Outlining the roadmap for fiscal consolidation, the Budget for 2014-15 envisaged a fiscal deficit target at 4.1 per cent of GDP and sought to reduce it further to 3 per cent of GDP by 2016-17. Achieving this target is daunting in the backdrop of only a moderate increase in indirect taxes and a large subsidy bill despite significant decline in the subsidies burden in 2014-15, mainly due to lower prices of crude oil in the international market in the second half of 2014-15. Considering the fact that the desired fiscal targets in the previous two years were achieved by counterbalancing the shortfall of tax revenue by a higher or equivalent cut in expenditure, the challenge in the current year was to achieve the deficit targets without resorting to a cut in public expenditure. Therefore, while the fiscal deficit in the Budget 2014-15 was retained at the interim budget level, additional resources were provided in sync with the objective of the government to meet its social and welfare commitments and to remain focused on the development agenda. It is noteworthy that the government remains committed to fiscal consolidation. However, should the revenues not pick up sufficiently, there is need to persist with some compression in expenditure, so as to meet the deficit target.

2.2 The Budget for 2014-15 sought to contain the fiscal deficit at ₹ 5,31,177 crore (4.1 per cent of gross domestic product—GDP) against ₹ 5,08,148 crore (4.5 per cent of GDP) in 2013-14 (Provisional Actuals—PA). Revenue deficit (RD) was placed at ₹ 3,78,348 crore (2.9 per cent of GDP) in 2014-15 (Budget Estimates—BE) against ₹ 3,60,311 crore (3.2 per cent of GDP) in 2013-14 (PA). The effective RD, a refined version of RD that captures the shortfall in current receipts over current expenditure and is equal to the difference between the RD and grants given for creation of capital assets, was also expected to come down (Table 2.1).

<table>
<thead>
<tr>
<th>Year</th>
<th>FD (as % of GDP)</th>
<th>RD (as % of GDP)</th>
<th>GCC (as % of GDP)</th>
<th>ERD (as % of GDP)</th>
<th>PD (as % of GDP)</th>
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</thead>
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<tr>
<td>2010-11</td>
<td>4.8</td>
<td>3.2</td>
<td>1.1</td>
<td>2.1</td>
<td>1.8</td>
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<tr>
<td>2011-12</td>
<td>5.7</td>
<td>4.4</td>
<td>1.5</td>
<td>2.9</td>
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<td>2012-13</td>
<td>4.8</td>
<td>3.6</td>
<td>1.1</td>
<td>2.5</td>
<td>1.8</td>
</tr>
<tr>
<td>2013-14 PA</td>
<td>4.5</td>
<td>3.2</td>
<td>1.1</td>
<td>2.0</td>
<td>1.2</td>
</tr>
<tr>
<td>2014-15 BE</td>
<td>4.1</td>
<td>2.9</td>
<td>1.3</td>
<td>1.6</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Source: Budget Documents.

Notes: FD= Fiscal Deficit, RD= Revenue Deficit, GCC=Grants for Creation of Capital Assets ERD= Effective Revenue Deficit, PD=Primary Deficit, BE= Budget Estimates, PA= Provisional Actuals

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

For calculating ratios with respect to GDP at current market price, we have used National Accounts series of 2004-05 prices released by CSO.
Fiscal Policy for 2014-15

2.3 At the time of presentation of the Budget for 2014-15, as per the then available information, the macroeconomic outlook was mixed. Growth had been sub-par for two years 2012-13 and 2013-14 and inflation was moderating gradually, reflecting the compression in aggregate demand and a robust external sector outcome. The Budget for 2014-15 had indicated that while containing the fiscal deficit at 4.1 per cent of GDP was a daunting challenge given the then macroeconomic conjecture, it outlined the importance of adherence to fiscal consolidation and it accepted the challenge. The fiscal consolidation plan as enunciated in BE 2014-15 entailed an increase in the tax to GDP and non-debt receipts to GDP ratios to 10.6 per cent and 9.8 per cent respectively and a continuance of the low level of total expenditure to GDP ratio at 13.9 per cent (Table 2.2 and Figure 2.1). The envisaged growth in gross tax revenue (GTR) was 17.7 per cent over Revised Estimates (RE) 2013-14 and 19.8 per cent over PA 2013-14. Total expenditure was estimated to increase by 12.9 per cent and 14.8 per cent in BE 2014-15 over RE 2013-14 and PA 2013-14 respectively. The expectation of better performance of gross tax revenue vis-à-vis total expenditure, resulted in a projection of decline in fiscal deficit to 4.1 per cent of GDP in BE 2014-15.

Trends in Revenue

Non-debt Receipts

2.4 Typically, certain assumptions have to be made about the overall macroeconomic outcome, growth in revenues, and at the levels of expenditure that could yield the desired fiscal target. The Budget for 2014-15 envisaged a growth of 18.6 per cent over RE 2013-14 in non-debt receipts which include tax revenue net to centre, non-tax revenue, and non-debt capital receipts (mainly recovery of loans and disinvestment receipts). Revenue receipts

Table 2.2: Trends in Receipts and Expenditure of Central Government as a Ratio of GDP

<table>
<thead>
<tr>
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<th></th>
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</thead>
<tbody>
<tr>
<td>1. Revenue receipts</td>
<td>10.1</td>
<td>8.3</td>
<td>8.7</td>
<td>8.9</td>
<td>9.2</td>
</tr>
<tr>
<td>Gross tax revenue</td>
<td>10.2</td>
<td>9.9</td>
<td>10.2</td>
<td>10.0</td>
<td>10.6</td>
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<td>2. Capital receipts</td>
<td>5.2</td>
<td>6.1</td>
<td>5.3</td>
<td>4.8</td>
<td>4.7</td>
</tr>
<tr>
<td>3. Non-debt receipts</td>
<td>10.6</td>
<td>8.8</td>
<td>9.1</td>
<td>9.3</td>
<td>9.8</td>
</tr>
<tr>
<td>4. Total receipts</td>
<td>15.4</td>
<td>14.5</td>
<td>13.9</td>
<td>13.8</td>
<td>13.9</td>
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<tr>
<td>5. Total expenditure</td>
<td>15.4</td>
<td>14.5</td>
<td>13.9</td>
<td>13.8</td>
<td>13.9</td>
</tr>
<tr>
<td>(a) Revenue expenditure</td>
<td>13.4</td>
<td>12.7</td>
<td>12.3</td>
<td>12.1</td>
<td>12.2</td>
</tr>
<tr>
<td>(b) Capital expenditure</td>
<td>2.0</td>
<td>1.8</td>
<td>1.6</td>
<td>1.7</td>
<td>1.8</td>
</tr>
<tr>
<td>(A) Non-Plan expenditure</td>
<td>10.5</td>
<td>9.9</td>
<td>9.9</td>
<td>9.8</td>
<td>9.5</td>
</tr>
<tr>
<td>(B) Plan expenditure</td>
<td>4.9</td>
<td>4.6</td>
<td>4.1</td>
<td>4.0</td>
<td>4.5</td>
</tr>
</tbody>
</table>

Source: Budget Document and CSO.

Note: GDP at current market prices is at 2004-05 base.
PA = Provisional Actuals, BE = Budget Estimates.
were estimated at ₹ 11.90 lakh crore in BE 2014-15, of which the net tax revenue to the centre was ₹ 9.77 lakh crore and non-tax revenue was ₹ 2.12 lakh crore. The total non-debt receipts inclusive of non-debt capital receipts of ₹ 0.74 lakh crore were estimated at ₹ 12.64 lakh crore.

**TAX REVENUE**

2.5 In the immediate post-Fiscal Reforms and Budget Management Act 2003 (FRBMA) period (2004-05 to 2007-08) significant fiscal consolidation was achieved largely due to growth in tax revenues. Post-2008 crisis, growth in overall gross tax revenue (GTR) as well as its major components (with the exception of personal income tax) was not buoyant enough to facilitate encore performance in terms of revenue-led fiscal consolidation. The Budget for 2014-15 envisaged a growth of 15.8 per cent and 20.3 per cent in direct and indirect taxes respectively over RE 2013-14. The growth in direct and indirect taxes along with the growth of GDP-CMP (GDP at current market prices) is plotted in Figure 2.2 A, indicating that the growth in indirect taxes has not been in tandem with the growth in GDP_CMP. The Budget for 2014-15 estimated GDP growth of 13.4 per cent and growth in GTR at 19.8 per cent over PA 2013-14 which implies a tax buoyancy of 1.5. This seems to be an overestimation, given the trends in GDP growth and growth in GTR (for details see the Mid Year Economic Analysis 2014-15).

2.6 The composition of GTR has been plotted in Figure 2.2 B, indicating that from 2010-11 to 2012-13 the share of indirect taxes had been increasing mainly on account of the growing share of service taxes (average annual growth of 31.6 during 2010-13). As a proportion of GDP, direct and indirect taxes estimated at 5.7 per cent and 4.8 per cent respectively in 2014-15 (BE), were slightly higher than the 5.6 per cent and 4.6 per cent respectively in 2013-14 (RE). The total direct and indirect taxes for 2014-15 were estimated at ₹ 7.3 lakh crore and ₹ 6.2 lakh crore respectively (Table 2.3).

![Figure 2.2A: Growth of Direct and Indirect Taxes and GDP_CMP Growth.](source)

![Figure 2.2B: Share of Direct and Indirect Taxes in GTR](source)

| Table 2.3 : Sources of Tax Revenue (in ₹ lakh crore) |
|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                | GTR             | CT              | IT              | CD              | UNE             | ST              |
| 2010-11         | 7.93            | 2.99            | 1.39            | 1.36            | 1.38            | 0.71            |
| 2011-12         | 8.89            | 3.23            | 1.64            | 1.49            | 1.45            | 0.98            |
| 2012-13         | 10.36           | 3.56            | 1.97            | 1.65            | 1.76            | 1.33            |
| 2013-14 PA      | 11.39           | 3.95            | 2.38            | 1.72            | 1.69            | 1.55            |
| 2014-15 BE      | 13.65           | 4.51            | 2.78            | 2.02            | 2.06            | 2.16            |

*Source*: Budget documents & CGA.

While the rates of growth of tax revenues envisaged by BE 2014-15 might look optimistic given the outcome in the first nine months of the current fiscal, it might be instructive to note that growth in excise duties and service tax was 21.4 per cent and 36.0 per cent respectively in 2012-13. As such, given the low base effect (of low growth), these assumptions were not that optimistic. These were premised on the expected better macroeconomic outcome and endeavour at broadening the tax base and providing an equitable tax regime that has been the underlying theme of the tax policy of the government. Several measures were initiated for both direct and indirect taxes which are enumerated in Box 2.1. Even within the limited fiscal space, several important and path-breaking initiatives for reviving the economy and promoting investment in the manufacturing sector were taken, and measures for rationalizing tax provisions so as to reduce litigation were introduced through the Finance (No.2) Act 2014.

Box 2.1: Measures Introduced in Budget 2014-15

**DIRECT TAXES**

- Budget 2014-15 raised the basic exemption limit of personal income tax in case of every individual (below the age of 60 years), or Hindu undivided family (HUF) or association of persons or body of individuals, whether incorpo-rated or not, or every artificial juridical person from ₹ 2 lakh to ₹ 2.5 lakh. The basic exemption limit in the case of an individual resident in India, who is of the age of 60 years or more but less than 80 years was raised from ₹ 2.5 lakh to ₹ 3 lakh.

- Investment allowance at the rate of 15 per cent of the cost of new plant and machinery extended up to 31.03.2017 and threshold of investment reduced to ₹ 25 crore.

- Ten-year tax holiday extended to undertakings which begin generation, distribution, and transmission of power by 31.03.2017.

- Income to foreign portfolio investors arising from transactions in securities to be treated as capital gains.

- Concessional tax rate of 15 per cent on foreign dividends without any sunset date to be continued.

- The eligible date of borrowing in foreign currency extended from 30.06.2015 to 30.06.2017 for a concessional tax rate of 5 per cent on interest payments. Tax incentive extended to all types of long-term bonds instead of only long-term infrastructure bonds.

- Introduction of a ‘roll back’ provision in the Advanced Pricing Agreement (APA) scheme so that an APA entered into for future transactions is also applicable to international transactions undertaken in the previous four years in specified circumstances.

- Introduction of range concept for determination of arm’s length price in transfer pricing regulations.

- Use of multiple-year data allowed for comparability analysis under transfer pricing regulations.

- Resident taxpayers enabled to obtain an advance ruling in respect of their income tax liability above a defined threshold.

**INDIRECT TAXES**

**A. CUSTOMS**

_Agriculture/agro processing/plantation sector_: full exemption from customs duty granted to de-oiled soya extract, groundnut oil cake/oil cake meal, etc. up to 31.12.2014.

Basic customs duty (BCD) reduced in the chemicals and petrochemicals sector.

_Energy sector_: The duty structure on non-agglomerated coal of various types rationalized at 2.5% BCD and 2% countervailing duties (CVD).

_Textiles and Exports_: The duty free entitlement for import of trimmings and embellishments used by the readymade textile garment sector for manufacture of garments for export increased from 3% to 5%.

(Contd...)
Box 2.1 : Measures Introduced in Budget 2014-15 (Contd...)

Metals: The BCD on certain stainless steel flat products increased from 5% to 7.5%. Export duty on bauxite increased from 10% to 20%.

Precious Metals: BCD on half-cut or broken diamonds increased from NIL to 2.5% and on cut and polished diamonds and coloured gemstones increased from 2% to 2.5%.

Electronics/Hardware: BCD on LCD and LED TV panels of below 19 inches and on colour picture tubes for manufacture of cathode ray TVs reduced from 10% to NIL. Education cess and Secondary and Higher Education (SHE) cess levied on imported electronic products.

Renewable Energy: BCD reduced for equipment used in wind-operated electricity generators and solar energy production projects.

Health: Full exemption from customs and excise duty provided for HIV/AIDS drugs and diagnostic kits imported under the National AIDS Control Programme funded by the Global Fund to Fight AIDS, TB and Malaria.

B. EXCISE

Agriculture/agro processing/plantation sector: Excise duty on machinery for the preparation of meat, poultry, etc. reduced from 10% to 6%.

Metals: Excise duty on winding wires of copper increased from 10% to 12%.

Textiles: Excise duty at the rate of 2% (without central value added tax—CENVAT) or 6% (with CENVAT) imposed on polyester staple fibre and polyester filament yarn manufactured from plastic waste or scrap or plastic waste.

Health: Excise duty on cigarettes increased by 72% for cigarettes of length not exceeding 65 mm and by 11% to 21% for cigarettes of other lengths. Similar increases made on cigars, cheroots, and cigarillos. Basic excise duty increased from 12% to 16% on pan masala, from 50% to 55% on unmanufactured tobacco, and from 60% to 70% on jarda-scented tobacco, gutkha, and chewing tobacco.

Full exemption from excise duty provided to DDT manufactured by Hindustan Insecticides Limited for supply to the National Vector Borne Diseases Control Programme (NVBDCP) of the Ministry of Health and Family Welfare.

Electronics/hardware: Excise duty on recorded smart cards increased from 2% without CENVAT and 6% with CENVAT to a uniform rate of 12%.

Renewable energy: Full exemption from excise duty provided for machinery required for setting up of solar energy production projects and compressed biogas plant (Bio-CNG).

Energy sector: Central excise duty on branded petrol reduced from ₹7.50 per litre to ₹2.35 per litre, so as to reduce the price differential between branded and unbranded petrol. Rate of clean energy cess levied on coal, lignite, and peat increased from ₹50 per tonne to ₹100 per tonne.

C. SERVICE TAX

Negative list of services and service tax exemptions were reviewed for broadening the tax base and also as a preparation for introduction of the goods and services tax (GST). Services like online and mobile advertising and services provided by radio taxis or radio cabs have been brought under the tax net whereas for services like clinical research on human participants and services provided by air-conditioned contract carriages tax exemption has been withdrawn.

Measures Taken Post-Budget 2014-15

CUSTOMS: Basic Customs Duty on raw and refined / white sugar was increased from 15% to 25%.

EXCISE: The basic excise duty on petrol and diesel (both branded and unbranded) was increased as under:
- Unbranded petrol from ₹1.20 per litre to ₹4.95 per litre;
- Branded petrol from ₹2.35 per litre to ₹6.10 per litre;
- Unbranded diesel from ₹1.46 per litre to ₹3.96 per litre; and
- Branded diesel from ₹3.75 per litre to ₹6.25 per litre.

Source: Department of Revenue, Ministry of Finance.
2.8 In order to raise revenue and to improve the ease of doing business, a non-adversarial and non-intrusive tax regime is being promoted through modernization of the business processes of tax administration. Extensive use is being made of information technology for e-enablement of tax payer services and filing of income tax returns, various forms, audit reports, etc. Statements of tax deduction at source have been made compatible with electronic filing and computerized processing. The Centralized Processing Centre for income tax returns at Bengaluru and Centralized Processing Centre—TDS (tax deduction at source) at Vaishali, Ghaziabad have also been made fully functional. These measures would enable the tax administration to function in a more efficient and automated environment and reduce the compliance burden on taxpayers.

2.9 Another important development in 2014-15 was the introduction of the Constitution (122nd Amendment) Bill in the Lok Sabha on 19 December 2014, which provides for levy of a goods and services tax (GST) on all goods or services except those specified. The broad framework of the GST is presented in Box 2.2.

### Collection Rates

2.10 Customs duty is collected on imports of goods but there are number of exemptions to the application of the statutory rate. Therefore, increase in the value of imports does not necessarily imply similar change in customs duty collection. The collection rate is an indicator of overall incidence of customs duty and is computed as the ratio of total customs revenue collection to the value of imports in the fiscal year. The trend in these ratios for important commodity groups as well as for all commodities taken together over the years is depicted in Table 2.4. A major reason for the decline in collection rates has been a reduction in duties on many items which have significant import value, including petroleum, oil, and lubricants (POL), some of which continued until the recent hike, and of course the impact of various exemptions.

### Tax expenditure

2.11 There is a significant divergence between the statutory rates of taxes as notified in the various schedules and the actual or effective rate of

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<table>
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<tr>
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<tr>
<td>1</td>
<td>Food products</td>
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<td>5.3</td>
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<td>2</td>
<td>POL</td>
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<td>Chemicals</td>
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<td>4</td>
<td>Man-made fibre</td>
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</tr>
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<td>5</td>
<td>Paper and newsprint</td>
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<td>Natural fibre</td>
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<td>4.3</td>
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<tr>
<td>7</td>
<td>Metals</td>
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<td><strong>5.9</strong></td>
<td><strong>7.7</strong></td>
<td><strong>6.0</strong></td>
<td><strong>6.0</strong></td>
<td><strong>6.1</strong></td>
</tr>
</tbody>
</table>

**Source**: Department of Revenue, Ministry of Finance.

**Notes**: SN1 includes cereals, pulses, tea, milk and cream, fruits, vegetables, animal fats, and sugar.
SN3 includes chemical elements, compounds, pharmaceuticals, dyeing and coloring materials, plastic, and rubber.
SN5 includes pulp and waste paper newsprint, paperboards and manufactures, and printed books.
SN6 includes raw wool and silk.
SN7 includes iron and steel and non-ferrous metals.
SN8 includes non-electronic machinery and project imports, electrical machinery.
Box 2.2: Goods & Services Tax (GST)

The introduction of the GST would be a significant step in the field of indirect tax reforms in India. By subsuming a large number of central and state taxes into a single tax, it would mitigate cascading or double taxation in a major way and pave the way for a common national market. From the consumer’s point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods, which is currently estimated at 25 per cent-30 per cent. Introduction of the GST is also expected to make Indian products competitive in domestic and international markets. Studies show that this would instantly spur economic growth. Because of its transparent character, it is expected that the GST would be easier to administer.

The broad features of the proposed GST model are as follows:

(i) GST would be applicable on supply of goods or services as against the present concept of tax on the manufacture or on sale of goods or on provision of services.

(ii) GST would be a destination-based tax as against the present concept of origin-based tax.

(iii) It would be a dual GST with the centre and the states simultaneously levying it on a common base. The GST to be levied by the centre would be called central GST (CGST) and that to be levied by the states would be called state GST (SGST).

(iv) An integrated GST (IGST) would be levied on inter-state supply (including stock transfers) of goods or services. This would be collected by the centre so that the credit chain is not disrupted.

(v) Import of goods or services would be treated as inter-state supplies and would be subject to IGST in addition to the applicable customs duties.

(vi) A non-vatable additional tax, not exceeding 1 per cent on inter-state supply of goods would be levied by the centre and retained by the originating state at least for a period of two years.

(vii) CGST, SGST, and IGST would be levied at rates to be recommended by the Goods and Services Tax Council (GSTC) which will be chaired by the Union Finance Minister and will have Finance Ministers of states as its members.

(viii) GST would apply to all goods and services except alcohol for human consumption.

(ix) GST on petroleum products would be applicable from a date to be recommended by the GST Council.

(x) Tobacco and tobacco products would be subject to the GST. In addition, the centre could continue to levy central excise duty.

(xi) A common threshold exemption would apply to both CGST and SGST. Taxpayers with a turnover below it would be exempt from GST. A compounding option (i.e. to pay tax at a flat rate on turnover without credits) would be available to small taxpayers below a certain threshold. However, a taxable person falling within the limit of threshold or compounding could opt to pay tax at the normal rate in order to be part of the input tax credit chain.

(xii) The list of exempted goods and services would be kept to a minimum and it would be harmonized for the centre and states as far as possible.

(xiii) Exports would be zero-rated.

(xiv) Credit of CGST paid on inputs may be used only for paying CGST on the output and the credit of SGST paid on inputs may be used only for paying SGST. In other words, the two streams of input tax credit (ITC) cannot be cross utilized, except in specified circumstances of inter-state supplies, for payment of IGST.

Over the past four decades, the value added tax (VAT) has been an important instrument of indirect taxation, with 130 countries having adopted it, resulting in one-fifth of the world’s tax revenue. Tax reform in many of the developing countries has focused on moving to VAT. Federal countries like Canada, New Zealand, and Australia have successfully adopted the GST into their structure. Implementation of a comprehensive GST in India is expected, ceteris paribus, to lead to efficient allocation of factors of production thus bringing about gains in GDP and exports. This would translate into enhanced economic welfare and higher returns to the factors of production, viz. land, labour, and capital. However, in the near term, as GST replaces a number of state-level and central taxes, revenue gains may not be significant.

taxation, which is essentially a simple ratio of tax revenue collected to the total taxable income (tax base). The tax expenditure or tax foregone estimates are intended to indicate the revenue foregone. Typically, there is an overstatement of the revenue foregone as most emerging markets have high rates on their statutory schedule of taxes and effectively tax collections at much lower rates systematically for a number of years. For instance, the peak rate of customs duty on non-agricultural goods has been 10 per cent for a number of years now as against schedule rates that are manifold higher. In the Receipts Budget for 2014-15, tax foregone on account of exemptions under corporate income tax for 2012-13 was estimated at ₹ 68,720 crore and for 2013-14 was projected at ₹ 76,116 crore (after taking into account additional liability collected through the minimum alternate tax—MAT). Though termed as revenue foregone, it does not imply that this quantum of revenue has been waived by the government. Rather, in some cases, this could be seen as targeted incentives for the promotion of certain sectors that may not otherwise, in the absence of such incentives, have come up. Further, the positive externalities by the way of ancillary economic gains due to the progress of any sector are also not factored in the determination of revenue foregone of any sector. However, in spite of these benefits accruing, there is a case for rationalizing some of the entries under this head.

2.12 Table 2.5 shows trends in revenue foregone from 2010-11 to 2013-14. The tax foregone estimates are for FY 2012-13, the most recent year for which data is available. However, an attempt has also been made to estimate the revenue to be foregone during FY 2013-14 on the basis of the revenue foregone figures of FY 2012-13. The aggregate revenue foregone from central taxes (both direct and indirect) is ₹ 5.66 lakh crore for 2012-13 and is projected to be ₹ 5.73 lakh crore for 2013-14.

**Non-Tax Revenue**

2.13 Non-tax revenue mainly consists of interest and dividend receipts and the receipts from services provided by the central government. After remaining at around 1.4 per cent of GDP in 2011-12 and 2012-13, non-tax revenue was at 1.8 per cent of GDP in 2013-14 (PA) and the Budget 2014-15 sought to maintain it around 1.7 per cent of GDP. The non-tax revenues were estimated to contribute about 17.9 per cent and 16.8 per cent of revenue receipts and non-debt receipts of the central government respectively in BE 2014-15. The lower estimates of non-tax revenue growth in 2014-15 (BE) over 2013-14(PA) were mainly on account of higher base in 2013-14 due to higher dividends and profits and interest receipts.

**Non-debt Capital Receipts**

2.14 Recoveries of loans and disinvestment are the two main constituents of non-debt capital receipts. As against ₹ 40,057 crore in PA

### Table 2.5: Trends in Revenue Forgone/Tax Expenditure

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>₹ crore</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate tax</td>
<td>57912</td>
<td>61765</td>
<td>68720</td>
<td>76116</td>
<td>6.6</td>
<td>6.7</td>
</tr>
<tr>
<td>Personal income-tax</td>
<td>36826</td>
<td>39375</td>
<td>33536</td>
<td>40414</td>
<td>3.2</td>
<td>3.5</td>
</tr>
<tr>
<td>Excise duty</td>
<td>192227</td>
<td>195590</td>
<td>209940</td>
<td>195679</td>
<td>20.3</td>
<td>17.2</td>
</tr>
<tr>
<td>Customs duty</td>
<td>172740</td>
<td>236852</td>
<td>254039</td>
<td>260714</td>
<td>24.5</td>
<td>22.9</td>
</tr>
<tr>
<td>Total</td>
<td>459705</td>
<td>533583</td>
<td>566235</td>
<td>572923</td>
<td>54.6</td>
<td>50.3</td>
</tr>
<tr>
<td>Gross Tax Revenue</td>
<td>793072</td>
<td>889177</td>
<td>1036235</td>
<td>1138832</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source*: Receipts Budget of various years.

*Note*: P=Projected.
2013-14, the Budget 2014-15 placed non-debt capital receipts at ₹ 73,952 crore, comprising ₹ 10,527 crore of recovery of loans and ₹ 63,425 crore of other receipts (mainly disinvestment). The recovery of loans has been declining and has become a minor source of non-debt capital receipts mainly because of the Twelfth Finance Commission’s recommendation against loan intermediation from the centre to states. Over the years, disinvestment receipts have assumed greater importance under this head. The Budget for 2014-15 estimated that ₹ 58,425 crore would accrue during the fiscal year, of which ₹ 43,425 crore would be through disinvestment in central public-sector enterprises (CPSE) and ₹ 15,000 crore through disinvestment of government stake in non-government companies. In the current financial year, the government has disinvested its equity in SAIL, Coal India and others and realized about ₹ 24000 crore so far.

**Trends in Expenditure**

2.15 The two pillars of fiscal reforms, as mentioned earlier, are revenue augmentation and expenditure rationalization. Efficient and effective expenditure management is a key component of the Fiscal Responsibility and Budget Management Act. Budget 2014-15 estimated total expenditure at ₹ 17.95 lakh crore which was 12.9 per cent higher than the 2013-14 (RE) and 14.8 per cent higher than 2013-14 (PA). Within this, the expected growth in capital expenditure was 18.8 per cent and growth in revenue expenditure was 12.0 per cent over RE 2013-14. At disaggregated level, the BE 2014-15 estimated Plan and non-Plan expenditure at ₹ 5.75 lakh crore and ₹ 12.20 lakh crore respectively, which amounted 4.5 per cent and 9.5 per cent of budgeted GDP (Table 2.2), reflecting a growth of 20.9 per cent and 9.4 per cent respectively over RE 2013-14.

**Plan Expenditure**

2.16 In 2014-15, the centrally sponsored schemes were restructured into 66 programmes for greater synergy and effective implementation and reclassified whereby the funds under these programmes are now being released as central assistance to state plans giving the states greater autonomy, authority, and responsibility in implementation of schemes. As a result, central assistance to state and union territory (UT) plans recorded an increase from ₹ 1.19 lakh crore in RE 2013-14 to ₹ 3.38 lakh crore in BE 2014-15. Further, the composition of net revenue and net capital expenditure has broadly remained the same since 2012-13, with both these components individually contributing roughly half of Plan expenditure (Figure 2.3). Furthermore, the broad sector-wise allocations of central Plan outlay (gross budgetary support in central Plan plus internal and extra-budgetary resources of the CPSEs) indicate that the energy, transport, social service, and industry and minerals, got the maximum share in BE 2014-15 (Figure 2.4).

![Figure 2.3: Decomposition of Plan Expenditure](source)

*Source*: Budget documents & CGA.

*Note*: Net Revenue Expenditure are net of grant given for creation of capital assets. The same head is added in Capital Expenditure and termed as net capital Expenditure.

![Figure 2.4: Central Plan Outlay 2014-15 by Sectors](source)

Non-Plan Expenditure

2.17 Non-Plan expenditure constituted around 68 per cent of total expenditure in BE 2014-15 which is 3 percentage points less than the levels of 2013-14 (PA). Out of the total non-Plan expenditure in BE 2014-15, the share of non-Plan revenue expenditure is 91.4 per cent, with the balance, a mere 8.6 per cent, being accounted for by capital non-Plan expenditure. Within capital non-Plan expenditure, it is defence expenditure which had the maximum share.

2.18 As a strategy for achieving fiscal consolidation, expenditure rationalization has major constraints on account of expenditures like interest payments, subsidies, defence services, pension, and non-Plan grants and aid to states and UTs, which constituted around 87.4 per cent of total non-Plan revenue expenditure in BE 2014-15 (Figure 2.5). The rationalization and reprioritization of non-Plan revenue expenditure is expected to play a vital role in the process of fiscal consolidation and targeting expenditure more towards inclusive and sustained development.

Subsidies

2.19 The subsidy bill for BE 2014-15 was placed at ₹ 2.60 lakh crore which was 23.4 per cent of non-Plan revenue expenditure and 2.0 per cent of GDP. In the post financial crisis period, the subsidy bill had increased from 2.2 per cent of GDP in 2009-10 to 2.5 per cent of GDP in 2012-13 (Table 2.6). The main items under this head from 2009-10 to 2012-13 were food and petroleum subsidies. The deregulation of diesel price in October 2014, along with the introduction of direct benefit (subsidy) transfer into the bank accounts of domestic LPG consumers, coupled with a sharp decline in global crude oil prices will help contain the petroleum subsidy bill. The under-recoveries on petroleum products are expected to be ₹ 74,664 crore during 2014-15 against ₹ 1,39,869 crore in 2013-14 (Box 2.3).

2.20 The rationalization of food subsidies is still an area where more effort is required. Recently, the High level Committee for Restructuring of Food Corporation of India recommended several measures including cash transfers to the beneficiaries of the public distribution system

---

**Figure 2.5: Trends in Revenue Non-Plan Expenditure**

![Figure 2.5: Trends in Revenue Non-Plan Expenditure](image)

*Source: Budget documents & CGA.*
Table 2.6: Trend in Subsidies (in ₹ crore)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>58443</td>
<td>63844</td>
<td>72822</td>
<td>85000</td>
<td>92318</td>
<td>115000</td>
</tr>
<tr>
<td>Fertilizer</td>
<td>61264</td>
<td>62301</td>
<td>70013</td>
<td>65613</td>
<td>71280</td>
<td>72970</td>
</tr>
<tr>
<td>Petroleum</td>
<td>14951</td>
<td>38371</td>
<td>68484</td>
<td>96880</td>
<td>83998</td>
<td>63427</td>
</tr>
<tr>
<td>Major subsidies</td>
<td>134658</td>
<td>164516</td>
<td>211319</td>
<td>247493</td>
<td>247596</td>
<td>251397</td>
</tr>
<tr>
<td>Total subsidies</td>
<td>141351</td>
<td>173420</td>
<td>217941</td>
<td>257079</td>
<td>NA</td>
<td>260658</td>
</tr>
<tr>
<td>Major subsidies as % of GDP</td>
<td>2.08</td>
<td>2.11</td>
<td>2.35</td>
<td>2.45</td>
<td>2.18</td>
<td>1.95</td>
</tr>
<tr>
<td>Total subsidies as % of GDP</td>
<td>2.18</td>
<td>2.22</td>
<td>2.42</td>
<td>2.54</td>
<td>NA</td>
<td>2.02</td>
</tr>
</tbody>
</table>

Source: Union Budget documents.

Box 2.3: Impact of Falling Global Crude Prices and Fuel Policy Reforms

Recent Trends in Prices of Crude Oil: Global prices of crude had stayed above $100/bbl since 2010. However, there has been a sharp downturn in these prices since September 2014. From July 2014 when they stood at $106.30/bbl, they have fallen to below $50/bbl in January 2015. This sharp fall can be attributed to weakening of demand in the economies of Asia, especially China, and Europe. In addition, exploration of shale gas by countries like the United States and Canada to reduce their dependence on oil imports has led to lower demand for oil. This has also resulted in reduced retail prices of diesel, domestic LPG, and kerosene. The month-wise trend in prices for the year 2014-15 is shown in Figure below:

During the last few years, the contribution towards under-recovery/subsidies had gone up substantially, adversely affecting the government’s fiscal position and thus contributing substantially to inflationary pressure. However, in October 2014, the government has made a move towards major pricing reforms in order to rationalize the subsidy structure in the oil and gas sector. The prices of diesel have been deregulated and have become market-determined at retail level and at the refinery gate. Deregulation is expected to result in better service delivery on account of increased competition. Besides direct gain, lower diesel prices have also benefited consumers indirectly as cost of transportation of goods has come down.

Under-recoveries: Regulated prices of petroleum products resulted in under-recoveries to the oil marketing companies (OMCs) as they paid refinery gate prices based on import parity price (IPP)/trade parity price (TPP) for purchase of products from the refinery but could not recover the same from domestic prices. Public-sector OMCs continued to pay TPP based on international prices for purchase of diesel and IPP for purchase of PDS kerosene and domestic LPG to refineries until 18 October 2014 when diesel was deregulated. In order to insulate the common man, the government continues to modulate the retail selling prices (RSPs) of PDS kerosene and domestic LPG.

The estimated under-recoveries during 2014-15 are ₹ 74,664 crore with diesel contributing ₹ 10,935 crore, PDS kerosene ₹ 24,412 crore, and domestic LPG ₹ 39,317 crore. In 2013-14, there were under-recoveries of ₹1,39,869 crore with diesel contributing ₹ 62,837 crore, PDS kerosene ₹ 30,574 crore, and domestic LPG ₹ 46,458 crore. During 2014-15, with de-administration of diesel and also lower crude oil prices, the under-recoveries are likely to come down by about 47 per cent.

The under-recoveries incurred by the OMCs have been shared by the upstream national oil companies and the government. During 2013-14, the national oil companies provided ₹ 67,021 crore of the total under-recoveries of ₹ 1,39,869 crore.

In view of the importance of household fuels, namely PDS kerosene and domestic LPG, subsidies are provided for these products under a scheme of 2002 (₹ 2930 crore in 2014-15 BE). In addition, support is provided for transport of fuel to far-flung areas (₹ 23 crore in 2014-15 BE).

Source: Ministry of Petroleum and Natural Gas.
(PDS), which will pave the way for rationalization of food subsidies.

**Interest Payment**

2.21 Fiscal deficit is a flow variable which gets added into the stock variable (public debt and liabilities) every year, thus attracting interest liability. Interest payments were placed at ₹ 4.27 lakh crore in BE 2014-15, accounting for 38.31 per cent of non-Plan revenue expenditure and 3.3 per cent of GDP. As a proportion of GDP, interest payments had been declining in the post-FRBM period. However, due to expansionary fiscal policy to obviate the adverse impact of the global crisis, interest payments as a proportion of GDP increased somewhat in the post-crisis period (Figure 2.6). The average cost of borrowing is placed at 8.4 per cent in 2014-15 (BE) as against 7.7 per cent in 2012-13 (Table 2.7).

![Figure 2.6: Interest Payment Trends](image)

**PROVISIONAL OUTCOME IN 2014-15 VIS-À-VIS BE 2014-15**

2.22 The provisional outcome of April-December 2014-15 was released on 30 January 2015 by the Controller General of Accounts (CGA). Fiscal deficit stood at ₹ 5.32 lakh crore which is 100.2 per cent of BE and higher than the last five years’ average of 77.7 per cent (Table 2.8).

2.23 For 2014-15, the GTR till the month of December 2014 shows a growth of 7.0 per cent which is way below the 17.7 per cent envisaged by the BE. As a proportion of the BE, direct taxes collected in April-December 2014 are broadly at the same levels as in the corresponding period of the previous year and given that last year the overall collection was close to the RE (lower only by ₹ 30,568 crore vis-à-vis the BE) implies that the same can be achieved this year too. The growth in indirect taxes at 6.2 per cent in 2014-15 (April-December) is much lower than of the 25.8 per cent envisaged over the PA of 2013-14. The outcome in April-December 2014 in terms of non-tax revenue collected as a proportion of the BE at 69.7 per cent is higher than in the corresponding period last year. However, a 6.2 per cent growth in expenditure in April-December 2014 over the corresponding period in the previous year as compared to BE of 12.9 per cent has helped in containing fiscal deficit for the first three quarters of the current fiscal. This implies that for fiscal marksmanship this year too, some expenditure compression may have to be made. In order to obviate the need for large-scale expenditure reduction, the government has however put in place some revenue augmentation and mobilization efforts.

2.24 Some of the measures to boost revenue included increases in excise duty on petrol and diesel, amid a dip in global oil prices. The four excise duty hikes since November 2014 are expected to bring in ₹ 20,250 crore in additional revenue this financial year. The government recently announced stake sales in four companies, including 10 per cent in Coal India which at current

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**Table 2.7 : Average Cost of Borrowings**

<table>
<thead>
<tr>
<th></th>
<th>OIL</th>
<th>IIL</th>
<th>ACB</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>2874683</td>
<td>192567</td>
<td>7.50</td>
</tr>
<tr>
<td>2010-11</td>
<td>3212521</td>
<td>212707</td>
<td>7.40</td>
</tr>
<tr>
<td>2011-12</td>
<td>3765153</td>
<td>251634</td>
<td>7.83</td>
</tr>
<tr>
<td>2012-13</td>
<td>4295575</td>
<td>290278</td>
<td>7.71</td>
</tr>
<tr>
<td>2013-14(RE)</td>
<td>4782575</td>
<td>355438</td>
<td>8.27</td>
</tr>
<tr>
<td>2014-15(BE)</td>
<td>5387174</td>
<td>402143</td>
<td>8.41</td>
</tr>
</tbody>
</table>

*Source : Union Budget documents.*

OIL=Outstanding Internal Liabilities excluding NSSF
IIL= Interest on Internal Liabilities excluding NSSF
ACB= Average cost of borrowing
market prices has yielded the government ₹ 22,557 crore. The government is also expecting a surge in revenue through spectrum sales and auction of coal blocks by March this financial year. The forthcoming recommendations of the Expenditure Management Commission will also be helpful in reprioritizing expenditure and curtailing expenditure leakages.

**Government Debt**

2.25 The debt policy emphasizes maintaining a longer-term and sustainable debt structure at the lowest possible cost and is progressively resorting to market-oriented active debt management. To adhere to the debt policy objectives, the government started conducting buyback and switching of securities in 2013-14 in order to improve liquidity in securities and reduce rollover risk as well as utilizing the cash surplus. The total outstanding liabilities of the central government were ₹ 55.87 lakh crore, accounting for 49.2 per cent of GDP, comprising 39 per cent public debt and 10.2 per cent other liabilities at end-March 2014 (Table 2.9). Of total public debt,

### Table 2.8: Provisional outcome for 2014-15 (Till December 2014)

<table>
<thead>
<tr>
<th></th>
<th>BE (₹ crore)</th>
<th>Absolute number (₹ crore)</th>
<th>April-December</th>
<th>Per cent change over previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Revenue receipts</td>
<td>1,189,763</td>
<td>633,933</td>
<td>693,773</td>
<td>60.0</td>
</tr>
<tr>
<td>Gross tax revenue</td>
<td>1,364,524</td>
<td>743,709</td>
<td>795,686</td>
<td>60.2</td>
</tr>
<tr>
<td>Tax (net to centre)</td>
<td>977,258</td>
<td>517,661</td>
<td>545,714</td>
<td>58.6</td>
</tr>
<tr>
<td>Non-tax revenue</td>
<td>2,125,05</td>
<td>1,162,72</td>
<td>1,480,59</td>
<td>67.5</td>
</tr>
<tr>
<td>2. Capital receipts</td>
<td>605,129</td>
<td>529,858</td>
<td>542,615</td>
<td>87.0</td>
</tr>
<tr>
<td>Recovery of loans</td>
<td>1,052,7</td>
<td>803,8</td>
<td>828,2</td>
<td>75.4</td>
</tr>
<tr>
<td>Other receipts</td>
<td>63,425</td>
<td>5430</td>
<td>1952</td>
<td>9.7</td>
</tr>
<tr>
<td>3. Total receipts</td>
<td>1,794,892</td>
<td>1,163,791</td>
<td>1,236,388</td>
<td>69.9</td>
</tr>
<tr>
<td>4. Non-Plan expenditure</td>
<td>1,219,892</td>
<td>812,528</td>
<td>883,757</td>
<td>73.2</td>
</tr>
<tr>
<td>(a) Revenue account</td>
<td>1,114,609</td>
<td>731,159</td>
<td>813,270</td>
<td>73.6</td>
</tr>
<tr>
<td>Interest payments</td>
<td>427,011</td>
<td>248,464</td>
<td>275,220</td>
<td>67.0</td>
</tr>
<tr>
<td>Major subsidies</td>
<td>251,397</td>
<td>188,899</td>
<td>212,418</td>
<td>85.5</td>
</tr>
<tr>
<td>Pensions</td>
<td>81,983</td>
<td>53,890</td>
<td>68,104</td>
<td>76.2</td>
</tr>
<tr>
<td>(b) Capital account</td>
<td>1,052,83</td>
<td>813,69</td>
<td>704,87</td>
<td>69.5</td>
</tr>
<tr>
<td>5. Plan expenditure</td>
<td>575,000</td>
<td>351,263</td>
<td>352,631</td>
<td>63.3</td>
</tr>
<tr>
<td>(a) Revenue account</td>
<td>453,503</td>
<td>274,016</td>
<td>282,278</td>
<td>61.8</td>
</tr>
<tr>
<td>(b) Capital account</td>
<td>1,214,97</td>
<td>772,47</td>
<td>703,53</td>
<td>68.9</td>
</tr>
<tr>
<td>6. Total expenditure</td>
<td>1,794,892</td>
<td>1,163,791</td>
<td>1,236,388</td>
<td>69.9</td>
</tr>
<tr>
<td>(a) Revenue expenditure</td>
<td>1,568,112</td>
<td>1,005,175</td>
<td>1,095,548</td>
<td>70.0</td>
</tr>
<tr>
<td>(b) Capital expenditure</td>
<td>2,267,80</td>
<td>1,586,16</td>
<td>1,408,40</td>
<td>69.2</td>
</tr>
<tr>
<td>7. Revenue deficit</td>
<td>3,783,49</td>
<td>3,712,42</td>
<td>4,017,75</td>
<td>97.7</td>
</tr>
<tr>
<td>8. Effective revenue deficit</td>
<td>2,102,45</td>
<td>2,751,83</td>
<td>3,039,12</td>
<td>134.1</td>
</tr>
<tr>
<td>9. Fiscal deficit</td>
<td>531,177</td>
<td>516,390</td>
<td>532,381</td>
<td>95.2</td>
</tr>
<tr>
<td>10. Primary deficit</td>
<td>1,041,66</td>
<td>2,679,26</td>
<td>2,571,61</td>
<td>155.9</td>
</tr>
</tbody>
</table>

(Source: CGA monthly account and Budget Documents.)
internal debt constituted 95.9 per cent and the remaining was external debt (at book value). Total outstanding liabilities were estimated at ₹ 62.22 lakh crore in BE 2014-15.

**PERFORMANCE OF DEPARTMENTAL ENTERPRISES OF THE CENTRAL GOVERNMENT**

**Department of Posts**

2.26 The gross receipts of the Department of Posts in 2013-14 were placed at ₹ 10,730 crore. The gross and net working expenses during the year were ₹ 16,797 crore and ₹ 16,204 crore respectively, yielding a deficit of ₹ 5,473 crore. In RE 2014-15, the gross receipts are budgeted to go up to ₹ 10,902 crore with gross and net working expenses estimated at ₹ 18,490 crore and ₹ 17,846 crore respectively. The deficit is projected to be ₹ 6,944 crore.

**Railways**

2.27 Indian Railways is steadily moving towards developing a strategy to become part of an effective multi-modal transport system, so as to ensure environment-friendly and economically efficient transport movement. Freight earnings during 2013-14, at ₹ 93,906 crore, registered a growth of 10.1 per cent over 2012-13. Passenger earnings (including other coaching earnings) at ₹ 40,211 crore registered an increase of 17.0 per cent during 2013-14. The gross traffic receipts of the Railways for 2013-14 stood at ₹ 1.39 lakh crore against ₹ 1.24 lakh crore in 2012-13. BE for gross traffic receipts and total working expenses for 2014-15 were ₹ 1.60 lakh crore and ₹ 14.80 lakh crore. An improvement is envisaged in the operating ratio of the Railways, from 93.6 per cent in 2013-14 to 92.5 per cent in 2014-15 (BE). Net revenue as a proportion of capital-at-charge and investment from the Capital Fund, which stood at 5.6 per cent in 2013-14, is budgeted to improve to 6.3 per cent during 2014-15.

**FISCAL PERFORMANCE OF THE STATES**

2.28 Fiscal consolidation of states during recent years was largely revenue-led, with significant increases in both own tax revenue as well as current transfers from the centre, the latter reflecting the enhancements recommended by the Thirteenth Finance Commission. However, some deterioration in state government finances was seen in 2013-14, while improvement is budgeted in 2014-15. Revenue surplus as a proportion of GDP during 2013-14 (RE) was negligible compared to the previous year’s 0.2 per cent. Capital outlay-GDP ratio during 2013-14 (RE) increased

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### Table 2.9: Outstanding Liabilities of the Central Government as Per Cent of GDP (at end-March)

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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Internal liabilities (a)+(b)</td>
<td>52.4</td>
<td>48.6</td>
<td>48.2</td>
<td>48.4</td>
<td>47.6</td>
<td>46.9</td>
</tr>
<tr>
<td>a. Internal debt</td>
<td>35.9</td>
<td>34.3</td>
<td>35.9</td>
<td>37.2</td>
<td>37.4</td>
<td>37.1</td>
</tr>
<tr>
<td>i. Market borrowings</td>
<td>27.0</td>
<td>26.6</td>
<td>27.9</td>
<td>29.5</td>
<td>30.3</td>
<td>30.4</td>
</tr>
<tr>
<td>ii. Others</td>
<td>9.0</td>
<td>7.6</td>
<td>7.9</td>
<td>7.7</td>
<td>7.1</td>
<td>6.7</td>
</tr>
<tr>
<td>b. Other internal liabilities</td>
<td>16.5</td>
<td>14.3</td>
<td>12.4</td>
<td>11.2</td>
<td>10.2</td>
<td>9.8</td>
</tr>
<tr>
<td>2. External debt #</td>
<td>2.1</td>
<td>2.0</td>
<td>1.9</td>
<td>1.8</td>
<td>1.6</td>
<td>1.5</td>
</tr>
<tr>
<td>3. Total outstanding liabilities</td>
<td>54.5</td>
<td>50.6</td>
<td>50.1</td>
<td>50.1</td>
<td>49.2</td>
<td>48.3</td>
</tr>
</tbody>
</table>

**Source:** Union Budget Documents.

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

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

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Based on Budgets of twenty-six state governments, out of which five are based on Vote on Account.
marginally by 0.4 per cent over the previous year, indicating improvement in the quality of expenditure. For the year 2014-15, the consolidated revenue surplus is projected to increase to 0.4 per cent of the GDP. Gross fiscal deficit (GFD) and primary deficit as proportions to GDP are budgeted to decline to 2.3 per cent and 0.8 per cent respectively in 2014-15 from 2.4 per cent and 0.9 per cent respectively in 2013-14 (RE) pointing out the intent for fiscal consolidation by states. The projected decline in GFD-GDP ratio in 2014-15 is mainly due to an increase in the revenue receipts resulting from current transfers from the centre. The expenditure pattern shows that the committed expenditure-GDP ratio (comprising interest payments, administrative services, and pension) will broadly remain unchanged during 2014-15 (BE), while overall expenditure as a ratio to GDP is budgeted to increase.

CONSOLIDATED GENERAL GOVERNMENT

2.29 The fiscal deficit of the centre was estimated at 4.8 per cent of GDP in BE 2013-14 and revised to 4.6 per cent in RE 2013-14. With the fiscal deficit of states at 2.4 per cent of GDP in RE 2013-14, the fiscal deficit of consolidated general government (centre and states combined) was placed at 7.0 per cent of GDP in 2013-14 (RE) and estimated to decline to 6.4 per cent of GDP in BE 2014-15.

OUTLOOK

2.30 Despite domestic challenges and external vulnerabilities, the government adhered to fiscal consolidation in 2013-14. The 4.1 per cent fiscal deficit target of 2014-15 seems achievable in spite of slow growth of revenues and delayed disinvestment. To meet this target, the government may have to resort to some expenditure compression. Nevertheless, declining global oil prices, along with the diesel-price deregulation and direct transfer of domestic LPG subsidies to bank accounts, are expected to help lower the fuel subsidy bill. Increased revenues are expected through increase in excise duties on petroleum and diesel.

2.31 Going forward, enhanced revenue generation is a priority. To some extent this will be helped by raising the growth rate of the economy. The implementation of a well-designed GST and other tax reforms would also play a crucial role in this regard. Overhauling the subsidy regime which should entail further reducing fuel (LPG and kerosene) subsidies, tackling fertilizer subsidies, and moving to Aadhaar-based direct cash transfers of food subsidy and other transfers would pave the way for expenditure rationalization. Fiscal consolidation is a necessity but the quality of consolidation is imperative to make it sustainable. To achieve this end, it would be necessary to put in place a medium-to-long-term fiscal policy framework with explicit revenue, expenditure, and deficit targets.