MEDIUM TERM FISCAL POLICY STATEMENT

A. FISCAL INDICATORS – ROLLING TARGETS AS A PERCENTAGE OF GDP

(at current market prices)

		Revised Estimates 2015-16	Budget Estimates 2016-17	Targets for 2017-18	Targets for 2018-19
1.	Fiscal Deficit	3.9	3.5	3.0	3.0
2.	Revenue Deficit	2.5	2.3	1.8	1.3
3.	Effective Revenue Deficit	1.5	1.2	0.6	0.0
4.	Total Outstanding Liabilities[2] at the end of the year	47.6	47.1	46.8	44.4
5.	Gross Tax Revenue	10.8	10.8	10.9	11.1

Notes:—

1. *"GDP" is the Gross Domestic Product at current market prices as per new series from 2011-12.*
2. *"Total outstanding liabilities" include external public debt at current exchange rates. For projections, constant exchange rates have been assumed. Liabilities do not include part of NSSF and total MSS liabilities which are not used for Central Government deficit.*

1. The performance on the major fiscal indicators in the Revised Estimates 2015-16, Budget Estimates 2016-17 and the rolling targets over the next two financial years are presented in the above Table. The performance on the select fiscal indicators during the current financial year and the rolling targets are in line with the revised roadmap of fiscal consolidation as amended in 2015, except for Effective Revenue Deficit (ERD).

2. The fiscal deficit target in 2015-16 (despite being lower in nominal terms), will be achieved, without any reduction in expenditure. This is in contrast to the previous year where drastic reduction in expenditure enabled meeting the fiscal targets. In fact, in the revised estimates (2015-16), the total as well as the plan expenditure are in fact higher than the budgeted level. As a consequence of higher share of tax devolution to the State Governments, the growth in net tax revenues to the Centre in BE 2015-16 was almost flat with a marginal increase of 1.8 per cent. However, the growth in Gross tax revenues over 2014-15 is comparatively better and as per target. The fiscal deficit targets will be achieved despite implementation of the Fourteenth Finance Commission (FFC) recommendations relating to higher devolution of tax share and its recommended grants to the States and despite a huge shortfall in the projected disinvestment receipts for 2015-16.

3. It is also important to note that in BE 2015-16 fiscal deficit was sought to be contained at ₹5, 55,649 crore (3.9 per cent of GDP). The target has been brought down to ₹5,35,090 crore in the revised estimates due to lower than estimated growth in the nominal GDP. Thus, the Government's approach of progressively bringing down the deficits in 2015-16 encountered this additional shortfall. The Government has however managed to stick to the fiscal deficit target by exceeding its tax and non-tax revenue targets.

4. Revenue deficit which was estimated at ₹3, 94,472 crore (2.8 per cent of GDP) in BE 2015-16 is estimated at ₹ 3,41,589 crore (2.5 per cent of GDP) in RE 2015-16. The reduction in revenue deficit has been achieved despite of higher allocation for Defence Pensions and Major subsidies, mainly Food subsidy. Besides, the Effective Revenue Deficit is also projected to decrease from ₹ 2,83,921 crore (2.0 per cent of GDP) in BE 2015-16 to ₹ 2, 09,585 crore (1.5 per cent of GDP) in RE 2015-16.

5. In BE 2015-16, gross tax revenues were projected to grow 15.8 per cent over the gross tax revenue receipts in RE 2014-15. The growth in the Indirect taxes was particularly optimistic showing an increase of 19.5 per cent over the previous year's revised estimates. As the current year rolled out, the oil prices scenario provided opportunities for collection

of higher excise revenues by raising of duty. This has ensured that the targets of indirect taxes are not only going to be achieved but will exceed substantially by an estimated ₹ 54,081 crore. The direct taxes which were projected at ₹ 7,97,995 crore with a modest growth of 14.6 per cent over 2014-15, has however continued to show a sluggish growth. The revenues from direct taxes are estimated at ₹7,52,021 crore in RE 2015-16 which is lower by ₹ 45,974 crore from the budgeted estimates. The increase in excise duty collections has therefore provided cushion to compensate for the lower than the estimated growth in direct taxes.

6. Due to decline in growth in the share of net tax revenues to Centre due to implementation of the FFC recommendations, disinvestment receipts is an alternate resource stream which can be augmented in the medium term to partly compensate for the lower share in tax revenues. The disinvestment receipts were estimated at ₹69,500 crore in BE 2015-16 including strategic sale of assets. The targets for disinvestment receipts were made keeping in view the shelf of PSU stakes available for disinvestment as well as the market conditions which were quite optimistic and buoyant at the time of budget presentation. During the course of the year however, the market conditions turned out quite volatile and adverse. The Government could therefore not go ahead with intended disinvestment of public sector stake holdings. The estimated shortfall of ₹ 36, 036 crore in the non-debt capital receipts in Revised Estimates is mainly the result of lower than budgeted disinvestment receipts.

7. The major sources of non-tax receipts are dividends, interest receipts, user fees and charges under various General, Social and Economic services etc. The growth in Non-tax revenues of the Centre have been quite uneven in the past. The BE 2015-16 provision for NTR was kept at ₹2,21,733 crore which shows a growth of 12.1 per cent over the actual NTR receipts of 2014-15. However the position on NTR improved during the course of the year with higher dividend receipts particularly from RBI and the public sector enterprises. Other non-tax revenues have also shown higher collections over the budgeted estimates particularly from Ministry of Power and through higher spectrum receipts from Department of Telecom. In view of this improvement, in RE 2015-16, NTR receipts have been revised upward to ₹ 2,58,576 crore.

8. On the expenditure side, a positive feature in the current year has been in terms of higher capital expenditure and investments together with a renewed commitment to the fiscal consolidation process. This is unlike the previous few years, when the pressure to contain deficits as a ratio of GDP had a negative fallout in terms of decline in capital expenditure of the Centre. The Capital expenditure in RE 2015-16 is estimated at ₹ 2,37,718 crore which is about 1.8 per cent of GDP and higher than about 1.6 per cent of GDP achieved in 2014-15.

9. The major factors that assisted the Government in remaining steadfast on the consolidation path were provided by the opportunities for mobilization of higher excise duty collections (aided by decline in oil prices) on petroleum products which helped in achieving the overall budgeted tax revenues and increase in the non-tax revenues including through policy measures for higher dividend rate. This enabled the Government to offset the shortfalls on account of direct taxes and disinvestment receipts as well as the tax revenue and borrowing limit impact of lower nominal GDP growth.

10. Due to impact of lower nominal GDP growth, the overall net borrowings of the Government has been reduced by ₹ 15,000 crore in RE 2015-16 against the BE 2015-16 of ₹ 6 lakh crore The indicated level of borrowings have been firmed up taking into the need for cash build up required during first quarter of 2016-17 for meeting requirements on higher redemptions of existing debt stock.

11. In Budget 2016-17, a bigger correction on fiscal indicators are projected despite additional liabilities on account of likely implementation 7th Pay Commission, implementation of One Rank One Pension (OROP) in Defence Services and a healthy growth of 15.3 per cent in Plan budget over the Revised Estimates of 2015-16. These are discussed in greater details in later paragraphs.

12. The fiscal deficit in BE 2016-17 is projected at 3.5 per cent of GDP or ₹ 5,33,904 crore in nominal terms. This will be lower than ₹ 5,35,090 crore in RE 2015-16. The reduction in fiscal deficit by 0.4 percentage of GDP in 2015-16 is significantly bigger correction than achieved in the previous financial year. The revenue deficit of Centre is estimated at ₹ 3,54,015 crore (2.3 per cent of GDP) in 2016-17 as against 2.5 per cent of GDP in RE 2015-16. The Effective Revenue deficit is estimated at ₹ 1,87,175 crore (1.2 per cent of GDP) which shows an improvement of 0.3 per cent of GDP over Revised Estimates of 2015-16.

13. In 2016-17 the Gross tax revenues are estimated at ₹ 16, 30,888 crore with a growth of 11.7 per cent over the Revised Estimates of current year. The downward revision of nominal GDP growth in 2015-16 has led to improvements in the tax to GDP ratio from 10.3 per cent of GDP in BE 2015-16 to 10.8 per cent in RE 2015-16. As taxation reforms are underway, tax to GDP ratio is estimated at realistic

level of 10.9 per cent in 2017-18 as against 10.8 per cent estimated in RE 2015-16. The base effect of taxation jump this year has been factored in tempering down the tax growth to arrive at tax-GDP ratio. The increase in the Gross tax revenues includes the impact of additional resource mobilization measures taken by the Government on Direct and Indirect taxes as well as rationalization of certain tax exemptions.

14. The non-tax revenues are estimated to increase by ₹36,843 crore in RE 2015-16 over BE 2015-16. The estimated NTR is higher than the previous financial year since there were certain items of receipts such as PSDF receipts and higher dividend receipts from RBI. The Non tax revenues are estimated at ₹ 3,22,921 crore in BE 2016-17 which is about 25 per cent higher than the estimated receipts of ₹ 2,58,576 crore in RE 2015-16. The estimated increase factors higher receipts through spectrum auction and dividends receipts. Taking into account the scope and potential for higher receipts through rationalization of user charges/fees etc. on services provided by various Ministries/Departments, a realistic increase has been projected under the General and Social services. This area has lot of latent potential and work would be carried forward in this direction.

15. The Non debt capital receipts are budgeted at ₹ 67,134 crore in BE 2016-17 which includes ₹ 56,500 crore on account of disinvestment receipts. The disinvestment receipts include estimated receipt of ₹ 36,000 crore from the sale of stakes in public sector enterprises as well as ₹20,500 crore from the sale of strategic and minority stake holdings. The estimates on disinvestment receipts had to be scaled down in the Revised Estimates of 2015-16 on account of adverse market conditions which impacted optimum receipts from sale of stakes. The budgeted estimates of disinvestments in 2016-17 are tempered down to more realistic level. The Government is committed to continue with a revised strategy, with the disinvestment process more vigorously during 2016-17.

16. The total expenditure of the Centre in BE 2016-17 is estimated at ₹ 19, 78,060 crore which is an increase of 10.8 per cent over the revised estimates of 2015-16. The revenue component of the expenditure is estimated at ₹ 17,31,037 crore which shows an increase of 11.8 per cent over Revised Estimates of 2015-16 while Capital expenditure at ₹ 2,47,023 crore is budgeted with an increase of 3.9 per cent in BE 2016-17. Even while accommodating the substantial increase in the revenue component of the Centre's expenditure due to pay and pension revision and OROP, efforts have been made to promote higher capital expenditure to partially correct the revenue and capital expenditure imbalance in 2016-17.

17. The merger of Plan and Non Plan visualized from Budget 2017-18, will further enable to shift the focus to revenue and capital expenditures from Budget 2017-18. The corrections on this expenditure imbalance be targeted through proactive policy measures by enhancing both direct capital expenditure as well as the capital component of the revenue expenditure which is transferred as Grants for the creation of capital assets to the States and the other implementing agencies including the autonomous bodies.

18. A major exercise of rationalization of Plan and Non-plan schemes has been carried out during the year. This has been reflected in the Expenditure Budget Volume 2 in Budget 2016-17. The schemes and projects with similar outputs/outcomes have been put together under an umbrella scheme for holistic planning and improved monitoring. This would also guard against duplication of initiatives. It is envisaged to entrust NITI with the task of carrying out periodic third party evaluation of these schemes. However, the full benefits of the rationalization exercise are expected to flow in the longer term with sub-components within these umbrella schemes being reviewed by concerned Ministries/Departments for de-duplication and elimination as well as for reducing the number of sub-components to optimize focused outputs/outcomes. Measures would also be undertaken to confine similar schemes with one Ministry / Department only.

Fiscal Outlook for 2017-18 to 2018-19.

19. The process of fiscal consolidation had started in 2004-05 consequent to the enactment of FRBM Act. The Government had to put a pause to the consolidation process on account of fiscal expansionary needs during 2008-09 and 2009-10. The fiscal consolidation which was resumed in 2010-11 has since then been re-calibrated and the target dates were postponed through amendments in 2012 and 2015.

20. The General Budget 2016-17 reaffirms the commitment of Government to continue with the process of fiscal consolidation as projected in the Medium Term Fiscal Policy Statement of 2015-16 despite a tough external environment. Accordingly, fiscal deficit has been projected at 3.5 per cent of GDP in 2016-17. In accordance with the amended FRBM targets, the fiscal deficit of 3 per cent is projected to be achieved in 2017-18 onwards. Keeping in view the challenge of reduction of fiscal deficit by 0.4 per cent of GDP in a difficult year in 2016-17 with substantial additional liabilities on pay revision etc. the Government is quite optimistic of fully achieving the FD target of 3 per cent or below by March, 2018. The FD targets for 2017-18 and 2018-19 have accordingly been projected at 3 per cent of GDP.

21. Revenue deficit has been estimated at 2.3 per cent of GDP in BE 2016-17. This shows a decline of 0.2 per cent of GDP over RE 2015-16. The reasons for deviation with respect to annual reduction target under the FRBM Act are mainly due to the provisions made on Revenue side for implementation of pay commission recommendations, OROP and higher requirements for food subsidy on account of likely implementation of the National Food Security Act (NFSA) across all States during 2016-17. However, when compared to budgeted targets of 2015-16 and Medium-term Fiscal Policy laid before Parliament in 2015-16, there is an improvement. The Capital and Revenue account imbalance is targeted to be tackled with proactive policy measures after the merger of Plan and Non-Plan from 2017-18 onwards. The removal of distinction between Plan and Non-Plan as mentioned earlier will bring the focus entirely on Revenue and Capital account. The Government in addition is planning to take further proactive measures to enable enhancement of Capital component of its expenditure by various Ministries/Departments. The results are likely to be seen from Budget 2017-18. The Revenue deficit for 2017-18 and 2018-19 have accordingly been projected in line with the FRBM Act mandated limit of 2 per cent of GDP.

22. The Effective Revenue Deficit which was estimated at 2.0 per cent of GDP and 1.5 per cent of GDP in the Budget Estimates and Revised Estimates respectively in 2015-16, is estimated to improve to 1.2 per cent of GDP in BE 2016-17. In order to mark a deeper correction on this imbalance within the revenue component of expenditure, the Government has recently taken some proactive policy measures. The full impact of these measures are expected to roll out from the Revised Estimates of 2016-17. However, the correction of 1.2 per cent of GDP will be challenging and will require concerted efforts of all Ministries/ Departments as well as the State Governments to enhance expenditure on the capital component from the Revenue Grants flowing from the Centre. On the current basis the elimination of ERD is likely to be deferred by one year to 2018-19. The projections have accordingly been made. However, keeping in view the measures taken for increasing grants-in-aid (GIA) for Capex, it can still be expected that this imbalance of 0.6 per cent of GDP will be eliminated as also the Effective Revenue deficit by the existing target date.

23. The Gross tax revenue is estimated at 10.8 per cent of GDP in BE 2016-17 i.e. at the level of RE 2015-16. This is keeping in view the benign inflation scenario as well as higher tax buoyancy expected along with the likely revival of the economy. The return to the high growth path seems apparent on account of several policy measures taken for promoting growth particularly in the manufacturing and agricultural sectors. The impact of these measures are likely to start showing results in the short term. In addition, the impending implementation of GST and along with other policy measures for tax enhancement both on the Direct and Indirect taxes are expected to give a further boost to higher tax mobilization efforts. The tax to GDP ratios are accordingly projected at 10.9 and 11.1 per cent of GDP for 2017-18 and 2018-19 respectively.

24. Non tax revenues have emerged as another important component of the Centre's resources in the present phase of fiscal consolidation which is targeted to be achieved alongside higher share of tax devolution to the State Governments, consequent to implementation of FFC recommendations. The Government is committed to further enhance this component by taking measures for increasing receipts through dividends and other non-tax revenues particularly through rationalization of user charges and fees etc. The available shelf of spectrum due for auction in the coming year/s will provide additional resources to meet the stiff target of fiscal consolidation particularly in 2016-17 and 2017-18.

25. The total expenditure of the Government which had gone up to 17.3 per cent of GDP in 2008-09 (inclusive of securities issued in lieu of subsidies) had been brought down to 13.3 per cent of GDP in 2014-15. It is estimated to increase to 13.2 per cent of GDP in RE 2015-16 from 12.6 per cent of GDP estimated in BE 2015-16. The increase in the ratio is attributed singularly to lower than estimated nominal GDP growth during 2015-16. Also, a marginal reduction as a percentage of GDP is on account of higher Non plan expenditure due to pay revision impact as well as higher growth given for Plan expenditure. However, as the impact of pay commission revision will taper off in subsequent years and the GDP is likely to get a fillip following a boost in consumption demand, the total Government expenditure to GDP ratio will gradually come down. With continued focus on prioritization of developmental expenditure and curtailing the growth in non-developmental expenditure, the total Government expenditure is estimated to be brought down to 12.6 per cent and 12.2 per cent of GDP in 2017-18 and 2018-19 respectively.

26. In comparison to 2015-16 where the fiscal correction on FD was by 0.2 per cent of GDP over previous year, the Government has targeted an accelerated fiscal consolidation during the next two years. The estimated reduction of fiscal deficit is projected at 0.4 per cent of GDP in 2016-17 and 0.5 per cent of GDP in 2017-18. At the end of 2015-16 the total estimated outstanding liability of the Central Government stood at 47.6 per cent of GDP which is

projected to decline further to 47.1 per cent of GDP in 2016-17. Even though the estimated outstanding liabilities as per cent of GDP is estimated to show a declining trend due to fiscal correction, the lower nominal GDP growth on account of subdued inflation will have an impact. The total liability as per cent of GDP is estimated at 46.8 per cent in 2017-18 and 44.4 per cent in 2018-19. A progressive reduction in debt-GDP ratio of the Centre will however ease the interest burden and provide additional fiscal space for developmental expenditure particularly to meet the infrastructure deficit needs, with reduced borrowings in terms of a ratio to GDP.

A. Assumptions Underlying the Fiscal Indicators

1. Revenue Receipts.

(a) Tax-Revenue

27. The gross tax to GDP ratio which increased significantly to 11.9 per cent in 2007-08 did not sustain beyond that year. The additional fiscal space thus created was wiped out with the counter-cyclical measures taken through duty cuts on Excise and Service tax in 2008-09 and 2009-10. The tax-GDP ratio has since then been stagnating in the range of 10 per cent. Against the tax-GDP ratio of 9.9 per cent in 2014-15, it was pushed to the level of 10.3 per cent in the budget estimates of 2015-16 with an estimated growth of 16.4 per cent over the Actuals of 2014-15. Due to a marginal increase of ₹ 10,121 crore in gross tax revenues in the revised estimates over BE estimates and relatively lower nominal GDP growth, the tax to GDP is estimated at 10.8 per cent of GDP in RE 2015-16.

28. The tax to GDP ratio is estimated on conservative side at 10.8 per cent in BE 2016-17 i.e. at the level of RE 2015-16.. This is with an estimated growth of 11.7 per cent over the revised estimates of 2015-16. It is noteworthy that even in the wake of mixed and at times contrary signals on various macro-economic growth indicators, there are clear indications of a growth revival trend. This is evident in the CSO advance estimates growth projection of 7.6 per cent (at constant market prices) in 2015-16, over 7.2 per cent achieved in 2014-15 and 6.6 per cent in 2013-14. The real growth of 7.6 per cent is estimated to be achieved in 2015-16 despite subdued global demand hitting exports adversely, two consecutive below normal monsoons and subdued private investment in the wake of excess capacity and stressed balance sheets.

29. Apart from the measures on expenditure rationalization, the fiscal consolidation strategy of the Government now hinges on reclaiming the past trends of high growth in tax revenues and also giving a boost to non-tax revenues. The base correction on gross tax revenues that has already been achieved during the current year and further policy initiatives being taken in Budget 2016-17 will help to build up on the higher base achieved in 2015-16. However, on the downside, with the easing of the inflationary pressure, the nominal growth is estimated to increase moderately compared to the previous high growth years. This may have some restraining impact on the growth of indirect taxes next year, particularly as a high growth base was achieved in the current year.

30. Keeping in view with the upside and the downside of tax potential, as well as the various policy measures and additional resource mobilization (ARM) measures being taken to augment direct and indirect taxes, the gross tax revenue has been estimated at 10.8 per cent of GDP in 2016-17 with an estimated growth of 11.7 per cent over RE 2015-16. The Direct taxes are estimated to grow 12.6 per cent over RE 2015-16 and pegged at 5.6 per cent of GDP. The Indirect taxes are estimated to grow by 10.8 per cent over RE 2015-16 and constitute 5.2 per cent of GDP. The gross tax to GDP ratio in 2017-18 and 2018-19 are projected at 10.9 and 11.1 per cent respectively. The trend of higher share of direct taxes compared to indirect taxes observed since 2007-08 continues to be maintained in BE 2016-17.

31. In Direct taxes, the revenues from taxes on Income as a percentage of GDP is estimated to increase from 2.2 per cent of GDP in RE 2015-16 to 2.3 per cent of GDP in BE 2016-17 marking a growth of 18.1 per cent. The share of income tax in gross tax revenues has gone up from 20.5 per cent in RE 2015-16 to 21.7 .per cent in BE 2016-17. Corporation tax which showed a deceleration in growth in the recent past, including during the current year, is estimated to show an increase of 9 per cent in BE 2016-17 at 3.3 per cent of the GDP on account of policy measures for additional resource mobilization.

32. In Indirect taxes, Service tax has continued to be buoyant and is estimated to register a growth of 25 per cent in RE 2015-16 over 2014-15 and 10 per cent in BE 2016-17, partly on account of policy measures taken to prune the list of exemptions, cess levied for Swacchata cess, as also on account of improved coverage and compliances and increase in Service tax from 12.36 per cent to 14 per cent. The revenues from both excise and customs have shown a declining trend as a percentage of Gross tax revenues, in recent years. The share of Customs revenues continue to show a declining trend at 14.4 per cent of gross tax revenues in RE 2015-16 and 14.1 per cent in BE 2016-17. The excise duty collections largely on

account of leveraging the fall in oil prices in the international market have shown an exceptional buoyancy and account for 19.5.per cent of Gross tax revenues in RE 2015-16. The estimated receipts from excise duty in BE 2016-17 is 19.5 per cent of gross tax revenues.

(b) Devolution to States

33. The implementation of the Fourteenth Finance Commission recommendations with higher share of 42 per cent of the divisible pool (gross tax revenues net of cess/surcharges and cost of collections etc. which do not form of divisible pool), commenced in 2015-16. In the first year of implementation of FFC recommendations, the States' share of tax devolution amounts to ₹ 5,14,657 crore as per the Revised Estimates of 2015-16. This marks an increase of ₹ 1,76,849 crore and an increase of 52.4 per cent over the previous year's actuals. In BE 2016-17, the States' share of taxes are estimated at ₹ 5,70,337 crore with an increase of 10.8 per cent over the current year RE.

34. Consequent to the revised sharing pattern, the share of tax revenues of the Centre as a ratio of GDP is estimated at about 7 per cent in RE 2015-16 and it is estimated to remain at same level i.e. 7 per cent in BE 2016-17. The Net tax revenue of the Centre is estimated to increase marginally to 7.1 per cent of GDP in 2017-18 and 7.2 per cent in 2018-19.

(c) Non Tax Revenues

35. The major sources of non-tax revenues of the Centre are dividend receipts from public sector enterprises, RBI and financial institutions, interest receipts from the States and PSEs, user charges and fees levied for various General, Social and Economic services, royalty from offshore oil fields, profit petroleum and receipts from the telecom sector including spectrum fees and auctions. In Budget 2015-16 the non-tax revenues were estimated at about 1.6 per cent of GDP or ₹2, 21,733 crore in nominal terms. The revised estimates for 2015-16 is now projected at ₹2, 58,576 crore marking a growth of 30.7 per cent over 2014-15 actuals.

36. The NTR receipts constitute 1.9 per cent of GDP in RE 2015-16 which is substantially higher than the FFC projection of 1.53 per cent of GDP for the year. The enhanced receipts in the revised estimates 2015-16 are accounted for mainly by dividends from RBI/ Banks/Insurance & other FIs, PSUs and the receipts under General/Social & Economic services.

37. The non-tax revenues are projected at 2.1 per cent of GDP at ₹3, 22,921 crore in BE 2016-17 against the FFC projection of 1.52 per cent of GDP. In nominal terms it shows a growth of 24.9 per cent over the revised estimates of 2015-16. In the rolling targets the non-tax revenue receipts are projected at about 2.0 and per cent of GDP and 1.8 per cent of GDP in 2017-18 and 2018-19 respectively.

38. The increase in non-tax revenues can be attributed to the higher base of the current year. The revised estimates of 2015-16 accounts for the dividend increase on account of policy measures taken for enhancement of the rate of dividend to 30 per cent of profits or equity holdings whichever is higher, from all public sector enterprises. The dividend receipts from the public sector banks are showing a downward trend despite substantial infusion of equity for banks' re-capitalization. The decline in dividend is on account of estimated lower profits due to the provisioning made by banks for their non-performing assets.

39. The interest receipts which are mainly from Railways, State Governments and the public sector enterprises have remained flat. This is due to downward revision of the rate of interest/dividend from Railways by the Railway Convention Committee from 5 per cent to 4 per cent in 2015-16. The same rate has been assumed for 2016-17, pending the decision of the Railway Convention Committee. The interest receipts from the State Governments are also flat and is estimated to further decline in the medium term due to decline in overall lending to States, since the implementation of the recommendations of the Twelfth Finance Commission.

40. The telecom receipts including receipts on account of licence fees and levies and spectrum auctions constitute a significant portion of the non-tax revenues. The telecom receipts are expected to increase in BE 2016-17. The renewal of licences issued 20 years ago are likely to come up in 2016-17.

2. Capital Receipts

(a) Recovery of Loans and Advances

41. The recovery of loans from the State Governments have shown declining trend in view of the discontinuation of loans from the Centre to the State governments, except for the Externally Aided projects. The EAP loans are passed onto the State governments on back- to-back basis. This source of receipts is expected to gradually diminish with the old loans getting liquidated. The Debt Consolidation and Relief Facility entailing reset of all outstanding loans at lower interest rates was extended to the States based on the Twelfth Finance Commission's recommendations. This has also contributed to lower recovery of loans from the State governments. The

other source of recovery of loans is the repayments made by the public sector enterprises. This source is also impacted on account of defaults from the loss making and sick public sector enterprises. The Government has recently taken policy decision for strictly restricting fresh loans to public sector enterprises to encourage them to mobilise their idle assets, to leverage their low debt to equity ratios and raise funds from market borrowings. In process, their would better commercial appraisal of proposals before seeking loans.

42. Recovery of loans and advances which were estimated at ₹ 10, 753 crore in BE 2015-16 is expected to reach the target in the revised estimates. In BE 2016-17 the recovery of loans and advances are estimated at ₹ 10,634 crore. Taking into account the repayments due from the State governments and the trends of receipts from public sector enterprises, in the medium term it is estimated at ₹ 10,500 crore in 2017-18 and 2018-19.

(b) Other non-debt capital receipts

43. Disinvestments in central public sector enterprises is the main source of receipts under this category. The receipts from strategic sale of stake holdings in CPSUs is the other potential source of receipt in this category. In BE 2015-16, the disinvestment receipts were projected at ₹69,500 crore including ₹28,500 crore from strategic sale and ₹41,000 crore from disinvestment of shares in public sector enterprises. The estimated receipts at 0.49 per cent of GDP in BE 2015-16 even though ambitious was lower than the Finance Commission projection of 0.61 per cent of GDP. However, with the highly uncertain market conditions prevalent for most part of the year there was high probability of getting less than optimum returns on disinvestments. The Government therefore decided to take a more cautious approach and go slow on disinvestments. The strategic sale of assets was also deferred on the same considerations.

44. Taking the above factors into account and the achievements so far, the estimated receipts from disinvestments is revised downwards to Rs.25,000 crore in RE 2015-16. In BE 2016-17, the Government is expected to finalise new policy for disinvestment, including strategic disinvestment. The estimated receipts from disinvestments is accordingly projected at ₹ 56,500 crore (including ₹ 20,500 crore from strategic disinvestment) which is estimated at about 0.38 per cent of GDP. The target of disinvestment receipts is still lower than the projection of 0.65 per cent of GDP made by the Finance Commission for the year. Over the medium term framework, the target of disinvestment receipts are kept flat on conservative side, at Rs.40,000 crore both for 2017-18 and 2018-19.

(c) Borrowings-Public debt and other liabilities

45. The total liability of the Centre includes the debt stock (internal debt and external debt) liabilities as well as the liabilities in the Public Account of India. At the end of March, 2015 the share between domestic and external liabilities stood at 93.8 and 6.2 per cent respectively. A large part of the increase in the share of internal debt has been due to substantial increase in the fiscal deficit of the Centre since 2008-09. At the end of 2015-16, the total outstanding liabilities of the Centre are estimated at 47.6 per cent of GDP.

46. In BE 2015-16 the gross and net market borrowing by the Government through dated securities were budgeted at Rs.6,00,000 crore and ₹4,56,405 crore, respectively. This represented an increase of 1.4 per cent and 2.1 per cent, respectively over the borrowings of ₹ 5,92,000 crore (gross) and ₹4,46,922 crore (net) in 2014-15. In BE 2015-16, net market borrowings through dated securities were budgeted to finance 82.1 per cent of gross fiscal deficit. Other sources of deficit financing such as short term treasury bills, small savings collections, state provident funds, net external assistance and cash draw down were budgeted to finance the remaining 17.9 per cent of the gross fiscal deficit.

47. The realization from external assistance at ₹ 37,517 crore in RE 2015-16 was higher than budgeted. The borrowings estimated in 2015-16 were marginally higher than in the previous year. However, keeping in view the realizations expected from sovereign Gold Schemes, the borrowings through government securities were reduced by ₹ 15,000 crore. In the two tranches of Sovereign Gold Bond (SGB) scheme opened in November 2015 and January 2016 respectively, a total subscription of 3,705.95 kilograms of gold amounting to ₹ 972.2 crore were received. Treasury bill realization increased due to higher investment by eligible investors, primarily State governments, in the non-competitive auction T-bills. This was mainly on account of comfortable cash position of the State Governments and higher interest rates in auction T-bills as compared to Intermediate T-bills. In addition to above, due to re-purchase of Government securities during the year, there was a reduction in net market borrowings by ₹ 15,000 crore and is now estimated at ₹ 5,85,000 crore.

48. During 2015-16, the weighted average maturity of primary issuances of rupee dated securities was elongated to 16.07 years from 14.66 years in the previous year. This is due to the continued efforts made in consultation with RBI for elongating the maturity

profile of government's debt. The weighted average yield of securities issued in fiscal year 2015-16 came down to 7.89 per cent from 8.51 per cent in the previous year. This is indicative of the lower yield environment with falling inflation rates.

49. Dated securities are primarily held by large domestic institutional investors. The Commercial banks held about 45.7 per cent of outstanding dated securities (at end-Sept.2015). The deposits of commercial banks during 2015-16 saw a year to year growth of 11.1 per cent against a growth of 10.9 per cent in the previous year. A significantly higher growth in deposits of commercial banks is indicative of the fact that the government borrowings programmes for 2016-17 would be completed comfortably and without exerting any pressure on availability of financial resources for the private sector.

50. Insurance companies are the other major investors in the government securities with traditional preference for longer tenor securities. As at end of September 2015 the share of insurance companies holding in the central government dated securities increased to 22.1 per cent from 20.9 per cent at end of previous financial year. The increase in the share of insurance companies and stability in the share of provident funds in government securities' holdings provide space for further increase of the maturity profile of the Government bonds without increasing the costs.

51. Provident Funds are the third major and stable investors in government securities, with a share of 7.2 per cent. In recent years, the share of foreign portfolio investors (FPI) have also shown an increasing trend. With announcement of the medium term framework for FPI limits in Government securities, the FPI share is expected to increase further to 5 per cent by March 2018.

52. The total outstanding liabilities of the Government are estimated at 47.1 per cent of GDP at the end of 2016-17 showing a reduction against 47.6 per cent in RE 2015-16. In the previous years the outstanding debt of the Centre had shown a declining trend despite higher level of borrowings. This was primarily on account of high nominal growth in GDP. With RBI's policy measures for targeting lower inflation starting to show results, the scenario is likely to change in the medium term. In order to reduce the debt to liabilities ratio; the Government in the coming years will need to be steadfast on the path of fiscal consolidation.

53. Debt to GDP ratio which had been showing impressive decline post FRBM remained largely stable even after the expansionary measures taken post the global economic crisis. However, a progressive reduction in debt to GDP ratio through adherence to the fiscal consolidation path is essential. This will ease the interest burden and provide additional fiscal space for developmental expenditure. On the monetary policy side the fiscal consolidation measures will also help in extending support to the RBI's efforts of inflation control and monetary policy easing. This will also lead to enhanced space for private sector borrowings and investments along with higher capital inflows. The projected reduction in fiscal deficit as a ratio of GDP, from 3.9 per cent in the current year to 3.5 per cent in 2016-17 and 3 per cent thereafter is in sync with these objectives. As a result of the adherence to the fiscal consolidation roadmap the total outstanding liabilities of the Government are estimated to decline to 46.8 per cent of GDP in 2017-18 and 44.4 per cent of GDP in 2018-19.

3. Total Expenditure

54. The total expenditure of the Centre (excluding securities issued in lieu of subsidies) had reached the level of 15.7 per cent of GDP in 2008-09 and 15.8 per cent of GDP in 2009-10. This was due to the impact of the implementation of the Sixth pay Commission, debt waiver scheme on farmers' loans, expansion of flagship social schemes and increase in subsidies particularly on account of fuel. The ratio of total Government expenditure to GDP has gradually declined over the period of subsequent years and it reached at about 13.2 per cent of GDP in RE 2015-16.

55. The implementation of the Seventh Pay Commission due from 1st January, 2016 is to be implemented during the financial year 2016-17 as also the revised One Rank One pension scheme for the Defence services. The government has made provisions for the additional liabilities on these count. On the plan side also a substantial increase of 15.3 per cent over RE 2015-16 has been provided for. This is unlike the previous financial year when on account of shrinking resources of the Centre on account of higher share of tax devolution to the States, the plan provision in BE 2015-16 was made with a marginal reduction over the revised estimates for 2014-15. In BE 2016-17 the total expenditure of the Government is estimated at about 13.1 per cent of GDP, thereby marking a marginal decrease over the RE 2015-16. This is against the increase in total expenditure of the Centre by 1.4 percentage points during 2008-09, when the Sixth Pay commission report was implemented.

I. Revenue Account

56. The larger issue on the expenditure side that remains to be tackled relates to the Revenue-Capital

expenditure imbalance. The capital expenditure of the Centre which had achieved the level of 2.4 per cent of GDP in 2007-08 has since then been stagnating in the range of 1.6 to 1.8 per cent of GDP, with the exception of 2010-11 when capital expenditure reached the level of 2 per cent of GDP. In the revised estimates of 2015-16 the capital expenditure of the Centre is estimated at about 1.8 per cent of GDP while in BE 2016-17 it is estimated at about 1.6 per cent of GDP.

57. In BE 2015-16 the share of capital expenditure was estimated to 13.6 per cent of the total expenditure which has again come down to 13.3 per cent in the revised estimates. In BE 2016-17, there is limited scope for correction in this expenditure imbalance. The reasons being additional liabilities on revenue account due to implementation of the seventh pay commission, OROP and substantial increase in developmental revenue expenditure on the Plan side. The Government has however tried to do a fine balancing act and accordingly, despite above constraints, the capital expenditure is estimated at 12.5 per cent of the total expenditure in BE 2016-17.

(i) Plan Revenue Expenditure

58. The Plan size during 2012-13 to 2014-15 were projected ambitiously in the budget estimates but had to be substantially scaled down at the RE stages in these years due to fiscal constraints caused by shortfalls against the estimated tax revenues and disinvestment receipts as well as rationalization of the provisions due to slower pace of utilization. The actual Plan expenditure of the Centre has remained stagnant in the last three years between 4.5 to 4.7 lakh crores. In BE 2015-16 the Plan size was rationalized in view the resource constraints due to lower net tax revenues of the Centre. As a result of reasonable provision made at BE stage in 2015-16, there is no need for overall plan size reduction in RE 2015-16. The Plan RE 2015-16 has in fact increased marginally to ₹ 4,77,197 crore against ₹ 4,65,277 crore provided at BE stage.

59. The revenue component of the Plan expenditure during the period 2012-13 to 2014-15 has been within a very high range of 77.8 to 79.6 per cent. This imbalance was sought to be corrected to the extent of availability of fiscal space during 2015-16, taking into account the committed components on the Revenue side. In BE 2015-16 the share of revenue component in the plan was therefore brought down to 70.9 per cent and in RE 2015-16 it has been decreased to 70.2 per cent.

60. In BE 2016-17, the revenue component of the plan is estimated at 73.4 per cent. In the medium term framework, with the enhanced thrust of the Government on the capital and infrastructure investment expenditures, the revenue component of the plan budget is estimated to be brought down to about 66 per cent or even lower by 2018-19. Concerted measures would be taken in this direction from 2016-17.

(ii) Non-Plan Revenue Expenditure

61. Non –plan revenue expenditure of the Centre consists mostly of the items which are of committed nature and with limited space for maneuverability. It mainly includes expenditure provisions relating to establishment expenditures including salaries and pensions, interest payments, Defence Services expenditure, subsidies and statutory grants based on the Finance Commission recommendations. The details on the major components of non-plan revenue expenditure have been discussed in the following paragraphs.

(a) Interest Payments

62. Interest payments is the largest component of the Centre's expenditure. Interest payments as a percentage of net tax revenue of the Centre had increased from 38.9 per cent in 2007-08 to 46.7 per cent in 2009-10 due to the counter-cyclical fiscal expansionary measures. In BE 2015-16, the ratio of interest payments to the net tax revenue was estimated at 49.6 per cent. The increase in the ratio was mainly on account of the reduced share of the Centre in the gross tax revenues due to enhanced tax devolution to the States as well as the trends of hardening of interest rates. This is established by the fact that the interest payments as a ratio of the Gross tax revenues has seen a secular declining trend and was estimated at 31.5 per cent in BE 2015-16.

63. In RE 2015-16 the share of interest payments as a percentage of the net tax revenues of the Centre is estimated to reduce to 46.7 per cent. The improvements are mainly on account of easing of the interest rates over the previous year and reduction in market borrowings by Rs.15,000 crore. As a percentage of the Gross tax revenues expenditure on interest payments is estimated to further decline to 30.3 per cent in RE 2015-16. In BE 2016-17 the ratio of interest payments to net tax revenue is estimated to remain stable at RE 2015-16 level of 46.7 per cent. As a percentage of the Gross tax revenues it is however, estimated to decline marginally to 30.2 per cent.

64. The current level of expenditure on interest payments is projected to decline further in in view of the projected fiscal consolidation roadmap in the medium term. With the projection of bringing down

fiscal deficit within 3 per cent of GDP in 2017-18 and 2018, the growth in interest expenditure will come down. In addition, with the current trends of easing inflation, the interest rates are also expected to further decline. The combined effect of these two factors will bring down the interest expenditure as a ratio of net tax revenues of the Centre and provide additional fiscal space for competing developmental expenditure needs. The private sector borrowings and investments are also likely to be positively impacted with these measures as reduction in government borrowings will create space for borrowings at lower costs. In the medium term, the ratio of interest payments to net tax revenue is estimated to go down further to 45.7 per cent and 44.7 per cent in 2017-18 and 2018-19 respectively.

(b) Defence Services

65. The revenue component of expenditure on Defence Services comprises mainly of their salaries, establishment related and other operational expenses including on Stores and Transport. The expenditure on Defence revenue component in BE 2015-16 was estimated at Rs.1, 52,139 crore which is estimated to come down to ₹ 1,43,236 crore in RE 2015-16. The reduction in expenditure is on account of lower than estimated expenditure on salaries and other establishment heads.

66. The Demands for Grants of Ministry of Defence have been rationalized in Budget 2016-17 for a clear and consolidated depiction of defence expenditures. Two fold action has been taken in this regard- reducing the number of Demands for Grants and shifting of certain provisions on non-core activities to Defence (Civil) Demand. The revenue component of Defence (Services) is estimated at ₹ 1,62,759 crore in BE 2016-17. During the projection period of 2017-18 and 2018-19 it is estimated to increase by 10 per cent over previous years. Total Defence expenditure including the Capital component is estimated at about 1.6 per cent of GDP in 2017-18 and 2018-19.

(c) Pensions

67. The expenditure on pension payments of the Central government includes provision for both Civil and Defence pensioners. The pension provisions are made separately in mainly three Demands for Grants viz. Defence (Pensions), Civil (Pensions) for all civil pensioners except Department of Posts. The provisions for the latter two are made in their respective demands for Grants. In BE 2015-16 the total provision on pension payments was estimated at Rs.88, 521 crore which has increased to ₹ 95,731 crore in RE 2015-1 6.

68. In BE 2016-17, the estimated expenditure on pension payments is ₹ 1,23,368 crore, which works out to about 0.8 per cent of GDP. The substantial increase in pension payments in the ensuing year is due to the provision made for the implementation of the recommendations of the Seventh Pay Commission as well as additionality provided in Defence (Pensions) towards One Rank One Pension (OROP). The total expenditure on pensions in the medium term is estimated at about 0.7 per cent of GDP.

(d) Non Plan Grants to States

69. Non Plan Grants to State Governments comprises mainly of the statutory provisions made towards the implementation of Finance Commission recommendations under Article 275(1) of the Constitution. Under these constitutional provisions the Fourteenth Finance Commission (FFC) recommended Post Devolution Revenue Deficit Grants, Grants in aid for State Disaster Relief Fund and the Local Body Grants (Urban and Rural) for their Award period up to 2019-20.

70. Consequent to the acceptance of the Fourteenth Finance Commission recommendations, the provision for statutory grants to the States increased from ₹ 61,813 crore in 2014-15 to ₹ 87,415 crore in RE 2015-16. In BE 2016-17 the provisions has been made in accordance with the recommendations of the FFC and is estimated at ₹ 1,00,646 crore. In 2017-18 and 2018-19 the statutory non-plan grants are estimated as per recommendations of FFC.

(e) Major Subsidies

71. The expenditure on Major subsidies viz. Food, Fertilizers and Fuel, have substantial influence on the total expenditure as well as the fiscal consolidation efforts of the Central government. The Government however continues to pursue with its commitment to progressively bring about reforms in the overall subsidy regime. This includes efficient targeting of subsidies to the poor and needy, while also saving scarce financial resources for investment in infrastructure and pursuit of new development programme announced by the Government.

72. It is pertinent to mention that both petroleum and diesel are now fully decontrolled. The Government has launched the universal Direct Benefit Transfer Scheme for LPG from 1st January, 2015 onwards. The new scheme covers both Aadhaar and non-Aadhaar card holders. The subsidy on LPG is being transferred directly into the bank accounts of cash-transfer-compliant customers in a manner that avoid duplication and prevent leakages. In addition, the benefit of LPG subsidy will not be available if the

consumer or his/her spouse had taxable income of more than ₹ 10 lakhs per annum during the previous financial year, computed as per the Income Tax Act 1961.

73. On Kerosene side, 8 State Governments have come forward to implement DBT in selected districts. Where such transfer is introduced, the consumer will pay the un-subsidized price of kerosene at the time of purchase. Subsequently, the amount of subsidy will be directly transferred to the bank account of the beneficiary. To avoid any inconvenience to the beneficiary through payment of un-subsidized price, subsidy shall be credited to eligible beneficiary's accounts in advance, during the initial purchase. With a view to incentivize States/UTs to implement DBT in kerosene, it has been decided that the states be given cash incentive of 75 per cent of subsidy savings during the first two years, 50 per cent in the third year and 25 per cent in the fourth year.

74. On fertilizers, Nutrient Based Subsidy regime has been working well in the P, K and mixed fertilizers. In the New Urea Policy announced on 25th May 2015, energy consumption norms have been revised and the categories of urea units have been reduced to three on the basis of energy consumption norms. 100 per cent neem coating of indigenous production of subsidized urea has been made compulsory. This will help prevent its diversion for industrial use.

75. Government has also launched a dedicated scheme for end-to-end computerization of Public Distribution System throughout the country. 25 States have implemented/partially implemented the National Food Security Act Framework and as the required systems are put into place the other States will follow suit. Simultaneously drive has been launched to ensure universal coverage of Aadhaar throughout the country. Decentralized Procurement and Distribution System (DCPS) of food grains, end-to-end computerization, combined with universal Aadhaar coverage, improving the operational efficiency of the FCI are some of the measures that will set the stage for the next stage food subsidy reforms. Government will actively pursue this during the course of this financial year. Cash transfer of Food Subsidy Rules, 2015 which was notified on 21.08.2015 under the National Food Security Act, 2013 is currently being implemented on a pilot basis in Union Territories of Chandigarh and Puducherry.

76. As already explained, without focused subsidy reforms, the process of fiscal consolidation will be difficult. The expenditure of Government on major subsidies is projected to come down from about 2 per cent of GDP in 2014-15 to about 1.8 per cent of GDP in RE 2015-16. It is expected that with active policy reforms including better targeting, the incidence will progressively reduce further. In BE 2016-17 the expenditure on major subsidies is estimated at ₹ 2,31,782 crore which is estimated to be about 1.5 per cent of GDP. Over the medium term, the expenditure on major subsidies is estimated to gradually decline to 1.4 per cent and 1.3 per cent of GDP in 2017-18 and 2018-19 respectively.

II. Capital Outlay

77. The capital expenditure of the Centre includes provisions made on both plan and non-plan side. The non-plan capital provision is accounted for mostly by the Defence capital expenditure. On the Plan side, the Centre incurs direct capital/investment expenditures in very limited areas. The major part of Plan capital expenditure is accounted for by the Railways (plan GBS support), Ministry of Road Transport & Highways towards National Highways, Department of Financial Services towards Bank Recapitalization and Department of Expenditure towards back to back transfer of EAP loans to State Governments. Plan capital expenditure which is estimated at 29.8 per cent of total plan expenditure in RE 2015-16 is estimated at 26.6 per cent in BE 2016-17.

78. It needs to be noted that a substantial portion of the plan revenue grants to the State Governments are provided as grants for creation of capital assets which result into capital expenditures in the States. These are accounted for as Capital expenditure in the States'/ autonomous bodies' accounts and not Centre's accounts. The total capital investment expenditures flowing out of Centre's resources therefore include both capital expenditure incurred directly as well as the capital component of the grants provided to States and the autonomous bodies. The Government is taking measures to enhance the capital portion of the grants flowing from its resources.

79. The total capital expenditure of the Centre was ₹ 1, 96,681 crore in 2014-15 which was 11.8 per cent of total expenditure. The provision in BE 2015-16 was ₹ 2,41,431.crore which has been revised to ₹ 2,37,718 crore in RE 2015-16. The provision for capital expenditure in BE 2016-17 is estimated at ₹ 2, 47,024 crore which is 3.9 per cent highe than the RE 2015-16. It works out to about 1.6 per cent of the estimated GDP in 2016-17. It is presumed that with the focus shifting to Capital and Revenue expenditures with the merger of Plan and non-plan from Budget 2017-18, Government will take proactive measures for enhancement of the capital component within its total expenditure. This will enable gradual correction in the revenue-capital imbalance which has been persisting over last number of years and effectively move

towards reduction of Revenue deficit and thus, Effective revenue deficit, in terms of the FRBM mandated targets.

80. For a comprehensive coverage/assessment of Centre's capital expenditure, the IEBR of the public sector enterprises, though not flowing from the budgetary provisions also need to be factored. The IEBR of the Central public sector enterprises which was estimated at ₹ 3, 17,889 crore in BE 2015-16 is now estimated to increase to ₹ 3,98,139 crore in BE 2016-17, showing a growth of 25.2 per cent. The Centre has permitted additional resource generation through Extra Budgetary Sources (EBR) amounting to Rs.31, 000 crore for infrastructure investments in Power sector, Renewable energy, National highways, Inland Waterways and Irrigation (Pradhan Mantri Krishi Sinchai Yojana). The Centre will bear the interest and repayment obligations on these additional EBR, except for the National Highways.

GDP Growth

81. The macroeconomic stability of the country has improved substantially with the continuance of fiscal prudence and lower inflation- particularly due to moderation in the crude prices. As per the Advanced Estimates released by the Central Statistics Office, in terms of the GDP at constant market prices, the Indian economy is estimated to grow at 7.6 per cent in 2015-16. This is higher than the growth of 6.6 per cent and 7.2 per cent achieved in 2013-14 and 2014-15 respectively. The growth momentum has picked up mainly on account of a pick-up in industrial growth, driven by manufacturing which is estimated to grow at 9.5 per cent (in 2015-16), as compared to 5.5 per cent registered in 2014-15. The achievement of 7.6 growth needs to be seen in the context of low agricultural growth due to second consecutive year of subdued monsoon as well as decline in exports due to subdued global demands.

82. The growth in terms of GDP at current market prices is estimated at 8.6 per cent in 2015-16. The lower than estimated nominal growth though positive for the economy has in the immediate terms put additional burden on the Government. The fiscal deficit in nominal terms has been revised downwards from Rs.5, 55,649 crore in BE 2015-16 to Rs.5, 35,090 crore in RE 2015-16 thereby reducing the space for financing through borrowings. In BE 2016-17, the estimated fiscal deficit at 3.5 per cent of GDP works out to Rs.5,33,904 crore which is almost at the same level as in the current year, in the nominal terms.

83. In light of the encouraging performance of the economy during the current year, marked by pick-up in economic growth, lower inflation, buoyant tax revenues, increasing foreign direct investment flows and the government's push to reforms in crucial areas including banking, infrastructure, power, taxation, etc., the near term prospects for the economy look bright, as brought out in the Macro-economic Framework Statement. The rate of growth of the economy at current market prices is expected to be around 11 per cent in 2016-17. With moderate assumptions of acceleration in growth in the medium term, GDP at current market prices is estimated to grow at 12 per cent and 13 per cent in 2017-18 and 2018-19 respectively.

B. Assessment of Sustainability relating to

(i) The balance between Revenue receipts and Revenue expenditure

84. The net revenue receipts of the Centre were estimated at ₹11, 41,575 crore in BE 2015-16. This is estimated to increase by ₹ 64,509 crore to ₹12, 06,084 crore in RE 2015-16. The increase is on account of enhanced share of net tax revenues on account of better than budgeted performance as well as higher component of cess receipts. Apart from this there has been substantial increase in non-tax revenues over the budgeted estimates, especially through higher dividend receipts. On the expenditure side also, the total revenue expenditure has increased marginally from Rs.15, 36,046 crore in BE 20105-16 to ₹ 15,47,673 crore in RE 20105-16.

85. As an outcome of the above two factors, Revenue deficit at 2.8 per cent of GDP estimated in BE 2015-16 is set to be substantially improved at 2.5 per cent of GDP in RE 2015-16. The target of 2.4 per cent of Revenue deficit projected to be achieved in 2016-17 in terms of the fiscal consolidation roadmap, is therefore likely to be achieved a year in advance of the target date. In BE 2016-17 the revenue deficit is estimated to show a further improvement at 2.3 per cent of GDP.

86. The lower progressive improvement in 2016-17 is attributable to the increase in revenue component of the expenditure on account of the forthcoming revision of salaries and pensions for implementation of the Seventh Pay Commission and additional allocation made for One Rank One Pension (OROP). The increase in salaries and pensions has therefore slowed the improvement on this fiscal parameter in 2016-17. However, in the medium term rolling period, the impact of pay commission increase is likely to decline gradually. Due to this and continued measures for further fiscal consolidation, the revenue deficit is estimated to be brought within the revised FRBM

target of 2 per cent of GDP, and is projected at 1.8 per cent and 1.3 per cent of GDP in 2017-18 and 2018-19 respectively.

87. Another parameter of assessing the balance between revenue receipts and revenue expenditure in our context would be to examine it in the context of the ratio between revenue receipts and the non-plan expenditure. Non-plan expenditure broadly taken as consumptive expenditure should ideally be met from the net revenues of the Centre while developmental plan expenditure should be financed from the borrowings. The ratio of Non-plan expenditure to net revenue receipts of the Centre which was estimated at 87 per cent in BE 2015-16 is estimated to increase to 92.2 per cent in RE 2015-16. This parameter will not be relevant post 2016-17 due to the decision for merger of plan and non-plan.

88. The Effective Revenue deficit which was estimated at 2 per cent of GDP in BE 2015-16 is also showing improvements and is now estimated at 1.5 per cent of GDP in RE 2015-16. Policy initiatives to enhance the component of grants for creation of capital assets have been been taken recently. However, the impact of the same is likely to be seen fully at the RE stage of next year. With the impact of the policy measures not very apparent at this stage, the projections have been made conservatively on existing trends. Effective revenue deficit on the existing trends are projected at 0.6 per cent of GDP in 2017-18 and '*zero*' per cent in 2018-19. However with more positive outcome likely, the FRBM target of elimination of ERD by 2017-18, may still be achievable.

(ii) The use of Capital receipts including market borrowings for generating Productive assets

89. Similar to measuring Non-Plan expenditure in terms of the ratio with revenue receipts, the quality of government spending could be increased in terms of the ratio of plan expenditure to the fiscal deficit. This would indicate the portion of borrowings that has been deployed towards productive developmental expenditure.

90. In BE 2015-16 the total plan expenditure estimated at Rs.4, 65,277 crore was estimated at 83.7 per cent of the fiscal deficit. The ratio has improved substantially in the revised estimates to 89.2 per cent, due to marginal increase in plan expenditure alongside substantial reduction in fiscal deficit in nominal terms. In BE 2016-17 the ratio between plan expenditure to fiscal deficit is estimated to improve substantially to 103 per cent thereby indicating that the existing imbalance on this parameter is set to be corrected during the next year.

91. The revenue-capital imbalance has been persistent in recent past due to decline in growth in revenues on the one side and the pressures of fiscal consolidation on the other. This has had the impact of constricting the space for enhancement of capital expenditure. The ratio between capital and revenue expenditure stood at 11.8 and 88.2 per cent in 2014-15. This imbalance was sought to be corrected in Budget 2015-16 to some extent. The RE 2015-16 estimated the Capital to revenue expenditure ratio to improve to 13.3 and 86.7 per cent respectively. This would be the best performance since the previous high of 16.6 per cent capital expenditure achieved in 2007-08.

92. In BE 2016-17, the share of capital expenditure in total expenditure is estimated to decline to 12.5 per cent. In view of the enhancement in the overall revenue expenditure of the Centre due to the provisions made for revision in salaries/pensions and OROP. With the impact of pay/pensions revision in 2016-17, expected to be phased out in due course and the direct focus likely to be brought on revenue and capital expenditure from 2017-18 with the merger of plan and non-plan., the capital component of the Centre's expenditure is projected increase to 13.5 per cent in 2017-18 and 15.6 per cent in 2018-19.