PART- II
FISCAL DEVELOPMENTS (2016-17 ES VOLUME 2)

CENTRAL GOVERNMENT FINANCES

Despite **pressing expenditure** concerns and conflicting views about the **FRBM roadmap**, the **Budget for 2016-17** decided to consolidate **fiscal, revenue** and **primary** deficits from the levels of the previous year (Table 1). Overall, the **fiscal outcome** of the Central Government in 2016-17 was marked by **strong growth in tax revenue**, sustenance of the pace of **capital spending** and a **consolidation of non-salary/pension revenue expenditure**. This combination **allowed the Government** to contain the **fiscal deficit** from **3.9 percent of GDP in 2015-16 to 3.5 per cent of GDP in 2016-17**, despite shortfall in **non-tax revenue** and **non-debt capital receipts** relative to its **budgeted level**. The **fiscal consolidation** that started in **2012-13** from the unacceptably **high levels** of **2011-12**, continued in **2016-17**.

Table 1. Central Government's Fiscal Indicators

Indicators	2014-15	2015-16	2016-17BE	2016-17 PA	2017-18 BE
(₹ in lakh crores)					
Revenue receipts	11.01	11.95	13.77	13.76	15.16
Gross tax revenue	12.45	14.50	16.31	17.17	19.12
Net tax revenue	9.04	9.44	10.54	11.02	12.27
Non-tax revenue	1.98	2.51	3.23	2.74	2.89
Non-debt capital receipts(*)	0.51	0.63	0.67	0.64	0.84
Non-debt receipts	11.53	12.58	14.44	14.40	16.00
Total expenditure	16.64	17.91	19.78	19.75	21.47
Revenue expenditure	14.67	15.38	17.31	16.85	18.37
Capital expenditure	1.97	2.53	2.47	2.90	3.10
Fiscal deficit	5.11	5.33	5.34	5.35	5.47
Revenue deficit	3.66	3.43	3.54	3.08	3.21
Primary deficit	1.08	0.91	0.41	0.55	0.23
Memo Item					
GDP at current prices	124.45	136.82	150.65	151.84	168.47
(as per cent of GDP)					
Revenue receipts	8.9	8.7	9.1	9.1	9.0
Gross tax revenue	10.0	10.6	10.8	11.3	11.3
Net tax revenue	7.3	6.9	7.0	7.3	7.3
Non-tax revenue	1.6	1.8	2.1	1.8	1.7
Non-debt capital receipts(*)	0.4	0.5	0.4	0.4	0.5
Non-debt receipts	9.3	9.2	9.6	9.5	9.5
Total expenditure	13.4	13.1	13.1	13.0	12.7
Revenue expenditure	11.8	11.2	11.5	11.1	10.9
Capital expenditure	1.6	1.8	1.6	1.9	1.8
Fiscal deficit	4.1	3.9	3.5	3.5	3.2
Revenue deficit	2.9	2.5	2.3	2.0	1.9
Primary deficit	0.9	0.7	0.3	0.4	0.1

Source: Union Budget Documents and CGA
PA=Provisional Actual ; BE=Budget Estimates;

The most important changes that occurred in the **Central finances** during the **past three years** include:

- Significant improvement in the **tax to GDP ratio**, aided by efforts at **additional resources mobilization**
- **Gradual tilt** in **expenditure** towards **investment spending** and **consolidation** of **revenue expenditure** that led to the **progressive reduction** in **revenue** and **fiscal deficits**, relative to GDP (Table 1).

REVENUE GENERATION PLANS AND OUTCOMES

The **non-debt receipts** (NDR) of the Central Government consist of its **tax revenue net of devolution** (net tax revenue), **non-tax revenue** consisting *inter alia* of **receipts** from **spectrum auction** and **dividends and profits**, and **non-debt capital receipts**, predominantly the **proceeds** from **disinvestment in public sector enterprises**.

The Budget 2016-17 targeted a significant growth in non-debt receipts of the Government with improved growth in **net tax revenue** and **robust growth** in **non-tax revenue** that was to be driven by proceeds of **spectrum auction**, and an **optimistic target of disinvestment**. The aggregate outcome in **NDR** more or less conformed to the target, but with its components contributing substantially differently from the corresponding budgeted targets. **The growth in tax revenue** outstripped the **target** and **compensated** for the **shortfalls in non- tax revenue** and **disinvestment proceeds.**

The **non-tax revenue** fell much short of **budgeted targets**, mostly on account of the **shortfall of proceeds** from **spectrum auction**. Likewise, the **non-debt capital receipts** were lower than the **budgeted figures**, because the **proceeds from disinvestment** (including divestment of **strategic holdings** and income from management of **SUUTI investment**) was **$46,247 crore** during the **period 2016-17**, as opposed to the **budget target of $56,500 crore** and the **revised estimate of $45,500 crore**. Though the **disinvestment proceeds** trailed behind the **budgetary targets**, both the **absolute** amount realized from disinvestment and its **ability to finance Central Government expenditure**--reached a historic high in **2016- 17**. As percentage of **total non- debt** receipts, it stood at **3.2 per cent**, more than a percentage point higher than the corresponding average of previous five years.

Table 3. Major Tax Revenues of the Centre

Taxes	2014-15	2015-16	2016-17 PA	2017-18 BE	2014-15	2015-16	2016-17 PA	2017-18 BE
	(₹ in lakh crore)				(growth in per cent)			
Gross tax revenue	12.45	14.50	17.17	19.12	9.8	16.5	18.4	11.3
Corporation tax	4.29	4.53	4.85	5.39	8.7	5.7	7.0	11.1
Personal income tax	2.58	2.80	3.41	4.41	8.6	8.5	21.5	29.6
Customs duty	1.88	2.10	2.26	2.45	9.3	11.9	7.4	8.4
Excise duty	1.90	2.87	3.81	4.07	12.1	51.2	32.7	6.8
Service dax	1.68	2.11	2.55	2.75	8.5	25.9	20.4	8.0

Source: Union Budget Documents and CGA
PA=Provisional Actual ; BE=Budget Estimates

EXPENDITURE TRENDS

The **aggregate budgetary expenditure** of the **Central Government** can be broadly divided into **Central Government expenditure** and **transfers**. In 2016-17 (RE), **the Central Government expenditure** accounted for **80.3 per cent** of the total **budgetary expenditure** and the remaining **19.7 per cent were transfers.**

Faced with the **liabilities** of the **7th Pay Commission** on the **revenue expenditure front** and constrained by **FRBM commitments**, the Budget 2016-17 targeted **modest capital spending** .However, the **additional tax resources** generated the room for **sustaining capital expenditure** and in implementing **recommendations** of the **Seventh Pay Commission** on **salaries** and **pensions**, without an **expansionary borrowing programme**.

Two important factors drove the growth of **revenue expenditure in 2016-17.**

The first was the **increase in expenses on salaries and pensions** in the last year that **largely reflected** the increase in the **incomes of employees** and **pensioners** during the year on account of the **Pay Commission**. Stripped of the spending on salaries and pensions, the growth in revenue expenditure was much lower in 2016-17. **Major subsidies**, including those on **food, petroleum and fertilizers**, as percentage of the **GDP** has been **consistently declining** from **2012-13**. This happened despite the **food subsidy** remaining **high** following the **implementation of the National Food Security Act.**

Table 4. Major Items of Revenue Expenditure (₹ in lakh crore)

Items	2014-15	2015-16	2016-17 PA	2017-18 BE
Interest payments	4.0	4.4	4.8	5.2
Major subsidies	2.5	2.4	2.1	2.4
Pensions	0.9	1.0	1.3	1.3
Salaries	1.3	1.4	1.8	1.8

Source: Union Budget Documents and CGA
PA=Provisional Actual ; BE=Budget Estimates

The second reason for the increase in **revenue expenditure in 2016-17** is the increase of **26.4 per cent** in the **grants for creation of capital assets** (GCCA). **All grants** given to **the State Governments** and **Union Territories** are treated as **revenue expenditure**, but a part of **these grants** are used for **creation of capital assets**. The investment push that the **Central Government expenditure** provides to the economy can be approximated by **subtracting GCCA** from **revenue expenditure** and adding it to the **capital expenditure**. This adjustment increases the growth in capital expenditures in the year significantly.

During **2013-14 to 2016-17**, the **total budgetary expenditure** of the Central Government declined by **0.9 percentage** points of the GDP – **revenue expenditure** by **1.1 percentage** points, while **capital expenditure** increased by **0.1 percentage point**. The recent expenditure trends show **improved expenditure quality**, with the gradual tilt **towards capital expenditure**. **More than half** of the **fiscal space created** by the **compression of revenue expenditure** owes to the **reduction in petroleum subsidy**. This represents a confluence of **decline in international crude prices, decontrol of prices** and **avoidance of leakages through direct benefit transfer of subsidies.**

FISCAL DEVELOPMENTS (2017-18 ES VOLUME 2)

The data on **Central Government finances** are available till **November 2017** from the **Controller General of Accounts** (CGA). There are **three distinct patterns** on the **revenue front till November 2017**, the confluence of which is reflected in the trends in **non-debt receipts** of the Centre.

First, the **gross tax collections** are reasonably on track.
Second, the **non-tax revenues** have visibly **under-performed**.
Third, **non-debt capital receipts**, mainly proceeds from **disinvestment**, are **doing well**.

As against last year's achievement of **Rs. 46,247 crore** realized from **16 transactions of disinvestment**, the budget estimate for **2017-18** was set at **Rs. 72,500 crore**, split into **Rs. 46,500 crore** from disinvestment of Central Public Sector Enterprises (CPSEs), **Rs. 15,000** crore from **strategic disinvestment** and **Rs. 11,000 crore** from listing of **insurance companies**. An amount of about **Rs. 52,378.2 crore** has been realized during **April-November 2017**, that includes **Rs.30,867.0 crore** through **minority stake sale** in **CPSEs**, Rs. 4,153.6 crore through **disinvestment of strategic holdings** in **SUUTI** and **Rs.17,357.5** crore through listing of **insurance companies**. This realization generates optimism regarding **disinvestment proceeds** vis-à-vis the ambitious **budgetary targets**.

POLICY INITIATIVES ON INVESTMENT MANAGEMENT IN CPSES

- The **thrust of the Government** is presently directed towards **efficient management** of its **investment in CPSEs**, with the overall focus on **higher economic growth** through consistent **long-term policies** as well as **efficient** and **effective allocation of resources**.
- Based on this philosophy, **Budget 2016-17** focused on the need to **migrate** from the' **disinvestment based approach'** to **'investment based approach' for CPSEs**. Accordingly, renaming the **Department as 'DIPAM'** with expanded mandate denotes a **paradigm shift** in the thinking process of the Government on its **strategy to manage** its **investment in CPSEs**.
- As announced, the **Department** also laid down **comprehensive guidelines** on **"Capital Restructuring of CPSEs:"** in **May, 2016** for efficient management of Government's investment in CPSEs by addressing various aspects, such as, **payment of dividend**, **buyback of shares**, **issues of bonus shares** and **splitting of shares**.

www.neoias.com
info@neoias.com
NEO IAS
Turning Dreams into Reality
facebook.com/neoias
9446331522
MASTER OF ECONOMY
EXCLUSIVE ONLINE COURSE
ECONOMY GURU
Your Ultimate Destination to Master
INDIAN ECONOMY
LAUNCHES
The most Comprehensive UPSC Prelims cum Mains Economy Program by the GURU.
for
CIVIL SERVICES, UGC JRF/NET, IES and other Competitive Exams
For further queries call us: +91 484 4030104, +91 9446331522

- The commitment for **time-bound listing of CPSEs** has been taken on-board as an integral part of the **reforms initiatives** of the Government by making an announcement to this effect in the **Budget 2017-18**. Pursuant to the announcement, the Government put in place a **mechanism/procedure** along with indicative timeless for listing of CPSEs on **17th February, 2017**. All Ministries/Departments have been requested to follow the suggested timeless, aimed at **time-bound listing of identified CPSEs** as per the extant Act, Rules and Regulations.
- In line with the budget announcement, the Government also approved **listing of 14 CPSEs** (including **2 insurance companies**) on the stock exchanges. During the current financial year, **4 IPO issues of Housing and Urban Development Corporation** (HUDCO), **Cochin Shipyard Ltd**. (CSL), **General Insurance Corporation** and **New India Assurance Company Ltd** have been **successfully** listed on the **stock exchange**.
- **Post listing**, while disinvestment of **Government's shareholding** through '**minority stake sale (upto 49%**) ' in CPSEs are undertaken as per the extant policy, the focus of the **strategic disinvestment** is on adopting a **pragmatic approach** for the Government to **exit from non-strategic business** to **optimize economic potential** for business enterprises by **promoting efficiency** and **professional management** in the company.
- Keeping in view its inherent benefits, beginning **January, 2017** the Government started using **index based ETF** to offer an **investment opportunity** in **CPSEs** to **pension funds** and **retail investors in India**. And pursuant to the announcement made in the Budget in this regard, a **new ETF**, namely **BHARAT 22** was announced in **August, 2017**. The New Fund Offer of **Bharat 22** launched in the month of **November, 2017** received an **overwhelming response** across all class of investors and the Government retained a **portion of the oversubscription** by increasing the **issue size of the offer.**

To Know More About **Economy Guru** : https://goo.gl/11bJ8A

To Register for **Economy Survey Series** : https://goo.gl/SJEg3K

Follow us on our
Prelims Telegram Channel
Watch our Videos on our
YouTube Channel
Visit our Website
www.neoias.com