



सत्यमेव जयते

GOVERNMENT OF INDIA

**Statements of Fiscal Policy as required under
the Fiscal Responsibility and Budget
Management Act, 2003**

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**MINISTRY OF FINANCE
BUDGET DIVISION**

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PREFACE

The Fiscal Responsibility and Budget Management (FRBM) Act, 2003 was enacted with a view to provide a legislative framework for reduction of deficit and debt, of the Central Government to a sustainable level so as to ensure inter-generational equity in fiscal management and long term macro-economic stability. The FRBM Act, 2003 and the FRBM Rules, 2004 made under the Act have come into force with effect from 5th July, 2004.

The FRBM framework mandated Central Government to limit the fiscal deficit upto three per cent of gross domestic product by the 31st March, 2021. It further provides that, the Central Government shall endeavour to limit the General Government Debt to 60 per cent of GDP and the Central Government Debt to 40 per cent of GDP, by 31st March, 2025.

Due to the unprecedented nature of the CoVID-19 shock, on economic growth and other fiscal parameters, fiscal deficit was increased from 3.5 per cent of GDP in BE 2020-21 to 9.5 per cent of GDP in RE 2020-21. Uncertainties caused by the pandemic have continued through 2021 into 2022. Due to increased development/ welfare-related expenditures to contain the pandemic and to provide succour to the people, the fiscal deficit target for RE 2021-22 is pegged at 6.9 per cent of GDP as against 6.8 per cent of GDP in BE 2021-22. In BE 2022-23, the fiscal deficit is projected at 6.4 per cent of GDP, which is lower than RE 2021-22.

The renewed growth momentum is evident from 1st Advance Estimates (7th January, 2022) of GDP growth released by the Central Statistical Office (CSO). According to which, India's real GDP is estimated to grow at 9.2 per cent in FY 2021-22.

This document contains the Macro-economic Framework Statement, and Medium-term Fiscal Policy cum Fiscal Policy Strategy Statement. These Statements provide an assessment of the growth prospects of the economy and strategies of the government for the ensuing financial year relating to taxation, expenditure, market borrowings and other liabilities. A Statement explaining the reasons for deviation from the fiscal targets and other obligations cast on the Central Government under this Act has also been included. The Fiscal Policy Statements including statement explaining reasons for deviation are hereby laid before both the Houses of the Parliament.

MACRO-ECONOMIC FRAMEWORK STATEMENT

Overview of the Economy

1. The CoVID-19 pandemic that broke out in early 2020 continued to inflict health and economic shocks across countries in 2021-22 with its resurgent waves. The Delta variant of CoVID-19 struck India in the beginning of 2021-22 marking the onset of the second wave. Unlike the first wave, the second wave was asynchronous in its onset across states and more intense in its spread, entering the rural hinterland. The second wave temporarily stalled the momentum of economic recovery that India has been witnessing since the second half of 2020-21, besides adding to health challenges. However, the economic impact of second wave was muted compared to that of the first wave. After the peaking of second wave in mid-May 2021, the economy swiftly rebounded in second quarter of 2021-22 as also reflected in revival of key high frequency indicators such as GST collections, power consumption, PMI Manufacturing and Services, rail freight and port activity. Aiding the swift recovery was India's rapid progress in vaccination starting January 2021 that helped contain the sequential decline in momentum due to second wave. Latest readings of key high frequency indicators further suggest robust recovery momentum in Oct-Dec quarter of 2021-22.

2. Given the asynchronous nature of the second wave, India's policy response constituted a differentiated, state-level policy response in close coordination with the Central Government for rapid rebooting of health infrastructure and effective implementation of 'Test, Track, Treat, Vaccinate and CoVID-appropriate behaviour'. Further, Government announced a relief package of Rs 6.29 lakh crore in June 2021 to combat the second wave, strengthen public health system and provide impetus for economic growth and employment. The package included provision of safety nets for vulnerable households and small businesses and a host of supply side measures. Safety nets included extension of Pradhan Mantri Garib Kalyan Yojana (PMGKY) and Aatma Nirbhar Bharat Rozgar Yojana (ANBRY) besides additional fertilizer subsidy. Supply side measures included provisions for public health care, loan guarantee scheme for CoVID-19 affected sectors, expansion of Emergency Credit Line Guarantee Scheme (ECLGS), Credit Guarantee Scheme for Micro Finance Institutions, Scheme for Tourism sector workers, boost for Project Exports through National

Export Insurance Account (NEIA), assistance for Broadband to each Village through BharatNet PPP Model, and Rs 3 lakh crore for Reform-Based Result-Linked Power Distribution Scheme. Several other reforms were initiated for Public Sector Banks that focussed on tech-enabled, simplified, and collaborative banking. Government also initiated nine structural reforms, five procedural reforms plus relief measures for the Telecom Service Providers. Further, Government is implementing Production Linked Incentive (PLI) schemes in 14 key sectors that have been specifically designed to attract investments in sectors of core competency and cutting-edge technology; ensure efficiency and bring economies of size and scale in the manufacturing sector and make Indian manufacturers globally competitive.

3. To augment productive capacity of the economy in the medium term, Government provided a large fiscal stimulus in the form of capital expenditure. In line with the 2021-22 Budget's steep increase of 34.5 per cent in outlay, Central Government stepped up public capital expenditure in Apr-Nov 2021 by 13.5 per cent over the corresponding period of the last year and 28 per cent over corresponding 2019-20 levels. The Capex spending was and continues to be focused on Railways, Road transport and highways, and Housing and Urban Affairs – sectors crucial for industrial turnaround, and included in the National Infrastructure Pipeline. Further, to utilize inter-ministerial synergies in infrastructure sector, Government launched the Gati Shakti Master Plan, bringing 16 Ministries including Railways and Roadways together for integrated planning and coordinated implementation of infrastructure connectivity projects. The infrastructure and connectivity push have far-reaching consequences for medium to long-term growth and employment generation.

Economic growth

4. As per the first Advance Estimates of annual national income released by the National Statistical Office (NSO), India's real GDP is estimated to grow by 9.2 per cent in 2021-22, as compared to a contraction of 7.3 per cent in 2020-21. With this, the economy stands to recover 101.3 per cent of the pre-pandemic output of 2019-20. This is further supported by strong rebound seen in several high frequency indicators in Q3: 2021-22 and rapid progress in vaccination coverage.

5. On the demand side, the recovery has been broad based. While investment and exports have achieved more than full recovery of corresponding pre-pandemic 2019-20 levels, private consumption has also improved to recover 97.1 per cent of corresponding pre-pandemic levels and stands fully recovered in H2 of FY 2021-22. Concurrently, private consumption expenditure is estimated to grow at 6.9 per cent in 2021-22 as against a contraction of 9.1 per cent in 2020-21 and fixed investment is estimated to grow by 15 per cent in 2021-22 as against a contraction of 10.8 per cent in 2020-21. Government consumption expenditure is estimated to grow by 7.6 per cent in 2021-22 as against 2.9 per cent in 2020-21. Exports and imports of goods and services are estimated to grow by 16.5 per cent and 29.4 per cent (at constant prices) respectively in 2021-22. These estimates confirm strengthening of economic recovery on the back of rising capex in public sector, increasing resilience of India's exports, investment cycle uptick and improved consumption levels.

6. On the supply side, while agriculture continues to lend unwavering support to economic recovery, manufacturing and construction exhibited a sharp rebound to recover more than 100 per cent of corresponding pre-pandemic output levels. These developments clearly reflect uptick in consumer and investor sentiment, release of pent-up demand, especially in construction supported by growing public capex and housing cycle upturn. Recovery in services sector has improved to almost reach corresponding pre-pandemic levels at 99.2 per cent, reflecting gradual adaptability of contact-intensive service sectors to the pandemic situation. Concurrently, growth of gross value added (GVA) at constant (2011-12) basic prices is estimated to be at 8.6 per cent in 2021-22, as compared to a contraction of 6.2 per cent in 2020-21. The growth in agriculture and allied, industry and services is estimated to be at 3.9 percent, 11.8 per cent and 8.2 per cent respectively in 2021-22, as compared to 3.6 percent, (-)7.0 per cent and (-)8.4 per cent respectively in 2020-21.

Agriculture

7. In 2020-21 (as per Fourth Advance Estimates), total food grain production in the country is estimated at 308.7 million tonnes which is higher by 11.1 million tonnes than the production of food grain of 297.5 million tonnes during 2019-20. Rice production during 2020-21 is estimated at 122.3 million tonnes as compared to 118.9 million tonnes in 2019-20. Wheat production during 2020-21 is estimated at 109.5 million tonnes as compared to 107.9 million tonnes during 2019-20. Government has increased Minimum

Support Prices (MSP) for all mandated kharif, rabi and other commercial crops. The enhanced MSP ensures a return of 1.5 times overall India weighted average cost of production for the season 2021-22.

8. Milk production in the country has increased from 146.3 million tonnes (2014-15) to 198.4 million tonnes (2019-20). The per capita availability of milk is at 406 grams per day in (2019-20). Egg production in the country has increased from 78.48 billion in 2014-15 to 114.38 billion in 2019-20. The per capita availability of egg is at 86 eggs per annum in 2019-20. The fish production in India has reached an all-time high of 14.5 million metric tons during 2020-21. Overall, fisheries sector has demonstrated an outstanding double-digit average annual growth of 10.87 per cent since 2014-15. The agriculture credit flow for the year 2020-21 was ₹15,75,398 crore against the target of ₹15,00,000 crore for the year. The agriculture credit flow target for 2021-22 has been fixed at ₹16,50,000 crore and till 30th September, 2021 against this target a sum of ₹7,36,589.05 crore has been disbursed.

Industry

9. The performance of the industrial sectors based on the Index of Industrial Production (IIP) comprising mining, manufacturing and electricity registered a growth of (-) 8.4 per cent in 2020-21 as compared to (-) 0.8 per cent in 2019-20. As per the sectoral classification, mining, manufacturing and electricity sectors registered (-)7.8 percent, (-)9.6 per cent and (-) 0.5 per cent growth during 2020-21 respectively. Among the use-based categories, primary goods, capital goods, intermediate goods, infrastructure/construction goods, consumer durables goods and consumer non-durables goods have attained (-)7 percent, (-) 18.6 percent, (-) 9.4 percent, (-) 8.7 percent, (-) 15.0 per cent and (-) 2.2 per cent growth respectively in 2020-21. The cumulative growth of IIP during April-November 2021-22 is 17.4 per cent as compared to (-)15.3 per cent during April-November 2020-21.

10. The eight core infrastructure supportive industries, viz. coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity that have a total weight of nearly 40 per cent in the Index of Industrial Production (IIP) grew by (-) 6.4 per cent in 2020-21 as compared to 0.4 per cent in 2019-20. The production of fertilizer increased by 1.7, coal, crude Oil, Natural Gas, refinery products, Steel, Cement and Electricity fell by 1.9 percent, 5.2 percent, 8.2 percent, 11.2 percent, 8.7 percent, 10.8 percent, 0.5 per cent respectively during 2020-21. The cumulative growth of eight core industries during April-

November 2020-22 was 13.7 per cent as compared to (-) 11.1 per cent during April- November 2020-21

Prices

11. The average inflation rate based on Consumer Price Index-Combined (CPI-C) moderated from 5.9 per cent in 2014-15 to 3.4 per cent in 2018-19. However, it increased again to 4.8 per cent in 2019-20, and further to 6.2 per cent in 2020-21. During April-December 2021, retail inflation rate moderated to 5.2 per cent in 2021-22 (April-December) as against 6.6 per cent in the corresponding period last year. CPI-C based inflation rate stood at 5.6 per cent in December 2021. Food inflation based on Consumer Food Price Index (CFPI) declined from 6.4 per cent in 2014-15 to 0.1 per cent in 2018-19. It increased to 6.7 per cent in 2019-20 and further to 7.7 per cent in 2020-21. However, during 2021-22, CFPI declined to 2.9 per cent (April-December) as against 9.1 per cent in the corresponding period last year and stood at 4.0 per cent in December 2021. Inflation measured in terms of Wholesale Price Index (WPI) declined from 4.3 per cent in 2018-19 to 1.3 per cent in 2020-21. It increased to 12.5 per cent in 2021-22 (April-December) and stood at 13.6 per cent in December 2021.

Central Government Finances

12. The fiscal deficit and revenue deficit for 2021-22 were budgeted at 6.8 per cent of GDP and 5.1 per cent of GDP respectively. The BE 2021-22 envisaged a tax to GDP ratio of 9.9 per cent and total expenditure to GDP ratio of 15.6 per cent. The envisaged growth for Gross Tax Revenue was 16.7 per cent over 2020-21 Revised Estimates (RE). The total expenditure in BE 2021-22 was estimated to increase by 1 per cent over RE 2020-21.

13. As per the data on Union Government Finances released by Controller General of Accounts for April-November 2021, the Gross Tax Revenue increased by 50.3 per cent in comparison to the April-November 2020, and by 31.3 per cent in comparison to the April-November 2019. The non-tax revenue registered an increase of 79.5 per cent during April-November 2021, over the corresponding period of the previous year. At the end of November 2021, the non-debt capital receipts stood at 11 per cent of the BE 2021-22.

14. Major subsidies increased by 14.1 per cent during April-November 2021, as compared to April-November 2020. Food subsidy increased by 41.2 per cent and nutrient-based fertilizer subsidy increased by 53.3 per cent during April-November 2021, as compared to the corresponding period in 2020-21.

15. Fiscal deficit of the Central Government during April to November 2021 stood at 46.2 per cent of the BE, much lower compared to 135.1 per cent during the same period in 2020-21 and 114.8 per cent during the same period in 2019-20. The revenue deficit for April-November 2021 is 38.8 per cent of BE and is much lower than the corresponding figure of 139.9 per cent in the previous year. The Revised Estimates place fiscal and revenue deficits at 6.9 per cent of GDP and 4.7 per cent of GDP respectively in 2021-22.

Monetary Management and Financial Intermediation

16. Monetary policy remained accommodative during 2021. The Monetary Policy Committee (MPC) of the Reserve Bank met six times since February 2021. All the meetings were held as per the schedule and attended by all the MPC members. Monetary policy and liquidity operations since the beginning of COVID-19 pandemic in March 2020 have been geared towards mitigating the adverse impact of the unprecedented demand and supply-side shocks inflicted on the on the Indian economy. The MPC maintained status quo on the policy repo rate during February 2021 to December 2021 after a substantial cut of 115 basis points (bps) during March-May 2020 and cumulatively 250 basis points since February 2019.

17. During 2021-22, the growth of monetary aggregates witnessed higher growth as compared to previous few years on account of higher liquidity in the economy. In 2021- 22 so far, Reserve money (M_0) recorded a Year on Year (YoY) growth of 13 per cent as on December 24, 2021 as compared to 14.9 per cent a year ago. Expansion in M_0 during 2021-22 so far was driven by Bankers deposit with RBI from the component side. The growth of Broad Money (M_3) stood at 9.3 per cent as on December 17, 2021, as compared to 12.4 per cent in the corresponding period a year ago. Aggregate deposits contributed the most in the growth of M_3 .

Banking and Non-Banking Sector

18. Bank credit growth was 7.3 per cent as on December 17, 2021 as compared to 6.0 per cent in the corresponding period of the previous year. The non-food credit growth (YoY) was 7.1 per cent in October 2021, as compared with a growth of 5.9 per cent in October 2020. The moderation in credit growth in 2021-22 was witnessed in mostly Agriculture and Allied Activities and Personal Loan sector.

19. Gross Non-Performing Advances (GNPA) ratio (i.e. GNPA as a percentage of Gross Advances) of Scheduled Commercial Banks decreased from 7.3 per cent at end-March 2021 to 6.9 per cent at end-September 2021. Restructured Standard Advances (RSA) ratio of Scheduled Commercial Banks (SCBs) increased from 0.8 per cent to 1.8 per cent during the same period. Overall, the Stressed Advances ratio of SCBs decreased from 7.9 per cent at the end of September 2020 to 6.9 per cent at end-September 2021. GNPA ratio of Public Sector Banks (PSBs) decreased to 9.1 per cent at end-March 2021 from 10.3 at end-March 2020 and the Stressed Advances ratios decreased from 9.96 per cent at end-September 2020 to 8.8 per cent at end-September 2021. However, this has to be seen in conjunction with the asset classification relief provided to borrowers on account of COVID-19.

Non-Banking Financial Sector

20. Total assets of NBFCs had increased from ₹29.23 lakh crore in March 2019 to ₹30.81 lakh crore in March 2020, and further to ₹34.75 lakh crore in March 2021 and ₹35.11 lakh crore in the end of September 2021, resulting in an annual growth of 12.8 per cent during 2020-21 as compared with 9.1 per cent in 2019-20.

External Sector

21. Merchandise exports (customs basis) during 2021-22 (April-December), were US\$ 301.4 billion, which increased by 49.7 per cent over the level of US\$ 201.4 billion in the corresponding period of the previous year. During 2021-22 (April-December), merchandise imports were US\$ 443.8 billion, registering an increase of 68.9 per cent over the level of US\$ 262.8 billion in corresponding period of the previous year. Oil imports increased from US\$ 54.0 billion in 2020-21 (April-December) to US\$ 118.3 billion in 2021-22 (April-December). Merchandise trade deficit increased from US\$ 61.4 billion in 2020-21 (April-December) to US\$ 142.4 billion in 2021-22

(April-December).

22. India recorded a current account deficit of 0.2 per cent of GDP in 2021-22 (April-September) as against a surplus of 3.0 per cent in 2020-21 (April-September) on the back of a sharp increase in trade deficit. Net invisible receipts were higher in 2021-22 (April-September), on account of higher net receipts of services and private transfers.

23. Net FDI inflows at US\$ 21.2 billion in 2021-22 (April-September) were lower than US\$ 23.9 billion in 2020-21 (April-September). Portfolio investment recorded a net inflow of US\$ 4.3 billion in 2021-22 (April-September) as compared with US\$ 7.6 billion a year ago.

24. The average monthly exchange rate of rupee (RBI's reference rate) was Rs. 74.28 per US dollar in 2021-22 (April-December), as compared to Rs. 74.63 per US dollar during 2020-21 (April-December).

25. External debt as at end September 2021 remains low at 20.1 per cent of GDP. After witnessing significant decline since 2015-16, India's external liabilities to GDP ratio has increased to 44.94 per cent at the end 2020-21. However, at the end-September 2021 it again decreased to 42.80 per cent.

Prospects

26. Latest GDP estimates and movement in key economic activity indicators confirm strengthened momentum of India's economic recovery. While the Indian economy is poised to achieve more than full recovery of pre-pandemic output level in 2021-22, recent surge in Omicron infections and global inflation due to persistent supply bottlenecks continue to pose challenges to the pace of recovery. On the assumption that the year ahead will not experience pandemic induced disruptions on economic activity and liquidity withdrawal in both domestic and global markets will be orderly, India's nominal GDP is expected to grow by 11.1 per cent in the financial year 2022-23 over 2021-22.

MACROECONOMIC FRAMEWORK STATEMENT (ECONOMIC PERFORMANCE AT A GLANCE)					
Sl.	Item	Absolute value		Percentage change	
		April-December		April-December	
		2020-21	2021-22	2020-21	2021-22
Real Sector					
1	GDP at market prices (₹ thousand crore) @				
	a) at current prices	19746	23215	-3.0	17.6
	b) at 2011-12 prices	13513	14754	-7.3	9.2
2	Index of Industrial Production(2011-12=100) @@	108.5	127.4	-15.3	17.4
3	Wholesale Price Index (2011-12=100) ^	121.8	137.0	0.04	12.5
4	Consumer Price Index: Combined (2012=100) ^	154.9	162.9	6.6	5.2
5	Money Supply (M3) (₹ thousand crore) \$	18059.1	19741.9	12.4	9.3
6	Imports at current prices *				
	a) In ₹ Crore	19,56,257	32,98,495	-23.7	68.6
	b) In US \$ million	262.8	443.8	-27.9	68.9
7	Exports at current prices *				
	a) In ₹ Crore	15,00,020	22,38,821	-10.6	49.3
	b) In US \$ million	201.4	301.4	-15.5	49.7
8	Trade Balance (US\$ million) *	-61.4	-142.4		
9	Foreign Exchange Reserves (at end March)				
	a) In ₹ Crore	4280252	4707812	30.5	43.5
	b) In US \$ million	585771	633614	27.4	8.2
10	Current Account Balance (US\$ Billion) #	34.4	-3.0		
Government Finances (₹ Crore) ##					
		April-November			
1.	Revenue Receipts	812710	1358920	-17.3	67.2
	Gross tax revenue	1026055	1541920	-12.6	50.3
	Tax (net to Centre)	688430	1135264	-8.3	64.9
	Non Tax	124280	223026	-46.6	79.5
2.	Capital Receipts, of which	1093648	716317	30.7	-34.5
	Recovery of loans	11962	11339	9.6	-5.2
	Other Receipts	6179	9364	-65.9	51.5
	Borrowings and other liabilities	1075507	695614	33.1	-35.3
3.	Total Receipts (1+2)	830851	1378993	-17.9	66.0
4.	Total Expenditure	1906358	2074607	4.7	8.8
	(a) Revenue Expenditure	1665200	1800977	3.7	8.2
	(b) Capital Expenditure	241158	273630	12.8	13.5
5.	Revenue Deficit	1075507	695614	33.1	-35.3
7.	Fiscal Deficit	692082	235291	48.5	-66.0
8.	Primary Deficit	812710	1358920	-17.3	67.2
@: GDP is from April to March and 2020-21 is provisional estimate and 2021-22 is the first advance estimate.					
@@: April to November					
^: Provisional for 2020-21 and CPI-C for the months of April-May, 2020 are imputed, which are based on limited set of observations due to Covid-19 pandemic					
*: On Customs basis.					
\$: Outstanding as on December 17, 2021 and percentage change year-on-year					
#: April – September.					
##: Based on data on monthly accounts for April to November 2021 released by Controller General of Accounts, Ministry of Finance and growth of April to November over the corresponding period previous year.					

MEDIUM TERM FISCAL POLICY CUM FISCAL POLICY STRATEGY STATEMENT

Fiscal Indicators - Rolling Targets as a Percentage of GDP

	Revised Estimates	Budget Estimates
	2021-22	2022-23
1. Fiscal Deficit	6.9	6.4
2. Revenue Deficit	4.7	3.8
3. Primary Deficit	3.3	2.8
4. Tax Revenue (Gross)	10.8	10.7
5. Non-tax Revenue	1.4	1.0
6. Central Government Debt	59.9	60.2

Notes:

1. "GDP" is the Gross Domestic Product at current market price.

2. Central Govt. debt include external public debt valued at current exchange rates, total outstanding liabilities on Public Account including investment in Special Securities of States under NSSF and EBR liabilities etc.

3. Liabilities on account investment in Special Securities of States, under NSSF are 1.7 per cent and 1.4 per cent of GDP in RE 2021-22 and BE 2022-23, respectively. The Central Government debt net of these liabilities comes at 58.2 per cent and 58.8 per cent of GDP in RE 2021-22 and BE 2022-23, respectively.

1. The above table depicts major fiscal indicators in the Revised Estimates (RE) of 2021-22 and Budget Estimates (BE) of 2022-23. While the Indian economy is on the path of recovery, pandemic-induced uncertainties still remain.

2. Continuance of the CoVID-19 pandemic during 2021 and now into 2022 is impacting the pace of global economic recovery. The World Economic Outlook (January 2022) published by the International Monetary Fund (IMF), has downgraded global growth forecast from 5.9 per cent in 2021 to 4.4 per cent in 2022. Given this and the need to hasten domestic recovery and cushion the people from deleterious socio-economic effects of the pandemic, it is necessary for the Government to retain requisite flexibility to respond to emerging contingencies in full measure till the uncertainty eases.

3. In this context, balancing the twin imperatives of growth and fiscal consolidation assume significance. Therefore, medium-term fiscal projections have not been provided in this Statement. However, as announced in the Budget for FY 2021-22, the Government would continue on its path of fiscal consolidation to attain a fiscal deficit to GDP level below 4.5 per cent by FY 2025-26 through a fairly steady decline over this period.

4. A statement explaining the reasons thereof for deviation from the fiscal targets mentioned in Section

4 and compliance obligations under Section 7(3)(b) of the FRBM Act, 2003 is provided at the end of this statement.

Fiscal Outlook for FY 2021-22:

5. The Union Budget for FY 2021-22 was presented in a challenging macroeconomic environment when the economy was witnessing a stimulus-led gradual recovery from severe impacts of the first wave of CoVID-19 pandemic. It sought to delicately balance the need for broad-based and sustained economic revival and fiscal consolidation by reducing fiscal deficit from 9.5 per cent of GDP in RE 2020-21 to 6.8 per cent of GDP in BE 2021-22.

6. According to the first Advance Estimates released by National Statistical Office (NSO), real GDP in FY 2021-22 is expected to grow by 9.2 per cent compared to a contraction of 7.3 per cent seen in FY 2020-21. At this level of growth, the economy is anticipated to surpass the pre-pandemic output levels.

7. The Central Government finances have remained resilient during FY 2021-22. During first eight months (April-Nov.) of FY 2021-22, overall revenue receipts recorded year-on-year (y-o-y) growth of about 67 per cent and 38 per cent compared to corresponding period in FY 2020-21 and FY 2019-20 levels, respectively. During this period, total revenue receipts of the Centre, at about 76 per cent of budget estimates, were significantly higher than last five years

moving average of 50.3 per cent of BE. Tax revenue (net to centre) and Non-tax revenue receipts achieved 73.5 per cent and 91.8 per cent of their budget estimates, respectively, during this period.

8. On tax front, both Direct and Indirect Taxes registered significant y-o-y growth of about 66 per cent and 39 per cent in the first eight months, over the corresponding period in the last financial year. Growth in Direct Tax collections includes increase in Corporation Tax (90 per cent), on account of improved corporate performance, and Income Tax (47 per cent). On the Indirect Tax side, Customs receipts registered a growth of about 100 per cent, indicating improvements in economic/ trade activities. Receipts from Central Goods and Service Tax (CGST) also increased by 48 per cent and 11 per cent in April-Nov., 2021-22, over corresponding period of FY 2020-21 and FY 2019-20, respectively. Increase in CGST revenues are testimony to India's economic resilience and effectiveness of the Government's measures aimed at easing compliance burden and plugging tax evasion.

9. Non-tax revenues received a boost from higher dividend transfer from the Reserve Bank India. Growth in non-debt capital receipts, however, has remained muted mainly on account of lower disinvestment receipts upto Nov., 2021. The successful completion of sale of Air India should provide an impetus to the Government's disinvestment plan in the remaining months of the current financial year.

10. About 67 per cent of the budgeted GST compensation cess collections were realised during first eight months of current financial year. The Union Government has also transferred the entire amount of ₹1.59 lakh crore to the States/ eligible UTs in FY 2021-22 through back-to-back loan facility in lieu of shortfall GST compensation cess. Front-loading of back-to-back loans were aimed at enabling States to plan and implement measures to contain the pandemic and also to step-up capital and other development-related expenditure.

11. The expenditure of the Central Government (Revenue and Capital) during April-Nov., 2021 was about ₹20.75 lakh crore or about 60 per cent of BE 2021-22. In absolute terms, it reflects an y-o-y growth of about 9 per cent. Revenue Expenditure was about ₹18.01 lakh crore and Capital Expenditure was about ₹2.74 lakh crore. During this period, expenditure in Capital account registered growth of about 14 per cent and 28 per cent over corresponding period of FY 2020-21 and FY 2019-20, respectively.

12. Due to buoyant position of revenue receipts,

the Centre's fiscal deficit at the end of Nov., 2021, was about 46.2 per cent of the budget estimate. This is much lower compared to 135 per cent and 115 per cent during the same period in FY 2020-21 and FY 2019-20, respectively. Similarly, the Revenue Deficit during this period was about 38.8 per cent of BE. This is significantly lower than the corresponding figure of 140 per cent and 128 per cent at the end of corresponding period of FY 2020-21 and FY 2019-20.

13. Going forward, public expenditure is likely to accelerate in the remaining months of the current financial year. This is on account of additional appropriation amounting to over Rs.3 lakh crore through the first and the second batch of supplementary demand for grants. Major items of expenditure covered in the supplementary budgets pertain to extension of PMGKAY, additional fertiliser subsidy, CoVID-19 Emergency Response and Health System Preparedness Package, one-time settlement of arrears of various scrip based export incentive/ remission schemes to promote exports, settlement of past Government guaranteed loans and other sundry dues of Air India, etc. Capital outlays in key infrastructure Ministries viz., Road Transport and Highways, Railways, etc. have also been augmented through the supplementary demand for grants.

14. The overall expenditure is estimated to increase to about ₹37.70 lakh crore in RE this year, up from BE 2021-22 of ₹34.83 lakh crore. This is an increase of about 8.2 per cent. As a percentage of GDP, total expenditure is estimated to increase to 16.2 per cent in RE compared to 15.6 per cent in BE 2021-22.

15. Expenditure on Revenue account is estimated at ₹31.67 lakh crore in RE as against BE of ₹29.29 lakh crore in FY 2021-22. Expenditure under Capital account is estimated to increase to about ₹6.03 lakh crore as against ₹5.54 lakh crore in the BE 2021-22. Excluding an amount of ₹0.52 lakh crore provided as equity infusion in AIAHL for payment of past Government guaranteed loans/ other sundry liabilities of Air India not backed by assets, the real capital expenditure in RE 2021-22 is projected at about ₹5.51 lakh crore.

16. The Central Government allocates a sizable amount in the form of Grants-in-Aid for creation of capital assets (GiA-Capex). Though, in accounting terms, GiA-Capex is counted as a revenue expenditure, on the ground, expenditure is mostly capital in nature. In RE 2021-22, total GiA-Capex is estimated at ₹2.38 lakh crore. Therefore, the Effective Capital Expenditure – capital expenditure (excluding

the support of ₹0.52 lakh crore for Air India) and GiA-Capex – is estimated at about ₹7.89 lakh crore in RE 2021-22.

17. In RE 2021-22, the fiscal deficit is pegged at 6.9 per cent of GDP as against 6.8 per cent in BE 2021-22. This is attributed to surge in socio-economic welfare related expenditure on account of successive pandemic waves during the year and also settlement of past Air India dues. Through proper targeting of expenditure and prudent management of public finances, the fiscal deficit in RE 2021-22 is close to the budgeted projection for FY 2021-22. Revenue deficit, in RE 2021-22, is estimated to fall to 4.7 per cent of GDP as against BE of 5.1 per cent pointing towards improvements in quality of public expenditure.

18. The Central Government, in line with the commitment to strengthen the hands of States to accelerate their capital and developmental expenditure, has released two advance instalments of tax devolution to States amounting to over ₹0.95 lakh crore. The Government has also released back-to-back loans amounting to ₹1.59 lakh crore provided to States/UTs in lieu of shortfall in GST compensation cess, in the current financial year without the need for additional market borrowing.

19. The gross and net borrowings through dated securities were planned at ₹12.05 lakh crore and ₹9.17 lakh crore in BE 2021-22, respectively. The Government has successfully completed gross borrowings of ₹10.47 lakh crore upto 17th Jan., 2022, with the weightage average yield of about 6.25 per cent and weightage average maturity of about 16.92 years. Due to higher investible amount available under NSSF, coupled with effective utilisation of available cash balance etc. gross and net borrowing through dated securities required to manage Central Government finances have been rationalised to ₹10.47 lakh crore and ₹7.76 lakh crore, respectively, in RE 2021-22.

20. The Central Government debt including liabilities on account of extra budgetary resources (EBR) raised through Government Fully Serviced Bonds is estimated to reduce from 61.8 per cent of GDP at the end of FY 2020-21 to 59.9 per cent of GDP in RE 2021-22.

21. The Central Government provides guarantees for repayment of borrowings upon the security of the Consolidated Fund of India. The FRBM Act mandates the Central government to specify the annual target for assuming contingent liabilities in the form of guarantees. Accordingly, FRBM Act prescribe a ceiling of 0.5 per cent of GDP for assuming incremental guarantees in a financial year.

22. The stock of contingent liabilities in the form of guarantees given by Government has increased in absolute terms from about ₹1.08 lakh crore in FY 2004-05 to about ₹4.98 lakh crore at the end of FY 2020-21. As a percentage of GDP, such liabilities have declined to 2.5 per cent of GDP in FY 2020-21 as compared to 3.3 per cent of GDP in FY 2004-05. During FY 2020-21, net accretion to the stock of guarantees was ₹27,520 crore or 0.14 per cent of GDP, which was way within the limit of 0.5 per cent set under the FRBM Act. A disclosure statement on outstanding guarantees is appended to the Receipt Budget.

Fiscal Policy Strategy 2021-22 Overview:

23. The Government's fiscal policy in FY 2021-22 combines focus on attaining the objectives of growth and stability through prudent fiscal management. Despite a challenging situation on account of recent surge in Omicron infections, pandemic-induced supply bottlenecks, global risks in terms of low growth forecast, rising inflation and global oil prices, etc. the Government's fiscal policy strategy has several positives to its credit. As it is evident from First Advance Estimates (7th January, 2022) of GDP growth released by the Central Statistical Office (CSO), this strategy has also demonstrated inclusiveness through successful on-boarding of States and the private sector for broad basing the country's economic revival and consolidation.

Fiscal Outlook for FY 2022-23:

24. Latest GDP estimates and movement in key economic activity indicators confirm strengthened momentum in India's economic recovery. India's nominal GDP in the financial year 2022-23 is projected to grow by 11.1 per cent over 2021-22.

25. Government's approach to economic/ fiscal management in FY 2022-23 includes three well-considered strategies. They include, judicious mix of demand/ supply side measures, timely, targeted and impact oriented development/ welfare policy actions, and balancing growth-inflation dynamics to boost and sustain growth. FY 2022-23 will see an unprecedented thrust on capex public spending which is crucial for economic growth and generation of productive employment.

26. With fiscal deficit projected at 6.4 per cent of GDP in the BE 2022-23, the Government is planning a fiscal correction of 0.5 per cent over RE 2021-22. In absolute terms, the fiscal deficit in BE 2022-23 is expected to be at ₹16.61 lakh crore as against ₹15.91 lakh crore in RE 2021-22. The revenue deficit is estimated lower at 3.8 per cent of GDP in FY 2022-23

against 4.7 per cent of GDP in RE 2021-22. Improved corrections in revenue deficit point towards improvements in the quality of expenditure and better revenue-capital balance in the Budget of the Central Government.

Revenue (Tax and Non-tax) receipts:

27. Gross tax revenue (GTR) is projected to grow at 10 per cent in BE 2022-23 over RE 2020-21. Direct and Indirect Tax receipts are estimated to grow at 13.6 per cent and 5.6 per cent, respectively, in BE 2022-23 over their RE 2021-22. The main reason for lower growth in Indirect Taxes is the decision of the Government to reduce excise duty on petroleum products to provide relief to the consumers. Further stabilisation of GST regime is likely to give boost to the indirect tax collection in the future. Direct and Indirect Taxes are estimated to constitute about 52 per cent and 48 per cent of the gross tax revenues in BE 2022-23.

28. In Budget 2022-23, GTR is estimated at ₹27.58 lakh crore, showing a growth of around 10 per cent and 24 per cent over the RE and BE of FY 2021-22, respectively. The tax to GDP ratio in BE 2022-23 is estimated at 10.7 per cent. Continued momentum of economic recovery is expected to spur tax collections in FY 2022-23. Tax revenue (Net to Centre) is estimated at about ₹19.35 lakh crore, which is about 10 per cent higher than that in RE 2021-22. Non-Tax revenues are estimated at about ₹2.70 lakh crore in BE 2022-23. This amount is lower than RE 2021-22 of ₹3.14 lakh crore (on account of higher RBI dividend transfer etc. in FY 2021-22). However, compared to BE 2021-22, the projections are about 11 per cent higher.

Non-debt Capital receipts:

29. Non-Debt Capital Receipts (NDCR) have two major components viz. Recovery of loans and advances and disinvestment receipts. In BE 2022-23, receipts under the recovery of loans and advances are estimated at ₹14,291 crore. Major share of NDCR comprises the disinvestment receipts on account of stake sale in the public sector enterprises including the strategic sale of assets. Actual realisation under this category is impacted by prevailing market conditions, expected valuation assigned to the Government stake etc. Given these reasons, the FY 2022-23 disinvestment estimates have been estimated at ₹0.65 lakh crore in BE 2022-23. Improvement in pace of economic recovery would provide new avenues for enhancing disinvestment receipts in the financial year.

Expenditure:

30. Total expenditure of the Centre in BE 2022-23 is estimated at about ₹39.45 lakh crore, representing an increase of 13.3 per cent and 4.6 per cent over the BE and RE 2021-22, respectively.

Capital expenditure:

31. The budget for FY 2021-22 provided a capital outlay of ₹5.54 lakh crore. It represented a sharp increase of 34.5 per cent over BE 2020-21. Capital spending will continue to remain a key focus area for the Government in FY 2022-23.

32. BE 2022-23 projects a capital outlay of ₹7.50 lakh crore. This is more than 2.2 times of capital expenditure in FY 2019-20 and 35.4 per cent higher than BE 2021-22. Key infrastructure and strategic ministries such as Road Transport and Highways, Railways, Defence, etc. are seeing substantial step-up in their capital outlays over the FY 2021-22.

33. To strengthen hands of States, the scheme for providing financial assistance to States for capital expenditure introduced in FY 2021-22 has been extended in FY 2022-23, with the enhanced outlay. Taking into account positive feedback from States, allocation under this scheme has been enhanced from ₹10,000 crore in BE 2021-22 to ₹1.0 lakh crore in FY 2022-23. This represents an increase of ten times over BE 2021-22 allocation and accounts to nearly 0.4 per cent of GDP.

Revenue Expenditure:

34. Expenditure on revenue account has been estimated at about ₹31.95 lakh crore in BE 2022-23. Major components of the Centre's revenue expenditure include Interest payments, major subsidies, pay and allowances of the government employees' pensions, defence revenue expenditure, and the transfers to States in the form of Finance Commission grants, Centrally Sponsored Schemes, etc. Grants to Central autonomous bodies is a substantial part of the Central Sector schemes. Few significant items are discussed briefly in the following paragraphs.

(i) Interest Payments

35. Interest payments constitute the largest component of Centre's revenue expenditure. In BE 2021-22, interest payments were estimated at about ₹8.1 lakh crore which was 27.6 per cent of the total revenue expenditure and 45.3 per cent of the net revenue receipts of the Centre. In RE 2021-22, interest outgo is estimated at about ₹8.14 lakh crore, which is 25.7 per cent of revenue expenditure and 39.14 per

cent of the Centre's revenue receipts.

36. Considering the prevailing interest rate scenario, the total requirement under interest payments is estimated at about ₹9.41 lakh crore in BE 2022-23, which is 29.4 per cent of the revenue expenditure and 42.7 per cent of the revenue receipts of the Centre.

(ii) Major Subsidies

37. Major subsidies viz., Food, Fertilizer and Petroleum are another important component of revenue expenditure. Expenditure on major subsidies is estimated to increase from ₹3.36 lakh crore in BE 2021-22 to ₹4.33 lakh crore in RE 2021-22. The main reason behind this increase is the extension of free food grain scheme PMGKAY and additional outgo on fertiliser subsidy to protect farmers and the farm sector from adverse impact of price rise in fertiliser sector. In BE 2022-23, major subsidies stand at about ₹3.18 lakh crore which is estimated at about 1.2 per cent of the GDP.

(iii) Finance Commission Grants

38. Finance Commission grants are given to the State Governments under Article 275(1) of the Constitution. Total FC grants under various categories are estimated to the tune of ₹1.93 lakh crore in FY 2022-23.

(iv) Pensions

39. Incidence of pension payments arises mainly in three Demands for Grants in the Government of India viz. Defence (Pensions), Civil (Pensions) and Department of Telecom. While Civil (Pensions) caters to all departments, the other two demands cater to pension expenditures in relation to specific Ministries/ Departments. The expenditure on pensions is estimated to increase from about ₹1.89 crore in BE 2021-22 to about ₹1.99 crore in RE 2021-22. The main reason behind this increase is restoration of three instalments of Dearness Relief from 1st July, 2021. Pension payments are estimated to increase to ₹2.07 lakh crore in BE 2022-23, which is 0.8 per cent of estimated GDP. This includes a provision of about ₹1.20 lakh crore for Defence pensions, ₹0.66 lakh crore for Civil pensions and ₹0.19 lakh crore for Telecom pensions.

(v) Tax devolution to States

40. FY 2022-23 will be a second year of the 15th Finance Commission (FFC) award period. Based on FFC recommendations, tax devolution to States has been decided at 41 per cent of the divisible pool from FY 2021-22. The devolution of the States' share of

taxes which was estimated at about ₹6.66 lakh crore in BE 2021-22 has been substantially enhanced in RE to about ₹7.45 lakh crore on account of increased tax receipts during the year. This includes about ₹0.24 lakh crore on account of prior period adjustments. As per FFC recommendations, tax devolution to States works out to about ₹8.17 lakh crore in BE 2022-23.

Borrowings- Public debt and other liabilities:

41. The Central Government has planned gross and net borrowings through dated securities of about ₹14.95 lakh crore and ₹11.09 lakh crore, respectively, in BE 2022-23. This amount is 24 per cent higher than gross borrowings of ₹12.05 lakh crore planned in BE 2021-22. The increase is on account of higher loan repayments in FY 2022-23 and change in fiscal deficit in nominal terms.

42. Other sources of financing fiscal deficit are NSSF investments in Special securities of the Central Government, short term treasury bills, net external assistance and the public account balances etc. For financing fiscal deficit in BE 2022-23, borrowing from NSSF is estimated at about ₹4.25 lakh crore; whereas, those from external sources and State Provident Funds are estimated at ₹0.19 lakh crore and ₹0.20 lakh crore, respectively.

43. The total liability of the Government includes public debt and other liabilities in the Public Account of India. In the public debt part of the liabilities the major component pertains to internal public debt and the remaining is the external debt component. The external debt of the Centre is a very small component of the total liabilities as the Government borrowings are mainly through domestic markets. The external borrowings are mainly through multilateral agencies.

44. Total public debt, including external debt at book value of the Centre is estimated at ₹136.40 lakh crore in BE 2022-23 against ₹120.06 lakh crore in RE 2021-22. As a percentage of GDP the total public debt is estimated to increase from 51.7 per cent of GDP in FY 2021-22 to 52.9 per cent of GDP in FY 2022-23.

45. The FRBM Act has widened the coverage of the Central Government debt. In terms of this definition, Central Government debt include all liabilities contracted on consolidated Fund of India including external debt valued at current exchange rate, all outstanding liabilities on public account, EBR liabilities etc. With this comprehensive view, the Central Government debt is estimated at 60.2 per cent of GDP in BE 2022-23.

46. Significant portion of outstanding liabilities on

Public Account of India is on account of NSSF investment in State Government special securities (which are defacto a liabilities of the State Governments). If such investments are excluded, actual liabilities of the Centre are estimated at 58.8 per cent of GDP at the end of FY 2022-23.

GDP Growth:

47. The real growth as per the first Advance Estimates of CSO is estimated at 9.2 per cent in 2021-22. Recent surge CoVID-19 infections and continuing global risks in terms of low global growth, rising inflation, oil prices, etc. continue to pose challenges. In this scenario, the Budget estimates that India's nominal GDP is likely to grow by 11.1 per cent in the FY 2022-23 over FY 2021-22.

Assessment of sustainability relating to

(i) The balance between Revenue receipts and Revenue expenditure

48. Total revenue receipts of the Centre are estimated at ₹ 20.8 lakh crore in RE 2021-22. On the other hand, revenue expenditure of Centre has also gone up from about ₹ 29.29 lakh crore in BE to about ₹ 31.67 lakh crore in RE. However, the ratio of revenue receipts to revenue expenditure has improved from 61.1 per cent in BE to 65.6 per cent in RE 2021-22. In BE 2022-23, balance between revenue receipts and revenue expenditure is estimated to further improve to about 69 per cent. As the economy moves towards stabilising at better growth trajectory, gradual improvement in tax-GDP ratio is expected.

49. It is important to note that the financial relations between the Centre and States have important implications for achievement of ideal balance between revenue receipts and revenue expenditure. Every year, substantial amount of resources are transferred to the States/UTs through Centrally Sponsored Schemes/ Central Sector Schemes in the form of Grants-in-aid for creation capital assets. Even though, end use of such grants may be capital in nature, in accounting terms, such transfers are booked as revenue expenditure in the books of the Central Government. Therefore, the Effective Capital Expenditure of the Central Government (comprising expenditure on capital account and GiA-Capex) is estimated to the tune of ₹ 10.68 lakh crore in BE 2022-23.

(ii) The use of capital receipts including market borrowings for generating productive assets

50. The ratio of capital expenditure to fiscal deficit

(Capex-FD) broadly measures the extent of borrowed resources are used for financing capital expenditure of the Government. Due to additional fiscal measures taken in the pandemic year 2020-21, this ratio was deteriorated to about 23 per cent from 36 per cent achieved in pre-pandemic year of 2019-20. Capital expenditure which is considered as an effective tool for countercyclical fiscal policy and acts as a macroeconomic stabiliser in a bid to spur job creation, a significant boost was provided by increasing capital allocation in BE 2021-22. The capex to fiscal deficit ratio improved to the level of 36.8 per cent.

51. In BE 2022-23, further boost is provided to capital expenditure by enhancing it by 35.4 per cent over BE 2021-22 allocation. This has been done while achieving fiscal consolidation of 0.5 per cent of GDP over RE 2021-22. Resultantly, Capex-FD ratio is estimated to increase to 45.2 per cent.

Fiscal Policy Strategy for 2022-23

52. Fiscal policy strategy of the Government for FY 2022-23, is guided by the principles of sustaining the economic growth momentum while being committed to the path of fiscal consolidation. It is also guided by the macroeconomic imperative of significantly increasing capital investments because of its multiplier effect. Theoretically, investing in capital expenditure tends to have a higher multiplier effect on economic recovery. In India, the multiplier effect of capital expenditure made by the central Government is estimated at 2.45 in a period t and 3.14 in period $t+1$, (the RBI Bulletin, December 2020).

53. While private consumption and investment expenditures see a gradual revival, the Government's fiscal policy highlights greater responsibility being taken over by the State to promote economic growth and welfare. A significant fiscal space in BE 2022-23 has been planned to be utilised for capital assets generation, which is important for revival of investment led growth cycle and thus for creating more job opportunities.

Tax Policy

54. Tax policy is directed towards twin objective of having broader tax base and higher tax collections. The Government policy is oriented broadly in favour of minimizing exemptions and broadening the tax base to achieve a higher tax to GDP ratio. In Budget 2022-23, the gross tax revenue (GTR) has been estimated at 10.7 per cent of GDP.

55. On indirect tax side, GST with a motto of “One Nation One market, One Tax” devised a transparent, neutral, efficient tax regime. Government is working towards Leveraging GST Policy to augment Revenue measures as under.

- (i) Return Advancement and Enhancement Project (REAP) (2B Auto generation) has eased the return filing process. This has enabled more people which has increased to 85-90 per cent. Auto-population also improved data quality in statutory returns which in turn makes it feasible for efficient intervention by tax officer for scrutiny/audit.
- (ii) Quarterly filing and monthly payment (QRMP)- Number of returns in a year reduced from 24 earlier to 8 now for small taxpayers.
- (iii) NIL GST monthly return through SMS has substantially improved ease of GST compliance for over 22 lakh registered taxpayers who had to otherwise log into their account on the common portal and then file their returns every month.
- (iv) Rationalization of late fee, Amnesty Scheme for waiver /reduction of late fee and Revocation of Cancellation helped taxpayers who were, otherwise not able to file dues on account of heavy burden of late fee, etc.
- (v) Better payment Discipline and system-based Credit Matching (approaching to a nonintrusive system verified credit flow regime) helping to achieve desired objective of proper timely reporting of supplies.
- (vi) GSTR 2A- GSTR 3B gap is also reducing with facilitating measures of auto population and ease of return filing on one side and tightening of the noose by policy intervention on the other side.
- (vii) Electronic invoicing system was introduced for taxpayers, helping taxpayers in backward integration and automation of tax relevant processes. It would also help tax authorities in combating the menace of tax evasion.
- (viii) Several steps are taken to tackle the menace of fake dealers and fake invoice by incorporating enabling provisions in the respective rules.

56. The gradual improvement in GST collections indicates maturing GST regime and stabilization of the reform along with its acceptance all over the country. GST receipts are estimated at ₹ 7.80 lakh crore in BE 2022-23, registering a growth of 15.5 per cent over revised estimates. Government is working towards reform in GST administration through further simplifying GST filing and refund processes.

57. The Customs duty rate structure has been guided by a conscious policy of the government to incentivize domestic value addition under Make in India and Atma Nirbhar Bharat initiative, which inter-alia envisages imposition of lower duty on raw materials and providing reasonable tariff support to goods being manufactured in India. The customs duty structure has been calibrated in such way that incentivizes investment in key areas like petroleum exploration, electronic manufacturing etc. Export levied remissions or incentives provided through scrip rate: To implement RoDTEP and RoSCTL Scheme, an end to end IT driven business process has been developed on Customs EDI wherein upon export on a Shipping Bill, the ledger if exporter maintained on Customs EDI is populated automatically duty credit.

58. On direct taxes front, the policy is continuously striving towards improving the tax eco-system of the country to augment revenue generation and improve voluntary compliance. In this endeavour, several measures have been undertaken which are both legislative and administrative in nature. Besides this, various reforms involving technological innovations have been undertaken in the direct tax administration to make it transparent and responsive. Efforts are being made to reduce the compliance burden of the taxpayers and also strengthen the information networks to facilitate revenue augmentation. Some of the important measures initiated as under:

- (a) Aadhar based Instant e-PAN, a free, completely online and single window option for first time PAN owner.
- (b) Ease of compliance for Taxpayers: Government has taken many initiatives towards facilitating tax compliance, such as there is no need of ITR filing for specified senior citizens, introduction of tax payer's charter, mechanism of faceless penalty, to increase convenience to the tax payer- pre filling of ITR has been introduced, reduction in time for income tax proceedings, etc.
- (c) Conscious efforts towards Reduction in litigation through, Vivad Se Vishwas, nullification of retrospective part of 2012 amendment, Faceless Appeal Scheme, e-Verification scheme, etc.
- (d) Direct taxes facilitating digitalization of economy through, promotion of digital transactions, introduction of TDS on cash withdrawal, prohibition of cash receipt of rupees two lakh or more has been prohibited, etc.
- (e) Government also given tax incentives towards achievement of long term goals, to affordable housing/ rental housing, start-ups, sovereign

wealth funds/ Pension funds, corporates, investors in Indian equity market, International Financial Services Centre (IFSC), etc.

- (f) Government to curb tax evasion and widen the tax base, expanding scope of TDS/TCS by incorporating new transactions into its ambit.

59. Government is endeavoured to ensure proactive engagement with the tax payers in particular, and everyone in general, using digital media – Social Awareness and tax payer education programme, to educate and empower them and build their high level of trust in the tax system.

Expenditure Policy

60. Government's expenditure policy is governed by the principles of productive efficiency and optimum utilization of available resources towards long term sustainable and equitable growth and wellbeing. The Government's focus in Budget 2022-23 is on directing higher amount of expenditure allocations towards investments to promote growth, employment and more meaningful interventions. Focus is on higher allocations for key sectors and schemes aimed at promoting infrastructure development and social wellbeing in the country. The higher allocations for health, education, rural development, and social welfare on the one side and enhanced allocations for railways, highways, Defence need to be seen in this context.

61. In the context of the aforesaid objectives, the Government initiatives such as PM GatiShakti- for coordinated planning and execution of infrastructure projects in the country, Single Nodal Agency (SNA) and Single Nodal Account system for effective and efficient utilisation of resources under CSS, Treasury Single Account- to ensure just-in-time releases and thus to avoid idle parking of resources, constant engagement with States etc. have been envisaged to receive further push in FY 2022-23. These initiatives are discussed briefly in the following paras:

62. **PM GatiShakti:** In economics parlance, multiplier effects accrue to the economy through infrastructure spending. In India, infrastructure has often been cited as a binding constraint in raising the potential growth rate of the country. While giving impetus to capital expenditure, it is also necessary to put emphasis on timely implementation of projects within the earmarked outlay by strengthening monitoring and processes for controlling project delays.

63. The roll-out of the Pradhan Mantri GatiShakti National Master Plan is expected to provide a fillip to

infrastructure development in the country. The PM GatiShakti - National Master Plan for Multi-modal Connectivity, would bring different Ministries including Railways and Roadways together for integrated planning and coordinated implementation of infrastructure connectivity projects in the country. Approvals for individual projects of different Ministries are to be viewed from the perspective of conformity to the GatiShakti National Master Plan, thus ensuring a holistic and coordinated approach to infrastructure development.

64. The PM GatiShakti marks a paradigm shift in decision making to break the silos of departmentalism while bringing synergy to create a world class, seamless multi-modal transport network in India. The GatiShakti digital platform is expected to help in taking care of long-standing issues, such as disjointed planning, inordinate delays and cost overruns in the execution of public sector infrastructure projects in the country and timely creation and utilisation of infrastructure capacities. This will also help in providing integrated and seamless connectivity for movement of people, goods and services from one mode of transport to another and facilitate the last mile connectivity of infrastructure and also reduce travel time for people.

65. **Single Nodal Agency (SNA) and Single Nodal Account:** SNA is being implemented with the objective of better monitoring of availability and utilization of funds released to the States under Centrally Sponsored Schemes (CSS). SNA is expected to ensure effective cash management by reducing float and improved transparency in public expenditure management.

66. Under this system, the administrative Ministry/ Department of the CSS will release the central share for each CSS to the State Government's account held in the Reserve Bank of India (RBI) for further release to the SNA account. Every State Government is required to designate a Single Nodal Agency (SNA) for implementing each CSS. The SNA will open a Single Nodal Account for each CSS at State level in the scheduled Commercial Bank authorised to conduct government business by the State Government. Implementing Agencies (IAs) down the ladder should use the SNAs account with clearly defined drawing limit set for that account.

67. **Treasury Single Account (TSA):** Under TSA system, Autonomous bodies draw funds from Government account at the time of actual expenditure, which helps in eliminating idle parking of funds with Autonomous Bodies resulting into saving on interest cost to the Government while facilitating effective cash management. The

coverage of the TSA has been expanded.

68. Supporting efforts of the States for capital spending- In the wake of the current economic slowdown, the Government through coordinated response has ensured to address the issue of fastest possible economic revival by constantly engaging with the States/UTs, including, supporting in their efforts to increase capital spending. To spur capital asset creation by States, the special scheme for providing financial supports to the States for their capital expenditure has been extended in BE 2022-23 with huge increase in outlay from ₹ 10,000 crore in BE 2021-22 to ₹ 1.0 lakh crore in BE 2022-23.

Government Borrowings, Lending and Investments

69. One of the key features on Government's debt profile is diminishing proportion of external debt as percentage of total liabilities, which, at current exchange rate amounts to approx. five per cent of Central Government's total liabilities as on 31st March, 2021. External borrowing is limited to multilateral/ bilateral loans from select development partners for financing development projects and, thus, not exposed to reversal of capital flows. The external funding at ₹1,514 crore in BE 2021-22 has a share of 0.1 per cent in FD. The BE 2022-23 external funding for FD financing is at ₹ 19,251 crore. Thus, Government will continue to rely on raising debts from domestic market borrowing or market linked domestic sources, with external sources financing only 1.2 per cent of the FD in 2022-23.

70. The rollover risk in the Government debt portfolio continues to be low with weighted average maturity of outstanding dated securities remaining close to 16.95 years as on 17th January, 2022. Furthermore, securities maturing in next 5 years are about 30 per cent of total outstanding dated securities.

71. During FY 2021-22 (upto December), weighted average maturity of primary issuance continued to be high at 16.73 years vis-a-vis 14.81 years in previous year. The weighted average yield of dated securities issued during the same period of 2021-22 stood at 6.22 per cent as compared to 5.79 per cent during 2020-21 indicating high yield environment. The continued high maturity of primary issuances with a decrease in borrowings cost reflects the greater demand for longer tenor securities by insurance companies and provident funds, which continue to support the Government efforts to elongate its maturity profile in medium term.

72. Prudent debt management is a corner stone of good economic policy and also a pre-requisite for

financial stability. In India, debt policy is driven by the principle of gradual reduction of public debt to GDP ratio so as to reduce debt servicing cost and create fiscal space for other expenditure. The debt policy emphasizes maintaining stable, low cost and prudent debt structure. The Government will continue to pursue its active debt management strategy.

73. The Government's Medium Term Debt Management Strategy is aimed towards lowering Government's cost of market borrowing over the medium/long term through planned issuance and offer of appropriate instruments to lower costs; reduction of risk through containment of rollover risk by elongation of maturities and switches/ buy-back of securities, lowering interest rate risks by keeping the floating rate debt low, managing foreign currency risks by issuing debt in domestic currency and limiting external debt; and aiding market development by introducing new instruments, expanding the investor base, strengthening market infrastructure, etc.

74. Apart from greater focus on market borrowings, the Government is also moving toward alignment of administered interest rates with the market rates. Interest rates on small savings are now linked to yields in secondary market for dated securities and the interest rates are reviewed every quarter.

75. The Government is committed to bring transparency in public debt management operations. The Government of India publishes a report, 'Status Paper on Government Debt' from October, 2016. This report covers various facets of public debt including overall debt position of the country, assessment on various aspects of debt sustainability, medium term debt management strategy for covering various risks, etc.

Strategic priorities for FY 2022-23:

76. The government's fiscal strategy priorities for FY 2022-23 rests on the principle of continuing on the path of gradual fiscal consolidation while retaining flexibility necessary to effectively respond to the prevailing economic conditions. The FY 2022-23 fiscal strategy of the government is based on the following broad intents:

- (a) Directing increased resources towards capital spending to sustain infrastructure development momentum;
- (b) Focus on integrated and coordinated planning and implementation of infrastructure projects in the country, embracing the principles of PM-GatiShakti.

- (c) Prioritisation of expenditure towards the key developmental sectors viz., health, education, drinking water and sanitation, agriculture, rural development etc. to boost sustainable growth and employment;
- (d) Mobilise larger amount of resources by enhancing tax buoyancy through simplified and improved compliances, as well as through monetisation of assets;
- (e) Enhancing the credibility and robustness of Government fiscal numbers. EBR funded schemes have been on-boarded on Government budget, additional capex provision for NHAI, which will help in improving its balance sheet by reducing dependence on market borrowing etc.;
- (f) Holistic approach towards enhancing the public infrastructure by supporting efforts of the States for capital spending;
- (g) Enhancing the effectiveness of cash management through just-in-time release of resources by using SNA/TSA system etc.

Conclusion

77. Notwithstanding the uncertainty and challenges posed by the pandemic, the Central Government has demonstrated commitment to credible fiscal consolidation in its Budget of FY 2021-22 and FY 2022-23. On the back of emerging strong macro-economic fundamentals, Government's proactive measures including strong focus on infrastructure building and commitment to ride on the path of gradual fiscal correction etc. are expected to facilitate and trigger investment cycle in the coming time. In the positive growth environment, the Government's measures are expected to be complimented by gradual pick up in the private investments. As a result, the Indian economy is expected to return to a more stable growth trajectory over the medium term.

Statement explaining the reasons for deviation from the fiscal targets mentioned in Section 4 and compliance obligations under Section 7(3)(b) of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003.

1. Section 4(1)(a) of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 mandates the Central Government to take appropriate measures to limit the fiscal deficit to three per cent of Gross Domestic Product (GDP) by the 31st March, 2021. Section 4(1)(d) of the FRBM Act, 2003, further requires the Central Government to endeavour that the aforementioned fiscal targets are not exceeded after the stipulated dates. According to Section 7(3)(b)(i) of the Act, the Minister of Finance is required to make a statement in both Houses of Parliament explaining

deviation in meeting obligations cast on the Central Government under this Act.

2. The CoVID-19 pandemic-induced unprecedented economic and fiscal crisis caused the Government to raise the level of fiscal deficit to 9.5 per cent of GDP in RE 2020-21 as against 3.5 per cent of GDP estimated for BE 2020-21. The Government was unable to place the Medium-term Expenditure Framework Statement in FY 2021-22 before both Houses of Parliament as mandated under Section 3(1B) of the FRBM Act. It needs to be noted that the actuals for fiscal deficit to GDP for FY 2020-21 were lower at 9.2 per cent as against 9.5 per cent projected in RE.

3. The World Economic Outlook (January 2022) published by the International Monetary Fund (IMF) has scaled down its earlier projections on global economic growth from 5.9 per cent in 2021 to 4.4 per cent in 2022.

4. Uncertainties caused by the pandemic have continued through 2021 into 2022. Given this, the fiscal deficit for RE 2021-22 is estimated at 6.9 per cent of GDP as against 6.8 per cent of GDP in BE 2021-22. This is due to, *inter-alia*, increased development/ welfare-related expenditures to contain the pandemic and to provide succour to the people. In addition, financial commitments arising from payment of past guaranteed/ sundry liabilities of Air India have also been included. In BE 2022-23, the fiscal deficit is projected at 6.4 per cent of GDP, i.e. lower than RE 2021-22.

5. In FY 2021-22 and beyond, measures to improve ease of tax compliance and plugging of evasion, expenditure rationalisation for higher efficiencies in public spending along with discontinuance of extra budgetary borrowings and proactive fiscal disclosure, would define the way forward on fiscal consolidation.

6. While India's economic foundations remain strong, it is vital for the Government to retain requisite fiscal flexibility to effectively respond to emerging contingencies till the pandemic-induced uncertainties ease. Hence, amendment to FRBM law is not being proposed and fiscal projections for the year FY 2023-24 and FY 2024-25 are not being placed alongside this Statement.

7. However, in line with the commitment made in the budget for FY 2021-22, the Government would pursue a broad path of fiscal consolidation to attain a level of fiscal deficit lower than 4.5 per cent of GDP by FY 2025-26. The Government would continue with its efforts to attain sustained, broad based economic growth, and take such measures as may be necessary to protect the lives/ livelihoods of the people, while adhering to the path of fiscal rectitude.