Chapter 3

Public Finance

The fiscal outcome of the central government in 2013-14, which was in line with the fiscal consolidation targets set as per the Medium Term Fiscal Policy Statement (MTFPS), was achieved despite the macroeconomic challenges of growth slowdown, elevated levels of global crude oil prices, and slow growth of investment. The fiscal position of states has remained firmly in consolidation mode with states' fiscal deficit budgeted at 2.2 per cent of gross domestic product (GDP). Steadfast adherence to fiscal consolidation by the centre and states is key to achieving the desired macroeconomic outcomes. While the initial phase of fiscal consolidation during 2004-08 was made possible by higher growth and was thus revenue led, it will indeed be challenging to maintain the momentum in the current context of lower growth. In the last two years, the focus has been on rationalizing expenditure; this needs to continue, especially should revenues remain below par, but without diluting the quality of expenditure.

Overview

3.2 Post the Fiscal Responsibility and Budget Management (FRBM) Act 2003, the key fiscal indicator, namely fiscal deficit (FD), was gradually brought below the threshold target level (3.0 per cent of GDP) to 2.5 per cent of GDP in 2007-08. The expansionary fiscal policy stance during the global financial crisis was apposite then, given the slowdown in aggregate demand and the need to revive the economy through large stimuli. However, the continuance of the expansion well into 2010-11 had macroeconomic implications of higher inflation, which necessitated a tightening of monetary policy and gradually led to a slowdown in investments and GDP growth that resulted in a feedback loop to public finances through lower revenues. Thus the process of fiscal consolidation has become arduous and has to be effected through limits on expenditure, which are carried out at RE (revised estimates) stage and thus lead to suboptimal quality of fiscal adjustment.

3.3 The fiscal targets in 2012-13 were achieved by counterbalancing the decline in tax revenue, mainly on account of economic slowdown, with higher expenditure rationalization and compression. The Budget for 2013-14, which was presented against the backdrop of the lowest GDP growth rate for the Indian economy in a decade and persisting uncertainty in the global economic environment, sought to create economic space and find resources for achieving the objective of inclusive development within the

Proactive policy action helped government prevent the fiscal slide and remain in fiscal consolidation mode.

overarching framework of fiscal consolidation. Thus, against a level of ₹5,20,925 crore in 2012-13 (RE), which constituted 5.2 per cent of GDP, FD for 2013-14 was sought to be contained at ₹5,42,499 crore (4.8 per cent of GDP) in budget estimates (BE) 2013-14. Revenue deficit (RD) was placed at ₹3,91,244 crore in 2012-13 (RE), which was 3.9 per cent of GDP, and at ₹3,79,838 crore in 2013-14 (BE), equivalent to 3.3 per cent of GDP.

3.4 As FD is customarily monitored as a proportion of the GDP, declining FD may be an outcome of either an increase in nominal GDP or a decline in absolute FD or both. In the post-crisis period except for 2009-10 and 2011-12, nominal GDP growth was higher than the growth of FD which helped bring down the FD to 4.6 per cent of GDP in 2013-14(RE) from 6.5 per cent in 2009-10 (Table 3.1 and Figure 3.1).

Table 3.1 : Trends in Deficits of Central Government

Year	Revenue deficit (RD)	Fiscal deficit (FD)	Primary deficit (PD)	RD as per cent of FD
	(As per cent of GDP)			
Enactment of FRBM				
2003-04	3.5	4.3	0.0	79.7
2004-05	2.4	3.9	0.0	62.3
2005-06	2.5	4.0	0.4	63.0
2006-07	1.9	3.3	-0.2	56.3
2007-08	1.1	2.5	-0.9	41.4
2008-09	4.5	6.0	2.6	75.2
2009-10	5.2	6.5	3.2	81.0
2010-11	3.2	4.8	1.8	67.5
2011-12	4.4	5.7	2.7	76.4
2012-13	3.6	4.9	1.8	74.6
2013-14(BE)	3.3	4.8	1.5	70.0
2013-14(BE)	3.3	4.8	1.5	70.0
2013-14(P)	3.2	4.5	1.2	70.9

Source: Union Budget documents.

Notes: BE-Budget Estimates P: Provisional Actuals (Unaudited)

RE: Revised Estimates

The ratios to GDP at current market prices are based on the Central Statistics Office's (CSO) National Accounts 2004-05 series.

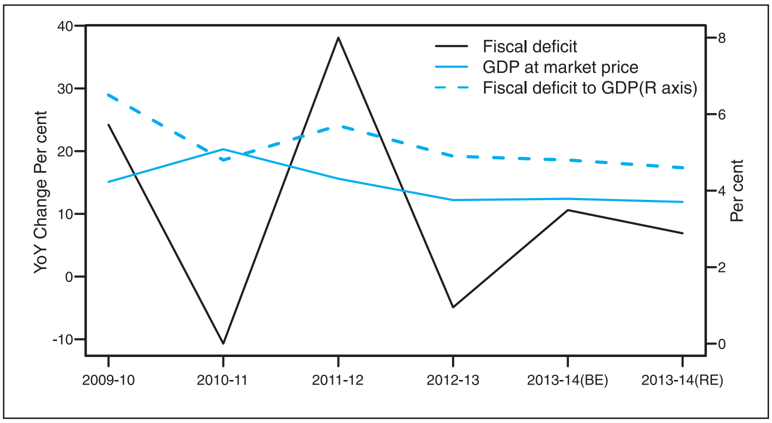

Figure 3.1 : Trends in FD and GDP growth

Fiscal Policy for 2013-14

3.5 The fiscal policy for 2013-14 aimed at reviving growth through facilitating greater flow of the economy's resources for productive purposes and investment and ensuring that the resource allocation under priority flagship schemes was adequately provided for. The fiscal policy for 2013-14 was thus calibrated with two-fold objectives: first, to aid growth revival; and second, to reach the FD level targeted for 2013-14. The Budget for 2013-14 followed the policy of revenue augmentation and expenditure rationalization to contain government spending within sustainable limits. Tax to GDP ratio was estimated at 10.9 per cent in BE 2013-14 as against 10.7 per cent in BE 2012-13 and 10.4 per cent in RE 2012-13. The envisaged growth for tax revenue was 19.1 per cent over RE 2012-13. Total expenditure was estimated to increase by 16.3 per cent in BE 2013-14 over RE 2012-13. Consequently, FD was projected to reduce to 4.8 per cent of GDP (Table 3.2).

Fiscal Policy 2013-14 had two-fold objectives; first to aid growth revival and second to reach the FD level targeted for 2013-14.

Non-debt Receipts

3.6 As budgets are presented when complete information on public finances and the economy is not available, assumptions about the likely trends in receipts and expenditure are made so as to arrive at a deficit that is acceptable and conforms to the FRBM Act targets and the path of fiscal consolidation as per the MTFPS.

3.7 The Budget for 2013-14 envisaged a growth of 23.4 per cent in non-debt receipts (revenue receipts plus non-debt capital receipts) over 2012-13(RE). In 2012-13, net tax revenue (net of states' share in gross tax revenue) was ₹7,40,256 crore and non-tax revenue was ₹1,37,357 crore which together constituted revenue receipts of ₹8,77,613 crore. Revenue receipts were estimated at ₹10,56,330 crore in BE 2013-14, which comprised net tax revenue to centre of ₹8,84,078 crore and non-tax revenue of ₹1,72,252 crore. Together with non-debt capital receipts of ₹66,468 crore (inclusive of disinvestment), the non-debt receipts were estimated at ₹11,22,798 crore. The BE figure was revised downward to ₹10,29,251 in RE 2013-14 (Figure 3.2) mainly on account of lower-than-estimated growth in tax revenue and lower-than-budgeted realization in disinvestment owing to overall economic slowdown.

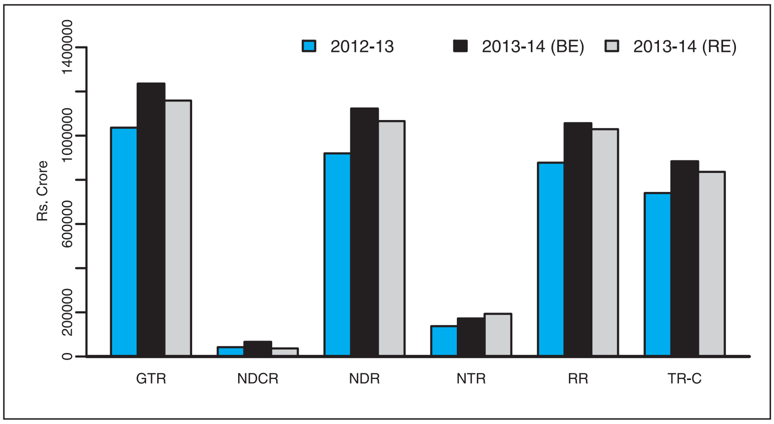

Figure 3.2 : Deviation in Non-debt Receipts in RE over BE 2013-14 (in ₹ crore)

RR: Revenue Receipts
TR-C: Tax Revenue (Net to Centre)
NDCR: Non-debt Capital Receipts
GTR: Gross Tax Revenue
NTR: Non-Tax Revenue
NDR: Non debt receipts

Direct taxes

3.8 The Budget for 2013-14 envisaged a growth of 18.1 per cent in direct taxes over RE 2012-13. The total direct tax collection for 2013-14 was estimated at ₹6,61,389 crore which was revised downwards to ₹6,30,821 crore in RE 2013-14 owing to a decline in

Table 3.2 : Receipts and Expenditure of the central government (as per cent of GDP)

Items	2009-10	2010-11	2011-12	2012-13	2013-14 (BE)	2013-14 (RE)	2013-14 (P)
1. Revenue receipts (a+b)	8.8	10.1	8.3	8.7	9.3	9.1	8.9
(a) Tax revenue (net of states' share)	7.0	7.3	7.0	7.3	7.8	7.4	7.2
(b) Non-tax revenue	1.8	2.8	1.4	1.4	1.5	1.7	1.8
2. Revenue expenditure *of which:*	14.1	13.4	12.7	12.3	12.6	12.4	12.1
(a) Interest payments	3.3	3.0	3.0	3.1	3.3	3.4	3.3
(b) Major subsidies	2.1	2.1	2.3	2.4	1.9	2.2	2.2
(c) Defence expenditure	1.4	1.2	1.1	1.1	1.0	1.1	1.1
3. Revenue deficit (2-1)	5.2	3.2	4.4	3.6	3.3	3.3	3.2
4. Capital receipts *of which:*	7.0	5.2	6.1	5.3	5.4	5.0	4.8
(a) Recovery of loans	0.1	0.2	0.2	0.2	0.1	0.1	0.1
(b) Other receipts (mainly CPSEs disinvestment)	0.4	0.3	0.2	0.3	0.5	0.2	0.2
(c) Borrowings and other liabilities $	6.5	4.8	5.7	4.9	4.8	4.6	4.5
5. Capital expenditure	1.7	2.0	1.8	1.6	2.0	1.7	1.7
6. Non-debt receipts 1+4(a)+4(b)	9.4	10.6	8.8	9.1	9.9	9.4	9.3
7. Total expenditure [2+5=7(a)+7(b)] *of which:*	15.8	15.4	14.5	13.9	14.6	14.0	13.8
(a) Plan expenditure	4.7	4.9	4.6	4.1	4.9	4.2	4.0
(b) Non-plan expenditure	11.1	10.5	9.9	9.9	9.8	9.8	9.8
8. Fiscal deficit [7-6]	6.5	4.8	5.7	4.9	4.8	4.6	4.5
9. Primary deficit [8-2(a)]	3.2	1.8	2.7	1.8	1.5	1.3	1.2

Source: Union Budget documents and Controller General of Accounts (CGA).
Note: $ Does not include receipts in respect of the Market Stabilization Scheme, which will remain in the cash balance of the central government and will not be used for expenditure.

both income tax and corporate tax revenues (Table 3.3). As a proportion of GDP, direct taxes accounted for 5.6 per cent in 2013-14 (RE) which was slightly higher than the 5.5 per cent in 2012-13.

3.9 The Budget for 2013-14 estimated higher direct tax revenues based on anticipated bottoming out in GDP growth in the beginning of fiscal year 2013-14 and the anticipated impact of measures listed in Box 3.1.

Box 3. 1 : Major Measures Introduced in Budget 2013-14 for Direct Taxes

Personal Income Tax

Budget 2013-14 neither altered the existing tax slabs nor the rates of personal income tax. However, with a view to providing tax relief to individual taxpayers in the lower income bracket (income not exceeding ₹5 lakh), a rebate in form of tax credit equal to the amount of income tax payable or an amount of ₹2000, whichever was less, was provided. Further, to generate additional revenue from personal income taxes, Budget 2013-14 imposed a surcharge of 10 per cent in case of total income of a resident person exceeding rupees one crore.

Corporate Taxes

The rates of Corporate income tax were also left unchanged. However, like personal income tax, a revenue-augmenting measure was introduced by enhancing the surcharge from 5 per cent to 10 per cent if total income of a domestic company exceeded ₹10 crore and for others from 2 per cent to 5 per cent if the taxable income exceeded ₹10 crore. A new Chapter XII-DA has been inserted in the Income-tax Act to check malpractices of unlisted companies that buy back shares instead of paying dividends in order to avoid dividend distribution tax. Further a commodities transaction tax (CTT) was introduced at the rate of 0.01 per cent to be levied on sale of commodity derivatives in respect of commodities, other than agricultural commodities, traded in a recognized association.

Source : Department of Revenue, Ministry of Finance.

Table 3.3 : Sources of Tax Revenue

(₹ crore)

	2009-10	2010-11	2011-12	2012-13	2013-14 (BE)	2013-14 (RE)	2013-14 (P)
Direct (a)	**367648**	**438477**	**488113**	**553705**	**661389**	**630821**	**633473**
Personal income tax	122475	139069	164485	196512	240919	236194	237789
Corporation tax	244725	298688	322816	356326	419520	393677	394677
Indirect(b)	**244737**	**344530**	**391738**	**473792**	**564254**	**518770**	**496231**
Customs	83324	135813	149328	165346	187308	175056	172132
Excise	102991	137701	144901	175845	196805	178787	169469
Service tax	58422	71016	97509	132601	180141	164927	154630
Gross tax revenue #	**624528**	**793072**	**889177**	**1036235**	**1235870**	**1158905**	**1133832**
			Tax revenue as a percentage of gross tax revenue				
Direct (a)	**58.9**	**55.3**	**54.9**	**53.4**	**53.5**	**54.4**	**55.9**
Peronal income tax	**19.6**	**17.5**	**18.5**	**19.0**	**19.5**	**20.4**	**21.0**
Corporation tax	**39.2**	**37.7**	**36.3**	**34.4**	**33.9**	**34.0**	**34.8**
Indirect(b)	**39.2**	**43.4**	**44.1**	**45.7**	**45.7**	**44.8**	**43.8**
Customs	**13.3**	**17.1**	**16.8**	**16.0**	**15.2**	**15.1**	**15.2**
Excise	**16.5**	**17.4**	**16.3**	**17.0**	**15.9**	**15.4**	**14.9**
Service tax	**9.4**	**9.0**	**11.0**	**12.8**	**14.6**	**14.2**	**13.6**
			Tax revenue as a percentage of gross domestic product				
Direct(a)	**5.7**	**5.6**	**5.4**	**5.5**	**5.8**	**5.6**	**5.6**
Personal income tax	**1.9**	**1.8**	**1.8**	**1.9**	**2.1**	**2.1**	**2.1**
Corporation tax	**3.8**	**3.8**	**3.6**	**3.5**	**3.7**	**3.5**	**3.5**
Indirect(b)	**3.8**	**4.4**	**4.3**	**4.7**	**5.0**	**4.6**	**4.4**
Customs	**1.3**	**1.7**	**1.7**	**1.6**	**1.6**	**1.5**	**1.5**
Excise	**1.6**	**1.8**	**1.6**	**1.7**	**1.7**	**1.6**	**1.5**
Service tax	**0.9**	**0.9**	**1.1**	**1.3**	**1.6**	**1.5**	**1.4**
Gross tax revenue #	**9.6**	**10.2**	**9.9**	**10.2**	**10.9**	**10.2**	**10.0**

Source: Union Budget documents and Controller General of Accounts.

Notes: BE-Budget Estimates P: Provisional Actuals (Unaudited)

\# includes taxes referred to in (a) and (b) and taxes of Union Territories and 'other' taxes.

1. Direct taxes also include taxes on expenditure, interest, wealth, gift and estate duty.
2. The ratios to GDP at current market prices are based on the CSO's National Accounts 2004-05 series.

Indirect Taxes

3.10 The Budget for 2013-14 envisaged a growth of 20.3 per cent in indirect taxes over RE 2012-13. The total indirect tax collection for 2013-14 was estimated at ₹5,64,254 crore which was revised downwards to ₹5,18,770 crore in RE 2013-14 (Table 3.3). As a proportion of GDP, indirect taxes accounted for 4.6 per cent in 2013-14 (RE), slightly lower than the 4.7 per cent in 2012-13. Of major concern is that the shortfall in growth was broad based, encompassing all indirect taxes, namely excise duty and customs and service taxes, when compared with their budgeted levels. The sector-specific measures in customs tax, union excise duty, and service tax are given in Box 3.2.

Collection Rates

3.11 Collection rates are an indicator of overall incidence of customs tariffs including countervailing and special additional duties on imports. These are computed as the ratio of revenue collected from these duties to the aggregates value of imports in a year (or period) and thus represent trade-weighted tariffs. The trends in these ratios for important commodity groups as well as for all commodities taken together over the years are displayed in Table 3.4. Besides this, there are other exemptions in taxes and as such, as part of the FRBM Act 2003, the statement on duty foregone (tax expenditure) is being published.

Table 3.4 : Collection Rates for Selected Import Groups

S.N.	Commodity Group	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
1	Food products	19.3	4.2	2.5	3.1	2.9	3.2
2	POL	5.7	2.7	1.9	5.6	2.8	1.5
3	Chemicals	21.6	16.4	13.9	16.9	14.0	16.3
4	Manmade fibre	30.1	17.0	22.0	29.6	21.9	31.3
5	Paper and newsprint	10.3	8.4	7.7	7.9	7.0	7.3
6	Natural fibre	12.6	5.6	4.3	4.6	3.3	4.5
7	Metals	24.3	16.8	17.4	22.0	19.7	22.7
8	Capital goods	15.7	12.5	11.3	12.9	11.5	11.7
9	Others	6.1	4.0	3.8	3.9	3.7	4.7
10	Non POL	12.8	8.7	7.6	8.5	7.4	8.2
	Total	**10.4**	**6.9**	**5.9**	**7.7**	**6.0**	**6.0**

Source: Department of Revenue, Ministry of Finance.
Notes: Collection rate is defined as the ratio of revenue collection (basic customs duty+countervailing duty) to value of imports unadjusted for exemptions, expressed in percentage.
Sl. No. 1 includes cereals, pulses, tea, milk and cream, fruits, vegetables, animal fats, and sugar.
Sl. No. 3 includes chemical elements, compounds, pharmaceuticals, dyeing and coloring materials, plastic, and rubber.
Sl. No. 5 includes pulp and waste paper, newsprint paperboards and manufactures, and printed books.
Sl. No. 6 includes raw wool and silk.
Sl. No. 7 includes iron and steel and non ferrous metals.
Sl. No. 8 includes non-electronic machinery and project imports and electrical machinery.

Box 3.2 : Major Measures Introduced in Budget 2013-14 for Indirect Taxes

CUSTOMS

A. GENERAL

1) Duty-free allowance in respect of jewellery for an Indian passenger who has been residing abroad for over one year or a person who is transferring his residence to India raised from ₹10,000 to ₹50,000 in case of a gentleman passenger and from ₹20,000 to ₹1,00,000 in case of a lady passenger.
2) Duty-free allowance for crew member of vessel/aircraft raised from ₹600 to ₹1500.

B. SECTOR-SPECIFIC CHANGES:

I. AGRICULTURE/AGRO PROCESSING/PLANTATION SECTOR:

1) Basic customs duty on dehulled oat grain reduced from 30 per cent to 15 per cent and for hazel nuts from 30 per cent to 10 per cent.
2) Basic customs duty on import of raw and white/ refined sugar increased from 10 per cent to 15 per cent and concessional basic customs duty of 5 per cent provided on sugar beet seeds.
3) Basic customs duty on refined edible oils increased from 7.5 per cent to 10 per cent.

II. AUTOMOBILES:

Basic customs duty on new passenger cars and other motor vehicles (high-end cars) with CIF value more than US$ 40,000 and/or engine capacity exceeding 3000cc for petrol-run vehicles and exceeding 2500 cc for diesel-run vehicles increased from 75 per cent to 100 per cent. Basic customs duty on motorcycles with engine capacity of 800cc or more increased from 60 per cent to 75 per cent.

III. METALS and POLYMERS:

1) Basic customs duty on stainless steel wire cloth stripe reduced from 10 per cent to 5 per cent and on wash coat, for use in the manufacture of catalytic convertors and their parts from 7.5 per cent to 5 per cent. Full exemption from export duty provided to galvanized steel sheets falling under certain sub-headings, retrospectively w.e.f. 01.03.2011.
2) Basic customs duty on iron or steel scrap including stainless steel scrap (CTH 7204) and aluminium scrap (CTH 7602) increased from Nil to 2.5 per cent.
3) Export duty of 5 per cent imposed on iron ore pellets.

IV. PRECIOUS METALS:

1) Basic customs duty reduced from 10 per cent to 2 per cent on pre-forms of precious and semi-precious stones. Duty on gold increased from 8 per cent to 10 per cent and on silver from 6 per cent to 10 per cent. Additional duty of customs (CVD) on gold ores and concentrates and gold dore bar for use in the manufacture of standard gold increased from 6 per cent to 8 per cent.
2) Basic customs duty leviable on articles of jewellery and parts thereof, of precious metal or of metal clad with precious metal and articles of goldsmiths' or silversmiths' wares and parts thereof, of precious metal or of metal clad with precious metal increased from 10 per cent to 15 per cent.

(Contd...)

Box 3.2 : Major measures Introduced in Budget 2013-14 for Indirect Taxes (*Contd...*)

V. CAPITAL GOODS/INFRASTRUCTURE:

1) Basic customs duty on steam coal increased from Nil to 2 per cent and CVD from 1 per cent to 2 per cent and on bituminous coal reduced from 5 per cent to 2 per cent and CVD from 6 per cent to 2 per cent.
2) Basic customs duty reduced from 7.5 per cent to 5 per cent on 20 specified machinery for use in leather and footwear industry.
3) Liquefied natural gas (LNG) and natural gas (NG) imported for supply to a generating company for generation of electrical energy exempted from basic customs duty.

VI. AIRCRAFT and SHIPS:

1) Basic Customs Duty on yachts and motorboats increased from 10 per cent to 25 per cent and the time limit for consumption of imported goods by ship repair units extended from three months to one year.
2) Time period for consumption/installation of parts and testing equipments imported for maintenance, repair and overhaul (MRO) of aircraft by units engaged in such activities extended from 3 months to 1 year.

VII. ENVIRONMENT PROTECTION:

1) Full exemption from basic customs duty provided to lithium ion automotive battery for manufacture of lithium ion battery packs for supply to the manufacturers of hybrid and electric vehicles.
2) Time period of exemption (Nil BCD, CVD of 6 per cent, and Nil SAD) for the specified parts of electric and hybrid vehicles extended by two more years up to 31 March 2015.

VIII. TEXTILES:

Basic customs duty on raw silk (not thrown), of all grades increased from 5 per cent to 15 per cent whereas basic customs duty on textile machinery and parts reduced from 7.5 per cent to 5 per cent.

XI. HEALTH:

Full exemption from basic customs duty and additional customs duty provided to specified goods imported under the Revised National Tuberculosis Control Programme (RNTCP) funded by the Global Fund to Fight AIDS, TB and Malaria (GFATM)

CENTRAL EXCISE

I. AGRICULTURE/AGRO PROCESSING/PLANTATION SECTOR/ANIMAL HUSBANDRY:

1) Full exemption from excise duty provided on tapioca sago (sabudana) and tapioca starch manufactured and consumed captively in the manufacture of tapioca sago, on henna powder or paste, not mixed with any other ingredient and on di-calcium phosphate (DCP) of animal feed grade conforming to IS specification No.5470:2002.
2) Excise duty on jaggery powder reduced from 12 per cent to 2 per cent (without CENVAT) and 6 per cent (with CENVAT).

II. AUTOMOBILES:

Excise duty on SUVs increased from 27 per cent to 30 per cent whereas on truck chassis (8706 00 42) reduced from 14 per cent to 13 per cent.

III. METALS:

1) Excise duty of 4 per cent levied on silver manufactured from zinc/lead smelting.
2) Compounded levy on stainless steel "Patta Patti" increased from ₹30,000 per machine per month to ₹40,000 per machine per month.

IV. AIRCRAFTS and SHIPS:

1) Full exemption from excise duty provided on ships and other vessels. Consequently, there will be no CVD on these ships and vessels when imported.
2) Steel supplied to the Indian shipyards manufacturing ships and vessels [CETH 8901, 8902, 8904, 8905 (except sub heading 8905 20) or 8906] in accordance with the provisions of section 65 of Customs Act 1962 exempted from excise duty subject to certain conditions.

V. TEXTILES:

1) Full exemption from excise duty provided on handmade carpets and carpets and other textile floor coverings of coir or jute, whether or not handmade.
2) 'Zero excise duty route', as existed prior to Budget 2011-12, restored in respect of branded readymade garments and made ups. The 'zero excise duty route' is in addition to the CENVAT route presently available.

(Contd...)

Box 3.2 : Major measures Introduced in Budget 2013-14 for Indirect Taxes (*Contd...*)

VI. HEALTH:

1) Branded Ayurvedic medicaments and medicaments of Unani, Siddha, Homeopathic or Bio-chemic system brought under MRP-based assessment with abatement of 35 per cent from MRP.
2) Full exemption from excise duty provided to the scheduled formulations as defined under the Drugs Price Control Order (DPCO) 2013 which were subjected to reprinting, relabeling, repacking, or stickering, in a premises which was not registered under the Central Excise Act, in pursuance of the provisions contained in the said Drugs Price Control Order (DPCO).
3) Full exemption from excise duty provided to specified goods procured domestically under the Revised National Tuberculosis Control Programme (RNTCP) funded by the Global Fund to Fight AIDS, TB and Malaria (GFATM)

VII. ELECTRONICS/HARDWARE:

1) Excise duty on mobile phones of retail sale price exceeding ₹2000 increased from 1 per cent to 6 per cent.
2) Full exemption from excise duty provided to specified goods required for the manufacture of rotor blades and intermediates, parts and sub-parts of rotor blades, for wind-operated electricity generators.

VIII. PRECIOUS METALS:

Excise duty on gold bars, other than tola bars, manufactured from gold ore or concentrate or gold dore bar increased from 7 per cent to 9 per cent.

IX. CAPITAL GOODS/INFRASTRUCTURE:

1) Full exemption from excise duty provided to all items of machinery, apparatus, and appliances, etc. used within the power generating plant and to components or raw materials required for their manufacture, for setting up of the mega power project, viz. Kameng Hydra Electric Power Project (600 MW) of North Eastern Electric Power Corporation Ltd. (NEEPCO).
2) Full exemption from excise duty leviable on the value of rails, on which duty of excise was paid and no credit of duty paid on such rails was taken, used for manufacture of railway or tramway track construction material of iron and steel, .

X. MSME SECTOR:

1) Full exemption from excise duty provided to clay bricks (CETH 69010010) and roofing tiles (CETH 69051000), to ceramic building bricks, and to Particle/Fibre Board manufactured from agricultural crop residues.
2) Excise duty on flattened bamboo boards and bamboo flooring tiles reduced from 12 per cent to 2 per cent without CENVAT credit and 6 per cent with CENVAT credit.

SERVICE TAX

RETROSPECTIVE EXEMPTION: Retrospective exemption was extended to the Indian Railways on the service tax leviable on various taxable services provided by them during the period prior to 01.10.2012.

RATIONALIZATION OF ABATEMENT: Earlier value of taxable service was prescribed as 25 per cent of the gross amount charged for all construction services where the value of land was included in the amount so charged from the service recipient. The abatement was rationalized, so that in respect of high end constructions, service portion liable to tax will be 30 per cent of the gross amount.

REVIEW OF EXEMPTIONS: The following exemptions were rationalized:

- So far, the exemption limit prescribed for charitable organizations providing service towards any other object of general public utility was ₹25 lakh per annum. After 1 April 2013, they were to be covered by the threshold exemption of ₹10 lakh per annum.
- Exemption provided to restaurants other than those having (i) air-conditioning and (ii) license to serve liquor rationalized; condition regarding 'license to serve liquor' omitted. Therefore, with effect from 1 April 2013, service tax is leviable on taxable service provided in restaurants with air conditioning or central air heating in any part of the establishment at any time during the year.
- Some exemptions like services provided by an educational institution by way of renting of immovable property and services of vehicle parking to general public have been withdrawn.
- Some tax exemption like services by way of handling, storage, and warehousing of rice and services provied by cord blood bank by way of stemcells have been extended.

AMNESTY SCHEME: To encourage voluntary compliance to broaden the service tax base, VCES was launched. As part of the scheme, one time amnesty has been provided by way of (i) waiver of interest penalty; and (ii) immunity from prosecution, to the stop filers, non-filers or non-registrants or service providers who have not disclosed true liability in their returns filed during the period from October 2007 to December 2012, provided such persons pay the 'tax dues.'

Source : Department of Revenue, Ministry of Finance.

3.12 The decline in revenues from all indirect taxes was mainly on account of general economic slowdown, reduction in duty rates (both customs and excise), lower volume of imports of dutiable goods, and various exemptions. This urgently calls for revenue-augmentation measures like withdrawal/rationalization of tax exemptions; broadening of tax base; cautious approach while signing Free Trade Agreements; increasing compliance through deterrence; simplification of tax laws; liquidation of locked revenue and recovery of arrears; and speedy disposal of pending cases. One proxy indicator of the wedge caused by exemptions is the collection rate under customs. It is observed that there has been a significant decrease in the collection rate for select import groups between 2007-08 and 2012-13. This calls for a relook into the custom duty policy regime.

Tax Expenditure

3.13 The statutory rates of taxes as notified in the various schedules are divergent from the actual or effective rates of taxes, which is attributable to tax provisions that allow (i) deductions or exemptions from the taxpayers' taxable expenditure, income, or investment, (ii) deferral of tax liability, or (iii) preferential tax rates. A tax expenditure statement was laid before the Parliament for the first time in 2006-07 and it seeks to list the revenue impact of tax incentives or tax subsidies that are a part of the tax system of the central government. In the Receipts Budget for 2013-14, tax forgone on account of exemptions under corporate income tax for 2011-12 was estimated at ₹61,765.3 crore and for 2012-13 was projected at ₹68,007.6 crore [net of minimum alternative tax (MAT)]. In the case of corporate taxpayers, deduction on account of accelerated depreciation, deduction for export profits of export-oriented units located in special economic zones (SEZs) and profits of undertakings in the power and mineral oil and natural gas sectors were some of the major incentives. Tax forgone on account of exemptions under personal income tax was estimated at ₹32,230 crore and ₹36,857.5 crore in 2011-12 and 2012-13 respectively. The bulk of this was on account of exemptions given for certain investments and payments under section 80C of the Income-tax Act and higher exemption limits for senior and very senior citizens.

The magnitude of tax expenditure or revenue forgone from central taxes is showing an upward trend in recent years.

3.14 Similarly tax foregone on account of various exemptions in the excise duty regime was estimated at ₹195,590 and ₹206,188 crore in 2011-12 and 2012-13 respectively. Under the customs duty regime, tax revenue foregone in 2011-12 was estimated at ₹236,852 crore and in 2012-13 at ₹253967 crore. While the magnitude of tax expenditures or revenue forgone from central taxes is showing an upward trend for both direct and indirect taxes, since these estimates are based on certain assumptions, they are to be interpreted with caution. To improve tax buoyancy there is, however, a need to review the exemptions and execute them, if required, with a sunset clause for each of them.

Non-Tax Revenue

3.15 Non-tax revenues of the centre mainly consist of interest and dividend receipts of the government, receipts from the services provided by central government like supply of central police force, issue of passport and visa, registration of companies, patents and licence fees, royalty from offshore oil fields, and various receipts from the telecom and other sectors. Budget 2013-14 estimated a growth of 32.8 per cent over 2012-13 (RE) in non-tax revenue which when actuals (2012-13) were available implied a year-on-year growth of 25.4 per cent over 2012-13, i.e. ₹172,252 crore. Budget 2013-14 estimated the non-tax revenue mainly on the basis of prospected returns from the telecom auction scheduled in March 2013, with the amount realized from it expected to be credited in the initial days of 2013-14. The figure was revised upward to ₹193,226 in RE 2013-14. As per the CGA, non-tax revenue in 2013-14 was ₹1,99,233 crore, showing a 45 per cent increase over 2012-13 mainly on account of higher dividends and profits, and interest receipts.

Non-debt Capital receipts

3.16 Non-debt capital receipts (NDCR) comprise recoveries of loans, disinvestment receipts, and miscellaneous receipts. As against ₹16,268 crore in 2012-13, Budget 2013-14 placed recoveries of loans at ₹10,654 crore. The revenue from recovery of loans has been declining mainly because of the Twelfth Finance Commission's recommendation against loan intermediation from the centre to states. As regards disinvestment proceeds, Budget 2013-14 estimated them at ₹55,814 crore but the figure was revised significantly downwards to ₹25,841 core in RE 2013-14 on account of subdued financial market conditions and overall economic slowdown.The NDCR had decreased from ₹42,158 crore in 2012-13 to ₹36,644 crore in RE 2013-14. The companies disinvested in 2013-14 and the receipts from them were: Hindustan Copper Limited (₹260 crore), ITDC (₹30 crore), MMTC (₹572 crore), NFL (₹101 crore), Neyveli Lignite Corporation (₹358 crore), STC (₹5 crore), PGCIL (₹1637 crore), EIL (₹497 crore), NHPC (₹2131 crore), BHEL (₹1887 crore), and IOC (₹5341 crore). The balance ₹3000 crore was realized from the Central Public Sector Exchange (CPSE) Exchange Traded Fund (CPSE-ETF).

> The disinvestment programme has had limited success owing to the subdued financial market conditions.

Expenditure trends

3.17 On the expenditure front, Budget 2013-14 estimated total expenditure at ₹16,65,297 crore which was 16.3 per cent and 18.1 per cent higher than 2012-13 (RE) and 2012-13(actual) respectively. The anticipated growth in total expenditure in 2013-14(BE) was mainly based on expected growth in capital expenditure (36.6 per cent over RE 2012-13), while revenue expenditure was anticipated to grow by 13.7 per cent over RE 2012-13.

3.18 The Budget for 2013-14 estimated plan expenditure at ₹5,55,322 crore which was 4.9 per cent of GDP and 29.6 per cent higher than RE 2012-13. Non-plan expenditure in BE 2013-14 at ₹11,09,975 crore—9.8 per cent of GDP—reflected a growth of 10.8 per cent over RE 2012-13. The higher total expenditure was expected to be compensated by much higher non-debt receipts. The total expenditure in 2013-14(RE) was well below the budgeted levels as depicted in Figure 3.3.

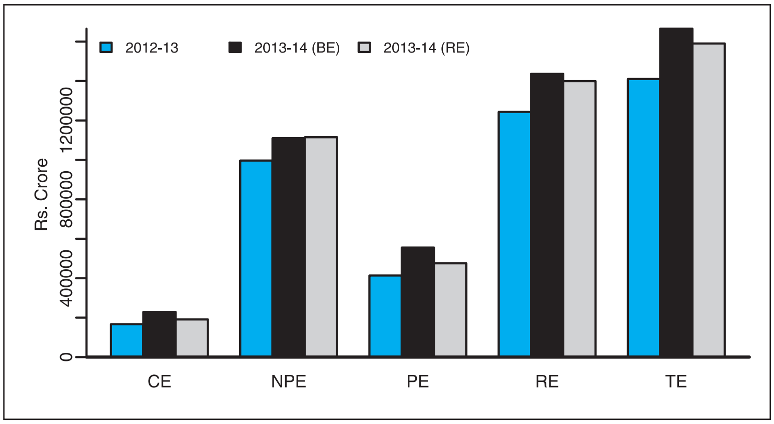

Figure 3.3: Deviation in Total Expenditure in RE over BE 2013-14 (in ₹ crore)

TE: Total Expenditure
NPE: Non-Plan Expenditure
PE: Plan Expenditure
RE: Revenue Expenditure
CE: Capital Expenditure

3.19 With total revenues falling short of budgeted levels by 5.1 per cent, total expenditure was later revised downwards by about 4.5 per cent to ₹15,90,434 crore in RE 2013-14 with a significant cut in plan expenditure, especially capital expenditure, while the non-plan expenditure (NPE) was left untouched (Figure 3.3). Owing to continued economic slowdown, goverment spending needs to provide effective protection against inflation especially for poor. Thus as tax buoyancy (ratio of growth in tax revenues to growth in nominal GDP) continued to be weak on account of the economic slowdown, expenditure had to be rationalized and curtailed to consolidate the overall fiscal position in RE 2013-14 (Figures 3.4a and 3.4b).

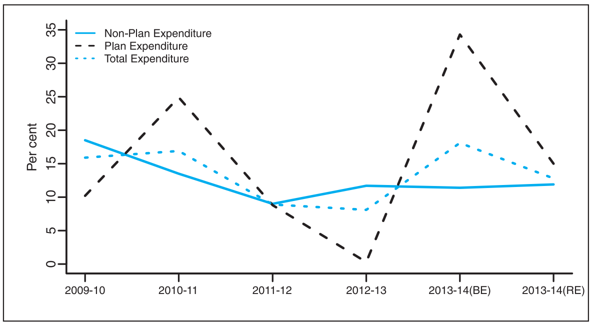

Figure 3.4a Annual Growth in Expenditure

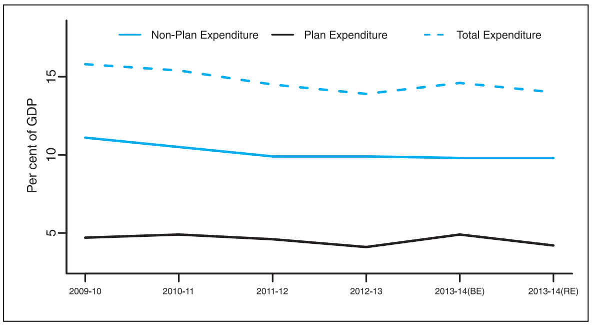

Figure 3.4b Expenditure as Per Cent of GDP

Subsidies

3.20 One of the major reasons for the increase in the centre's FD after 2008-09 has been the build-up in subsidies. As per the provisional actual figures of the CGA, the major subsidies in 2013-14 amounted to ₹2,47,596 crore, well above the RE figures. There has been a sharp increase in total subsidies from 1.42 per cent of GDP in 2007-08 to 2.26 per cent in 2013-14 (RE) (Table 3.5).

3.21 Food subsidy has been increasing owing to the widening gap between the economic cost of procurement by the Food Corporation of India (FCI) and the central issue prices fixed for cereals under the public distribution system (PDS). There has been partial decontrol of fertilizer subsidy, although prices of urea are

Table 3.5: Trends in Major Subsidies

(in ₹ crores)

Subsidy heads	2009-10	2010-11	2011-12	2012-13	2013-14(RE)
Food	58443	63844	72822	85000	92000
Fertilizer	61264	62301	70013	65613	67971
Petroleum	14951	38371	68484	96880	85480
Major subsidy	134658	164516	211319	247493	245451
Total subsidies	141351	173420	217941	257079	255516
As % of GDP	2.18	2.22	2.42	2.56	2.26

Source : Union Budget Doucement.

still range bound; similarly petrol prices have been decontrolled and diesel prices are being subjected to monthly increases of ₹0.50 paise per litre. The under-recoveries of the oil marketing companies (OMCs) have been rising in tandem with international oil prices. The under-recoveries have increased from ₹77123 crore in 2007-08 to ₹1,39,869 crore in 2013-14. The cap set on the number of subsidized liquefied petroleum gas (LPG) cylinders per month per family has also been increased from 9 to 12 from April 2014. The single largest component of the wider levels of FD as well as the current account deficit (CAD) owes to the inability to pass through rise in global oil prices to the domestic market. In addition, leakages from the system also contribute substantially to the overall increase in subsidy. An International Monetary Fund (IMF) working paper The fiscal and welfare impacts of Reforming Fuel Subsidies in India (Anand et al, 2013) found fuel subsidies in India to be badly targeted, with the richest 10 per cent of households benefiting seven times more than the poorest 10 per cent. Similarly in the case of food, the Performance Evaluation Report of the Planning Commission on Targeted PDS (2005) states that for every kilogram of grains delivered to the poor, the GOI released 2.4 kg from the central pool. This has grave implications for the cost of delivery of subsidized items through the existing mechanism.

Interest payments

3.22 While typically the focus of fiscal policy is on the key indicator, FD expressed as a proportion of GDP, the absolute levels of FD are important as they feed into interest payments with a lag. The base for interest payments is the cumulative debt in the previous year plus the incremental assumption of debt in the current year. As a proportion of GDP, interest payments had been

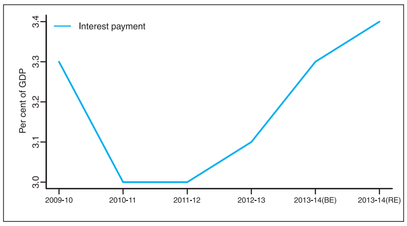

Figure 3.5 Interest payments as a Percentage of GDP

Table 3.6 : Interest on Outstanding Internal Liabilities of Central Government

	Outstanding internal liabilities	Interest on internal liabilities	Average cost of borrowing (per cent per annum)
	(₹ crore)		
2009-10	2874683	192567	7.5
2010-11	3212521	212707	7.4
2011-12	3765153	251634	7.8
2012-13	4295575	290278	7.7
2013-14(BE)	4856266	347888	8.1
2013-14(RE)	4782585	355438	8.3

Source: Union Budget documents.

Notes: 1. Average cost of borrowing is the percentage of interest payment in year ‘t’ to outstanding liabilities in year ‘t-1’.
2. Outstanding internal liabilities exclude National Small Savings Fund (NSSF) loans to states, with no interest liability on the part of the centre.
3. The figures for interest payments reported in the earlier issues may differ as these figures are net of interest payments on the NSSF paid by the government since 1999-2000, i.e. constitution of the NSSF.

falling in the post-FRBM period. However, owing to fiscal expansion undertaken by the government during the financial crisis along with the fiscal slippage during 2011-12, and a relatively tougher interest rate regime to contain inflation, interest payments as a percentage of GDP increased in the post-crisis period leading to a rise in accumulated stock of liabilities (Figure 3.5). The average cost of borrowing is placed at 8.3 per cent in 2013-14 (RE) from 7.7 per cent in 2012-13 (Table 3.6).

Pay allowances and Pensions

3.23 Pay and allowances and pensions constituted 1.2 per cent of GDP in 2007-08, rising to 2.3 per cent of GDP in 2009-10. This was mainly on account of the implementation of the Sixth Central Pay Commission award in 2008-09 and 2009-10. At 1.7 per cent of GDP in 2013-14 (RE), there has been some moderation. The rise in the pension component owes to the contributory scheme introduced for fresh entrants on or after 1 January 2004 to government service in addition to the outgo under the earlier pension scheme with undefined contribution and is likely to continue to grow gradually. The pensions component alone increased from ₹15905 crores in 2003-04 to ₹74606 core in 2013-14 (P).

The Seventh Central Pay Commission was appointed under the Chairmanship of Justice Ashok Kumar Mathur and has been mandated to give its recommendations in 18 months.

Central Plan Outlay

3.24 Gross budgetary support (GBS) for plan (central plan plus central assistance to states/union territories—UTs) and internal and extra-budgetary resources (IEBR) of the central public-sector enterprises (CPSEs) are the two major components of the central plan outlay. The GBS for 2013-14 (BE) was ₹5,55,322 crore of which ₹1,36,254 crore was for central assistance to state/UT plans and ₹4,19,068 crore was for central plan.

3.25 The following were broad sector-wise allocations of central plan outlay (budgetary support as a proportion of total outlay in BE 2013-14: energy (3.07 per cent); social service (45.48 per cent); transport (17.52 per cent); communication(1.42 per cent); rural development (10.21 per cent); agriculture and allied activities (4.44 per cent), and irrigation and flood control (0.29 per cent). Central assistance to state and UT plans is placed at ₹1,36,254 crore in BE 2013-14. Reprioritization of expenditure from non-Plan to Plan would be critical in meeting the Twelfth Plan outlay.

Supplementary Demand for Grants

3.26 Given the constitutional provision that no expenditure can be incurred without Parliamentary sanction, additionalities of expenditure over BE have to be made through supplementary demands for grants. A part of the additionalities is met through reappropriations from one budget head to another, which implies no net cash outgo, and through additional demands entailing cash outgo. The extent of the latter has implications for overall fiscal marksmanship.

3.27 In recent years, underprovisioning of petroleum and fertilizer subsidies has been an important reason for supplementary demands for grants with a cash outgo. In 2013-14, out of the three supplementary demands for grants that were presented totalling ₹74,321.26 crore, about ₹24,255 crore was on account of petroleum, fertilizer, and food subsidies.

Actual outcomes in 2013-14 vis-à-vis Budget Estimates

Revenue outcome

3.28 The estimated growth in non-debt receipts discussed in the earlier section in terms of various taxes, and disinvestment receipts did not materialize and the actual outcome in the current fiscal indicates the challenge to fiscal marksmanship with implications for the quality of fiscal adjustment. As per the provisional actual figures (P) made available by the CGA, gross tax revenue in 2013-14 (P) has grown year on year by 10 per cent to reach ₹11,33,832 crore. This level of growth is lower than was envisaged in the RE (at 10.2 per cent) and falls significantly short of the 10.9 per cent envisaged by BE 2013-14.

A major concern in recent years has been a slow down in tax collection which is a combined effect of slowdown in industrial output and reduced corporate profits.

3.29 Gross tax revenue (GTR) was budgeted at ₹1235870 crore for 2013-14. As a proportion of BE, GTR in 2013-14 (P) was 92.1 per cent, lower than the last five years' average of 97.5 per cent. The shortfall is mainly on account of the poor performance of indirect taxes, namely excise duties (86.1 per cent of BE), customs (91.9 per cent of BE), and service tax (85.8 per cent of BE). In contrast, non-tax revenue during 2013-14 has shown significant increase of about 45 per cent (₹1,99,233 crore) compared to the previous year chiefly on account of dividends and profits and interest receipts. In non-debt capital receipts, there is significant shortfall in 2013-14(P) on account of disinvestment receipts, as only ₹27,555 crore of the budgeted amount of ₹55,814 crore has been realized. Thus the overall outcome in terms of total non-debt receipts was 94 per cent of the BE at ₹10,55,336 crore in 2013-14 (P), indiciating a sub-optimal outcome in revenue generation vis-a-vis the ambitious target set.

Expenditure outcome

3.30 Owing to the close monitoring of the fiscal outcome with a view to staying the course of the reduction in FD, there was some expenditure correction and as against year-on-year growth of 16.3 per cent envisaged by BE 2013-14 (over RE 2012-13), actual growth in total expenditure in 2013-14 was limited to 10.9 per cent as per provisional actual figures by the CGA (P). As a proportion of BE, non-plan revenue expenditure in 2013-14 (P) was at 100 per cent of BE. Plan expenditure was placed at 81.6 per cent of BE and remained well below the five-year average. Plan capital expenditure in 2013-14 also declined over RE levels by ₹3139 crore. However, major subsidies burgeoned to reach a figure of ₹2,47,596 crore (112 per cent of BE).

In 2013-14, there has been a significant reduction in plan expenditure over the budgeted levels.

Deficit outcome

3.31 As per the provisional actual figures made available by the CGA, FD is placed at 4.5 per cent of GDP indicating over-performance relative to RE. FD for the year 2013-14 (P) was ₹5,08,149 crore which constituted 96.9 per cent of the RE of ₹5,24,539 crore, significantly below the five-year average of 98.1 per cent. RD at the same time was placed at 97.3 per cent of RE, above the five-year moving average of 96.9 per cent. Effective RD in 2013-14 is estimated at 2 per cent of GDP, above the budgeted level of 1.5 per cent. The decline in fiscal deficit was achieved despite a shortfall in tax revenues and disinvestment receipts and higher-than-

Fiscal deficit was estimated at 4.5 per cent in 2013-14 (P) against the budgeted level of 4.8 per cent.

Table 3.7 : Central Government Finances

Sl. No.	Items	2012-13 Actuals	2013-14 BE	2013-14 RE	2013-14 P	Variations Prov. over RE 2013-14 Absolute	Provisional 2013-14 as per cent of RE	Provisional 2013-14 as per cent of BE	Provisional 2013-14 as per cent of GDP
1	2	3	4	5	6	7	8	8	10
1	Revenue receipts (2+3)	877613	1056330	1029251	1015279	-13972	98.6	96.1	8.9
	Gross tax revenue	1036235	1235870	1158905	1138832	-20073	98.3	92.1	10
2	Tax (net to Centre)	740256	884078	836025	816046	-19979	97.6	92.3	7.2
3	Non-tax	137357	172252	193226	199233	6007	103.1	115.7	1.8
4	Non-Debt Capital Receipts(5+6)	42158	66468	36644	40057	3413	109.3	60.3	0.4
5	Recovery of loans	16268	10654	10803	12502	1699	115.7	117.3	0.1
6	Disinvestment proceeds	25890	55814	25841	27555	1714	106.6	49.4	0.2
7	Total Non-debt receipt (1+4)	919771	1122798	1065895	1055336	-10559	99	94	9.3
	Memo items								
	Corporation tax	356326	419520	393677	394677	1000	100.3	94.1	3.5
	Income tax	196512	240919	236194	237789	1595	100.7	98.7	2.1
	Union excise duty	175845	196805	178787	169469	-9318	94.8	86.1	1.5
	Customs	165346	187308	175056	172132	-2924	98.3	91.9	1.5
	Service tax	132601	180141	164927	154630	-10297	93.8	85.8	1.4
	Total (Memo items)	1026630	1224693	1148641	1128697	-19944	98.3	92.2	9.9
	Devolution to states	291547	346992	318230	318230	0	100	91.7	2.8
8	Non-Plan expenditure (a+b)	996742	1109975	1114902	1110400	-4502	99.6	100	9.8
	(a) On revenue account of which:	914301	992908	1027688	1023047	-4641	99.5	103	9
	(1) Interest payments	313169	370684	380066	377502	-2564	99.3	101.8	3.3
	(2) Major subsidies	247493	220972	245451	247596	2145	100.9	112	2.2
	(3) Pensions	69478	70726	74076	74606	530	100.7	105.5	0.7
	(b) On capital account	82441	117067	87214	87353	139	100.2	74.6	0.8
9	Plan expenditure (12+13)	413625	555322	475532	453085	-22447	95.3	81.6	4
	(a) Revenue account	329208	443260	371851	352543	-19308	94.8	79.5	3.1
	(b) Capital account	84417	112062	103681	100542	-3139	97	89.7	0.9
10	Total expenditure (8+9)	1410367	1665297	1590434	1563485	-26949	98.3	93.9	13.8
11	Revenue expenditure (8a+9a)	1243509	1436168	1399539	1375590	-23949	98.3	95.8	12.1
12	Grants for capital assets	115513	174656	121283	129839	8556	107.1	74.3	1.1
13	Capital expenditure (8b+9b)	166858	229129	190895	187895	-3000	98.4	82	1.7
14	Revenue Deficit (1-11)	365896	379838	370288	360311	-9977	97.3	94.9	**3.2**
15	Effective Revenue Deficit (14-12)	250383	205182	249005	230472	**-18533**	**92.6**	**112.3**	**2**
16	Fiscal Deficit (7-10)	490596	542499	524539	508149	**-16390**	**96.9**	**93.7**	**4.5**
17	Primary Deficit (14-8(a)(1))	177427	171815	144473	130647	**-13826**	**90.4**	**76**	**1.2**

Source: Union Budget documents and Controller General of Accounts.

budgeted subsidies, interest and pension payments. The performance of the various indicators is depicted in Table 3.7.

3.32 Overall, the two phases of fiscal policy stance immediately prior to the 2008 global crisis and thereafter are discernible in a longer period analysis. The gap between non-debt receipts and total expenditure (as proportion of GDP) reflects the extent of FD and depicts the shift of fiscal policy from consolidation to expansion during the two phases, as shown in Figure 3.6.

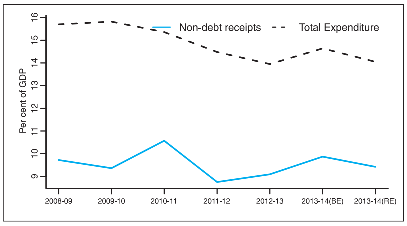

Figure 3.6 : Trend in Non-debt Receipts and Total Expenditure (as per cent of GDP)

Economic and Functional Classification of the Union Budget

3.33 The classification of transactions in the budget is designed to facilitate discussion and voting on demand for grants and is to be seen in the context of accountability to Parliament through institutional arrangements. While the conventional analysis of the movements in expenditure, revenue, and deficits is useful for understanding the trends in public finances, the transactions become amenable to larger macroeconomic analysis, such as the impact of the Budget on the various sectors of the economy, only through the economic and functional classification of the central government Budget. Such an analysis of the Budget indicates that out of the total expenditure of ₹13,98,274 crore in 2012-13 (RE), consumption expenditure was ₹2,69,339 crore and expenditure on gross capital formation ₹77,974 crore. Financial investments and loans to the rest of the economy were ₹48,261 crore. With transfer payments constituting the remaining expenditure, such financial transfers were 71.7 per cent of total expenditure. In BE 2013-14, out of a total estimated expenditure of ₹16,58,033 crore, consumption expenditure is placed at ₹3,15,318 crore and gross capital formation at ₹97,498 crore. Transfer payments to the rest of the economy at ₹11,42,858 crore constituted 68.9 per cent of total expenditure.

3.34 In terms of classification by functional heads, social and economic services (broadly covering total development outlays) at ₹6,96,260 crore constituted 42 per cent of the total expenditure in 2013-14 (BE) while expenditure on general services was estimated at ₹3,80,272 crore, constituting 22.9 per cent of the total. Items such as statutory grants-in-aid to states, non-Plan grants to UTs, food and other consumer subsidies, interest on public debt, pension, and aid to other nations constitute the unallocable category accounting for 35.1 per cent of total expenditure.

The salient feature is the estimated growth in capital formation at 30.8 per cent and growth in social services at 24.9 per cent in 2013-14 (BE) over 2012-13 (RE), indicating the thrust of the Budget on higher investment and an inclusive development agenda.

Government debt

3.35 The debt policy emphasizes maintaining stable, sustainable, prudent, and market-oriented active debt management. To adhere to the debt policy objectives, the government conducted buyback and switching of securities with the objective of improving liquidity in securities and reducing rollover risk as well as utilizing the cash surplus which resulted in reduction in market borrowing for 2013-14 by ₹15,000 crore to ₹4,68,902 crore. Further, to broaden the investor base and develop a competitive market, the government introduced inflation-indexed bonds.

3.36 The total outstanding liabilities of the central government were placed at ₹50,70,601 crore, equivalent to 50.1 per cent of GDP at end March 2013 (Table 3.8). The total liabilities for the Government of India include debt and liabilities accounted for in the Consolidated Fund of India (technically defined as Public Debt) as well as liabilities accounted for in the public account (called other liabilities). As at end March 2013, public debt was placed at ₹39,41,855 crore, equivalent of 39 per cent of GDP whereas other liabilities were placed at ₹11,28,747 crore, equivalent of 11.2 per cent of GDP. Of total public debt, internal debt constitutes 95.5 per cent and the remaining is external debt (at book value). The outstanding internal and external debt and other liabilities was estimated to amount to ₹55,87,149.33 crore in 2013-14 (RE). A greater dependence on domestic debt insulates the debt portfolio from volatility in international capital markets and also minimizes currency risk. As a proportion of GDP, outstanding liabilities of the centre and state governments together declined from 77.7 per cent in 2009-10 to 69.7 per cent in 2013-14(BE). This is mainly on account of the fact that the growth in incremental assumption of liabilities has been lower than that of nominal GDP. The global crisis led to a quantum jump in the levels of assuming of liabilities by the centre as FD shot up. After being less than ₹1,50,000 crore prior to the crisis, the FD shot up to reach ₹5,15,990 crore which

Table 3.8 : Outstanding liabilities of the Central Government

		End March				
		2009-10	2010-11	2011-12	2012-13 (Prov.)	2013-14 (RE)
		(As per cent of GDP)				
1.	Internal liabilities	52.4	48.5	47.9	48.4	47.7
	a) Internal debt#	35.9	34.2	35.7	37.2	37.5
	i) Market borrowings	27.0	26.6	27.9	29.5	30.4
	ii) Others	9.0	7.6	7.7	7.7	7.1
	b)Other internal liabilities	16.5	14.3	12.2	11.2	10.2
2	External debt (outstanding)*	2.1	2.0	1.9	1.8	1.6
3	Total outstanding liabilities	54.5	50.5	50.4	50.1	49.4

Sources: Union Budget documents, Controller, Aid, Accounts, and Audit and Reserve Bank of India.

Notes: # Internal debt includes net borrowing of ₹ 88,773 crore for 2008-09 and ₹ 2737 crore for 2009-10 under the Market Stabilization Scheme.

* External debt figures represent borrowings by central government from external sources and are based upon historical rates of exchange.

The ratios to GDP at current market prices are based on the CSO's National Accounts 2004-5 series.

added to the stock of liabilities. The rise in nominal GDP in 2010-11 suggests that the debt burden was mitigated significantly. However, despite the lower nominal GDP growth in 2012-13 and 2013-14, the proportion of debt to GDP in both the years has not increased but remained more or less sticky due to similar levels of deficit and significant fiscal consolidation during both these years.

A postive change in the debt profile of the country has been the reduction in the total outstanding liabilities of the central as well as state government, as a proportion of GDP.

Performance of Departmental Enterprises of the Central Government

Department of Posts

3.37 The gross receipts of the Department of Posts in 2012-13 were placed at ₹9,366.50 crore. The gross and net working expenses during the year were ₹15,481.15 crore and ₹14,792.38 crore respectively, which yield a deficit of ₹5425.88 crore. In RE 2013-14, gross receipts are budgeted to go up to ₹9787.52 crore with gross and net working expenses estimated at ₹16,464.05 crore and ₹15,806.93 crore respectively. The deficit is projected to be ₹6019.41 crore. New initiatives undertaken by the Department of Posts include the IT Modernisation Project and Mobile Money Transfer Service.

Railways

3.38 Freight earnings at ₹85,263 crore during 2012-13 exceeded the revised target by ₹693 crore, registering growth of 22.6 per cent over 2011-12. Passenger earnings (including other coaching earnings) during 2012-13 were ₹34,377 crore, as against ₹30,963 crore in 2011-12, an increase of 11.0 per cent. The overall traffic revenue for 2012-13 at ₹1,23,901 crore, registered a growth of 19.0 per cent over 2011-12. Taking into account further accumulation of ₹168 crore to the traffic outstanding, the gross traffic receipts of the Railways for 2012-13 stood at ₹1,23,733 crore, as against ₹1,04,110 crore in 2011-12. The revised estimates of gross traffic receipts for 2013-14 were ₹140,500 crore.

3.39 Ordinary working expenses at ₹84,012 crore during 2012-13 show an increase of 12.7 per cent over 2011-12. The revised estimates of ordinary working expenses of 2013-14 stood at ₹97,060 crore compared to ₹84,012 crore during 2012-13, while the total working expenses were ₹1, 27,260 crore for 2013-14 (RE)

3.40 Taking into account the net variation of the miscellaneous receipts and miscellaneous expenditure, Railways' net revenues in 2012-13 were ₹13,615 crore. After fully discharging the dividend liability of ₹5349 crore for the fiscal, Railways during 2012-13 generated an excess of around ₹8266 crore. The revised estimates of dividend liability for 2013-14 stood at ₹7840 crore. There was a slight deterioration in the operating ratio of the Railways, from 90.2 per cent in 2012-13 to 90.8 per cent in 2013-14 (RE). The net revenue as a proportion of capital-at-charge and investment from Capital Fund, stood at 7.4 per cent in 2012-13, as against the RE of 7.6 per cent for 2013-14.

3.41 The plan outlay for 2012-13 stood at ₹60,100 crore. As against this, actual expenditure during 2012-13 was ₹50,383 crore, including internally generated resources of ₹9531 crore and market borrowings of ₹15,142 crore by the Indian Railway Finance Corporation (IRFC), which also includes borrowing of ₹108 crore for Rail Vikas Nigam Limited (RVNL). The annual plan outlay for 2013-14 was budgeted at ₹63,363 crore, which was the highest-ever annual plan investment, to be financed through GBS of ₹26,000 crore (41.0 per cent), internal resources of ₹14,260 crore (22.5 per cent), ₹2000 crore from the Railway Safety Fund (3.2 per cent), and extra-budgetary resources of ₹21,103 crore (33.3 per cent) including market borrowing of ₹15,103 crore from the IRFC. In line with the trend of earnings and expenditure during the year, the revised plan outlay for 2013-14 stood at ₹59,359 crore.

Broadcasting

3.42 The total expenditure of Prasar Bharati in 2013-14 was ₹3624.91 crore and total revenue earned was ₹1622.74 crore (provisional). The government had originally approved a total amount of ₹5583 crore for the Twelfth Five Year Plan, i.e. ₹186 crore as grant-in-aid-general and ₹5397 crore as grant for creation of capital assets in respect of Plan schemes being implemented through All India Radio and Doordarshan. These schemes can be broadly categorized into: (i) Broadcasting Infrastructure Network Development (₹3500 crore), (ii) Content Development and Dissemination (₹186 crore), and (iii) Special Projects (₹140 crore). The outlay originally approved has since been revised to ₹3826 crore.

Fiscal performance of the states

3.43 All the key deficit indicators of states at consolidated level were budgeted to improve in 2013-14, indicative of the states' intent to carry forward fiscal consolidation as envisaged by the Thirteenth Finance Commission (FC-XIII) (Table 3.9). While the consolidated revenue surplus is budgeted to increase to 0.4 per cent of GDP in 2013-14 from 0.2 per cent in 2012-13(RE), gross fiscal deficit (GFD) and primary deficit (PD) as proportions to GDP are budgeted to decline to 2.2 per cent and 0.6 per cent respectively in 2013-14 from 2.3 per cent and 0.8 per cent respectively in 2012-13(RE). The budgeted increase in capital expenditure as a proportion of GDP from 2.3 per cent in 2012-13(RE) to 2.4 per cent in 2013-14 (BE), it can be inferred that quality of expenditure is not being compromised to attain the deficit targets. At disaggregated level, the GFD-gross state domestic product ratio is budgeted to exceed the target set by FC-XIII for 2013-14 in only four states.

The states have effected crediable fiscal correction post the enactment of the FRBM Act.

Table 3.9 : Receipts and Disbursements of State Governments

	Item	2008-09	2009-10	2010-11	2011-12	2012-13(RE)	2013-14(BE)
1	2	3	4	5	6	7	8
	(As per cent of GDP)						
	I. Total receipts (A+B)	15.8	15.6	15.1	15.2	16.2	16.5
	A. Revenue receipts (1+2)	12.3	11.9	12.0	12.2	13.3	13.5
	1. Tax receipts *of which*	8.6	8.2	8.7	9.0	9.5	9.8
	States' own tax revenue	5.7	5.6	5.9	6.2	6.5	6.7
	2. Non-tax receipts *of which*	3.8	3.7	3.3	3.2	3.8	3.7
	Interest receipts	0.3	0.2	0.2	0.2	0.2	0.2
	B. Capital receipts *of which*	3.5	3.7	3.1	3.0	2.9	3.0
	Recovery of loans and advances	0.2	0.1	0.1	0.2	0.1	0.1
	II. Total disbursements (a+b+c)	15.7	15.7	14.9	15.0	16.5	16.5
	a) Revenue	12.1	12.4	12.0	11.9	13.1	13.1
	b) Capital	3.3	3.1	2.7	2.6	3.1	3.1
	c) Loans and advances	0.3	0.3	0.2	0.4	0.3	0.3
	III. Revenue Deficit	-0.2	0.5	0.0	-0.3	-0.2	-0.4
	IV. Gross Fiscal Deficit	2.4	2.9	2.1	1.9	2.3	2.2

Source: Reserve Bank of India.

RE: Revised Estimates BE : Budget Estimates

Notes: (1) Negative (-) sign indicates surplus in deficit indicators.
(2) The ratios to GDP at current market prices are based on the CSO's National Accounts 2004-05 series.
(3) Capital receipts include public accounts on a net basis.
(4) Capital disbursements are exclusive of public accounts.

Consolidated general government

3.44 As indicated earlier, FD of the centre was estimated at 4.8 per cent of GDP in BE 2013-14, which was revised to 4.6 per cent as per RE 2013-14. With the FD of states exhibiting a modest improvement to 2.2 per cent of GDP (Table 3.9), the fiscal outcome in terms of centre and states combined was placed at 6.9 per cent of GDP in 2013-14 as against 7.4 per cent in 2012-13 (Table 3.10).

3.45 The terms of reference of the Fourteenth Finance Commission, constituted in January 2013 under the Chairmanship of Dr Y.V.Reddy, was amended with the following addition:

The Commission shall also take into account the resources available to the successor or reorganized States on reorganization of the State of Andhra Pradesh in accordance with the Andhra Pradesh Reorganisation Act, 2014 (6 of 2014) and the Ministry of Home Affairs notification number S.O.655 (E) dated 4th March, 2014 and make recommendations, for successor or reorganized States, on the matters under reference in this notification.

Outlook

3.46 The longer-term outlook has already been outlined in terms of the fiscal consolidation roadmap leading to a fiscal deficit of 3.0 per cent of GDP in 2016-17. Despite the global and domestic challenges, the economy achieved its targeted fiscal consolidation

Table 3.10 : Receipts and Disbursements of Consolidated General Government (As per cent of GDP)

Item	2008-09	2009-10	2010-11	2011-12	2012-13 (RE)	2013-14 (BE)
1	2	3	4	5	6	7
I. Total receipts (A+B)	27.8	28.5	27.6	27.2	27.8	28.5
A. Revenue receipts (1+2)	19.8	18.7	20.3	18.8	20.2	20.9
1. Tax receipts	16.5	15.2	16.0	16.0	16.8	17.6
2. Non-tax receipts	3.4	3.5	4.2	2.8	3.4	3.3
Interest receipts	0.5	0.4	0.3	0.3	0.3	0.3
B. Capital receipts	8.0	9.8	7.4	8.5	7.6	7.5
of which:						
a) Disinvestment	0.0	0.4	0.3	0.2	0.2	0.5
b) Recovery of loans & advances	0.3	0.2	0.1	0.3	0.2	0.1
II. Total disbursements (A+B+C)	28.4	28.6	27.5	26.9	28.1	28.4
a) Revenue	24.1	24.4	23.5	22.9	23.9	23.9
b) Capital	3.9	3.8	3.4	3.2	3.5	4.2
c) Loans and advances	0.4	0.4	0.6	0.7	0.6	0.4
III. Revenue Deficit	4.3	5.7	3.2	4.1	3.7	2.9
IV. Gross Fiscal Deficit	8.3	9.3	6.9	7.6	7.4	6.9

BE: Budget Estimates. RE: Revised Estimates

Source: Budget documents of central and state governments.

Notes : 1. The ratios to GDP at current market prices are based on the CSO's National Accounts 2004-05 series.
2. Total disbursements are net of repayments of the central and state governments and total receipts are net of variations in cash balances of the central and state governments as well as ways and means advances of state governments from the Reserve Bank.
3. Disinvestment figures are inclusive of miscellaneous capital receipts of the states.
4. Inter-governmental transactions are adjusted from the central government Budget documents.

in 2013-14. Nevertheless, this was achieved by cutting expenditure (majorly plan/capital expenditure) which is unsustainable for an economy.

3.47 Addressing the key fiscal risk of food, fertilizer, and petroleum subsidies is also critical for achieving better quality fiscal marksmanship. Apart from distorting production, subsidies do not penalize, and in fact encourage, wastage of scarce resources. Therefore in the case of all subsidies, there is need to prepare a comprehensive reform plan with clear long-term objectives and an analysis of the impact of reforms; identify the beneficiaries and in a phased manner credit the cash subsidies directly into their accounts; and increase prices over time to market level.

Fiscal consolidation remains imperative for the economy both in the current context and the years to come with an emphasis on maintaining the quality of adjustment.

3.48 Another challenge lies in improving tax buoyancy. The lower-than-budgeted growth in revenues and the growth in taxes, more so in indirect taxes, has not been encouraging and the uphill task before the government is taking measures to augment resources. The overall shortfall in non-debt receipts could be contained with greater efforts at mobilization and reforms.

3.49 The introduction of the goods and services tax (GST) will have a significant bearing on the resource-raising potential of state governments, besides being an important tax reform measure for improving tax efficiency and reducing the cost cascading prevalent in the present indirect tax regime, thereby contributing to higher growth.