enterprises including surplus of RBI transferred to Government of India, receipts from services provided by the Central Government and external grants.
- The Budget 2019-20 estimated the Non-Tax Revenue at Rs. 3.13 lakh crore, 1.5 percent of the GDP. Roughly, two third of this increase in the BE is envisaged from dividends and profits especially surplus transferred by RBI.

Non-debt Capital receipts:

- Non-debt Capital receipts mainly consist of recovery of loans and advances, and disinvestment receipts.
- The receipts from recovery of loans and advances have been declining over the years.
- The Budget 2019-20 aimed at mobilising Rs. 1.05 lakh crore on account of disinvestment proceeds

Trends in Expenditure

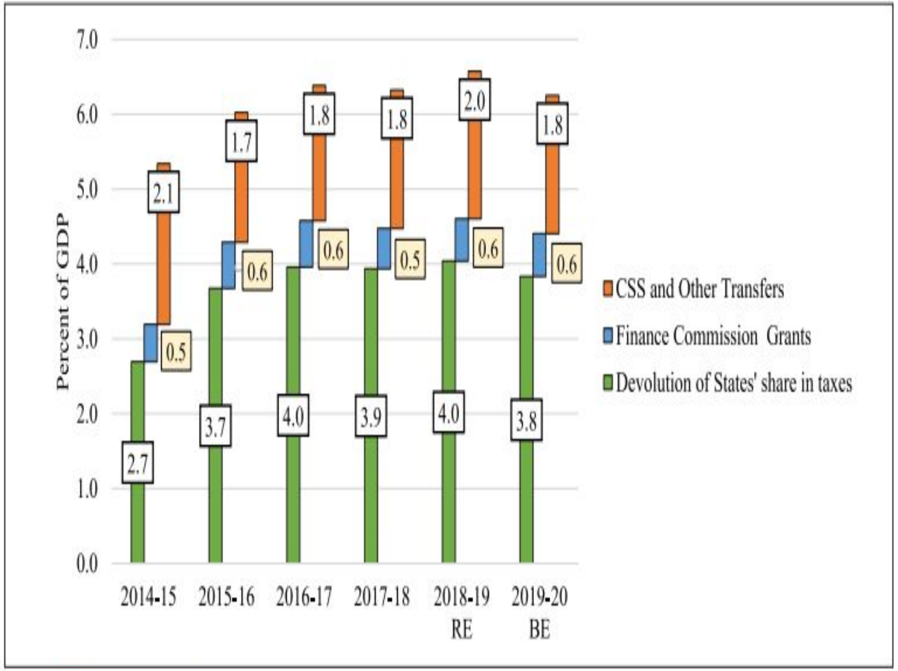
• Central Government budgetary expenditure is envisaged to increase by one percentage point of GDP in 2019-20. The entire increase is on revenue account with capital spending remaining unchanged as per cent of GDP.
• Expenditure on defence services, salaries, pensions, interest payments and major subsidies account for more than sixty per cent of total expenditure.
• Budgetary expenditure on subsidies has seen significant moderation through improved targeting and considerable restructuring and reclassification of Central sector and Centrally Sponsored Schemes in the recent years. •
Apart from budgetary spending, Extra Budgetary Resources (EBR) have also been mobilized to finance infrastructure investment since 2016-17.



Transfer to States

• Transfer of funds to States comprises essentially of three components: share of States in Central taxes devolved to the States, Finance Commission Grants, and Centrally Sponsored Schemes (CSS), and other transfers.
• Both in absolute terms and as a percentage of GDP, total transfers to States have risen between 2014- 15 and 2018-19 RE.
• The Budget 2019-20 envisages an increase in expected grants and loan to States relative to 2018-19 RE, on account of higher requirements under compensation to States for revenue losses on roll out of GST, grants to rural and urban bodies and releases under Samagra Shiksha.

Figure 7: Central Government transfers to States



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

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

• Revenue receipts have grown at a much higher pace during 2019-20 (April to November 2019) over the corresponding period last year.

• Within direct taxes, personal income tax has grown at 7 per cent while corporate tax has registered a negative growth during the first eight months of the current financial year.

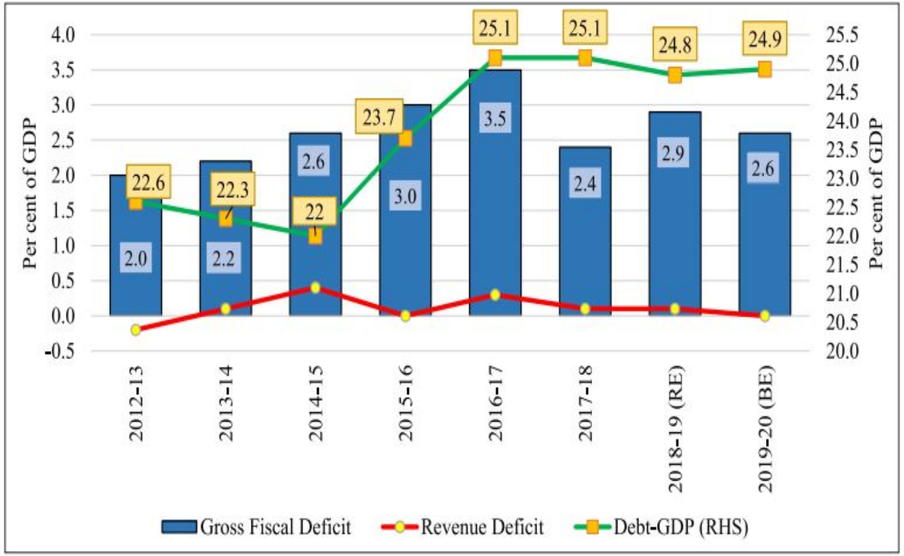
• The gross GST monthly collections have crossed the mark of one lakh crore, for a total of five times, during 2019-20.

State Finances:

The States have continued on the path of fiscal consolidation and contained the fiscal deficit within the targets set out by the FRBM Act.

- The fiscal consolidation of the States in the last four to five years can be attributed to the steep decline in expenditure, mainly capital.
- The financing pattern of Gross Fiscal Deficit for States has changed over the years. Financing via market borrowings has increased from 61.6 per cent in 2015-16 to 73.7 per cent in 2018- 19 RE.
- The debt to GDP ratio for States has risen since 2014-15 owing to the issuance of UDAY bonds in 2015-16 and 2016-17, farm loan waivers, and the implementation of Pay Commission awards.

Figure 13: Major deficit and debt indicators of States



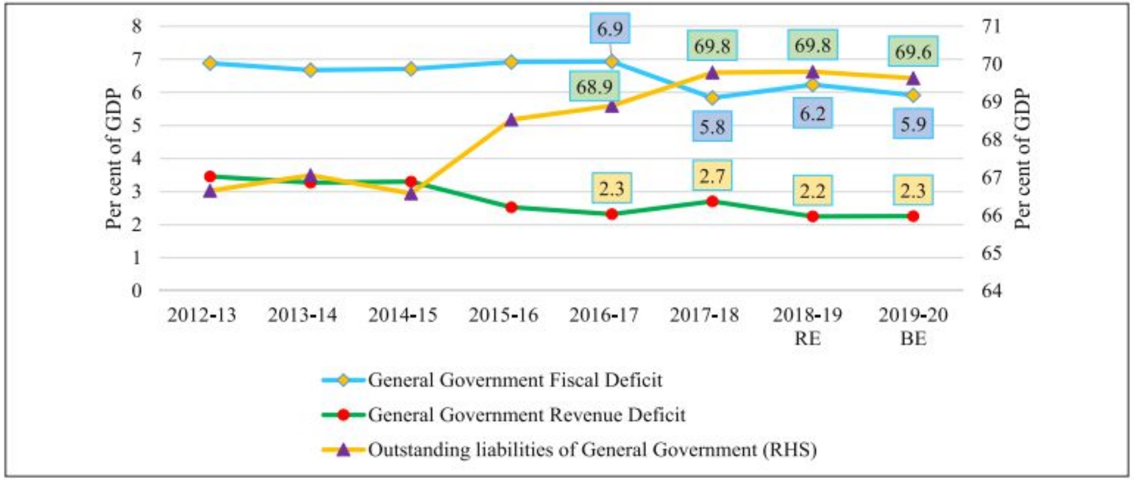
Source: RBI State Finances: A Study of Budget; RE: Revised Estimates; BE: Budget Estimates

Note: States include 29 states and 2 Union Territories with legislatures.

General Government (Centre plus States)

- The fiscal deficit of General Government is expected to decline from 6.2 per cent of GDP in 2018-19 RE to 5.9 per cent of GDP in 2019-20 BE.
- However the combined liabilities of Centre and States have increased to 69.8 per cent of GDP as on and-March 2019 (RE) from 68.5 per cent of GDP as on end-March 2016.

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



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

Outlook 2020-21

its expected to pose several challenges on the fiscal front

- Expected weak global growth (with escalated trade tensions adding to the risk) and the pace of recovery of growth will have implications for revenue collections.
- In order to boost the sluggish demand and consumer sentiments, counter-cyclical fiscal policy may have to be adopted to create additional fiscal headroom.
- During the first eight months of 2019-20, the indirect tax collections have been muted. Therefore, revenue buoyancy of GST would be key to the resource position of both Central and State Governments.
- On the expenditure side, rationalisation of subsidies especially food subsidy could be an important tool for expanding the headroom for fiscal manoeuvre.
- The Fifteenth Finance Commission has also submitted its Interim Report and its recommendations especially on tax devolution would have implications for Central Government finances
- Finally, the geopolitical situation unfolding in West Asia is likely to have implications for oil prices and thereby on the petroleum subsidy, apart from having implications for current account balance.