# Economy Insight:
# *Trends in Union Budget*

***FICCI Research*** ***February 2016***

*"Though the Union Budget is essentially a Statement of Account of public finances, it has historically become a significant opportunity to indicate the direction and the pace of India's economic policy. My proposals, therefore, lay out the roadmap for accelerating growth, enhancing investment and passing on the benefit of the growth process to the common man, woman, youth and child: those, whose quality of life needs to be improved. This is the path which we will doggedly and relentlessly pursue."*

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- ***Shri Arun Jaitley, Hon'ble Finance Minister during presentation of Union Budget 2015-16***

## Preface

India's Union Budget 2016-17 will be unveiled on 29th February 2016, amidst huge expectations and anxiety like in every other year. Though Budget is merely an accounting statement providing an estimate of government's income and expenditure for a financial year, yet it is eagerly awaited by one and all due to the historical practice of successive governments to make significant policy announcements on this occasion.

For the upcoming budget, expectations have already build up as the current economic situation demands a strong public spending thrust and policy boost to accelerate private investments and drive economy to higher growth path. There has been an indication that the thrust on public investments will continue, implying greater outlay on capital expenditure.

While this is a welcome indication, the Finance Minister has to tread a tightrope to aptly manage the fiscal balance. The task is highly intimidating as the list of expenditure for 2016-17 includes additional payout with respect to the rewards of 7th Pay Commission, pension expenditure emanating from One Rank One Pension (OROP), and support to Public Sector Banks for recapitalization. Even the Mid-year Economic Review suggests a re-assessment of fiscal deficit target owing to these factors.

In light of the above, we make a 360 degree assessment of the past Union Budgets to explore the potential areas that need greater focus to enable sound balancing of fiscal maths in the upcoming Budget.

## Introduction

Since the economic liberalisation of India in 1991, India has pursued various tax reforms and fiscal deficit management has played a key role in the budget frameworks. In the early 2000s, India witnessed worrying debt and deficit situation, due to which fiscal discipline legislation (Fiscal Responsibility Budget Management Act, 2003) was introduced. The fiscal deficit was brought under control thereafter and by 2007-08, a benign macro-fiscal situation with high growth and moderate inflation prevailed[1]. In the wake of global financial crisis thereafter, an expansionary fiscal policy was adopted to arrest the decline of growth but it resulted in high fiscal deficit (2010-11 onwards). Since then, the fiscal policy focus has been towards prudence, specifically on curtailing expenditure. In the last Union Budget for 2015-16, the Finance Minister laid out a fiscal consolidation roadmap, setting fiscal deficit targets at 3.9 percent, 3.5 percent and 3.0 percent for 2015-16, 2016-17 and 2017-18, respectively.

The macro-economic situation prevailing today shows signs of recovery in real GDP growth, but the economic health still remains a worry as private investments remain lackluster and industrial performance continues to be fragile owing to weak demand. This has also dampened the overall price scenario raising concerns of deflationary environment. In-fact, the recently released nominal GDP estimates show a growth of 8.6 percent for 2015-16, the lowest in more than a decade. This could have implication on the fiscal deficit ratio for 2015-16, which may turn out to be higher than the targeted estimate unless a balance is regained, either with a cut in expenditure or rise in revenues, or both. While laying down the budget for 2016-17, the Finance Minister would have to take realistic estimates of nominal GDP growth and possibly re-assess the fiscal deficit target of 3.5 percent given the need to pursue an investment led growth.

## The Past Trends

Fiscal reforms at the Central government level were led by the enactment of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003. This Act gave a medium term target for balancing current revenues and expenditures and set overall limits to the fiscal deficit at 3 percent of GDP to be achieved according to a phased deficit reduction roadmap. Accordingly, fiscal consolidation was pursued. In the year before the global financial crisis in 2007-08, gross Fiscal Deficit was 3.33 percent of GDP.

The global financial crisis of 2008 brought along challenges related to contagion risks of global crisis to the financial sector; the negative impact on exports; and the effect on exchange rates. To push growth, government adopted an expansionary fiscal policy. In addition to these, the budget was expanded to include rural farm loan waiver scheme, expand social security schemes under the National Rural Employment Guarantee Act (NREGA) and to implement recommendations of the Sixth Pay Commission.

The Indian economy was able to weather the global financial crisis aided by the strong fiscal stimulus, but it eventually resulted in high fiscal deficit (almost 6 percent in 2008-09 and 6.5 percent in 2009-10). The post-crisis recovery was slow owing to continuation of global economic slowdown, which combined with high crude prices led to high current account deficit, high inflation and fall in savings and investments. The process of fiscal consolidation was thus re-instated in 2010-11.

[1] http://finmin.nic.in/workingpaper/FPI_trends_Trajectory.pdf

**Gross Fiscal Deficit (Central Government)**

| | 2000-01 Actuals | 2008-09 Actuals | 2009-10 Actuals | 2010-11 Actuals | 2011-12 Actuals | 2012-13 Actuals | 2013-14 Actuals | 2014-15 RE | 2015-16 BE |
|---|---|---|---|---|---|---|---|---|---|
| GFD (Rs crore) | 118,816 | 336,992 | 418,482 | 373,592 | 515,990 | 490,190 | 502,858 | 512,628 | 555,649 |
| (as a % of GDP) | 5.5% | 5.99% | 6.5% | 4.8% | 5.9% | 4.9% | 4.5% | 4.1%* | 3.9% |

** As per Provisional Actuals, fiscal deficit estimates for 2014-15 is 4.0 percent of GDP*

*Source: Union Budget Documents*

**Trends in Central Government Expenditure**

Over the last three decades, the Central government's total expenditure has risen from Rs 1.05 lakh crore in 1990-91 to Rs 16.8 lakh crore in 2014-15. While the government expenditure grew at a CAGR of 12.3 percent in the decade beginning 1990-91, the annual average growth in government expenditure in the next decade (2000-01 to 2010-11) was higher at 13.9 percent. Thereafter, the slowdown in economic growth combined with higher fiscal deficit led to enhanced focus on expenditure rationalization, which is also reflected in the lower annual growth in expenditure of 8.8 percent between 2011-12 and 2014-15.

In-fact, in the first decade post liberalisation (1990-91 to 1999-2000), the revenue expenditure grew at a CAGR of 14.5 percent, while capital expenditure grew at the rate of mere 4.9 percent. In the decade thereafter (2000-01 to 2010-11), the annual growth of revenue expenditure was similar to the previous period at 14.1 percent. Adequate thrust was given to capital expenditure from 2001-02 to 2003-04 (CAGR of 32 percent) and during the initial four years of eleventh plan period i.e. 2007-08 to 2010-11 (CAGR of 23 percent). However, during the last few years (2011-12 to 2014-15), both revenue and capital expenditure growth witnessed moderation, registering CAGR of 9.1 percent and 6.7 percent, respectively.

The concerning factor is that the share of revenue expenditure in total expenditure of Central government has risen from 78.5 percent in 1995-96 to 85.3 percent in 2000-01, further to 86.9 percent in 2010-11 and to 88.6 percent in last fiscal i.e. 2014-15.

**Trends in Composition of Central Government's Expenditure**

| Indicators | 1995-96 | 2000-01 | 2005-06 | 2010-11 | 2013-14 | 2014-15 | 2015-16 BE |
|---|---|---|---|---|---|---|---|
| Revenue expenditure (Rs cr) | 1,39,861 | 2,77,839 | 4,39,376 | 10,40,723 | 13,71,772 | 14,88,780 | 15,36,047 |
| y-o-y growth (%) | 14.5% | 11.5% | 14.3% | 14.1% | 10.3% | 8.5% | 3.2% |
| % of total Govt. expenditure | 78.5% | 85.3% | 86.9% | 86.9% | 88.0% | 88.6% | 86.4% |
| Capital expenditure (Rs cr) | 38,414 | 47,753 | 66,362 | 156,605 | 1,87,665 | 1,92,378 | 2,41,430 |
| y-o-y growth (%) | - 0.6% | -2.5% | -41.4% | 39.0% | 12.5% | 2.5% | 25.5% |
| % of total Govt. expenditure | 21.5% | 14.7% | 13.1% | 13.1% | 12.0% | 11.4% | 13.6% |
| Total Govt. Expenditure (Rs cr) | 1,78,275 | 3,25,592 | 5,05,738 | 11,97,328 | 15,59,447 | 16,81,158 | 17,77,477 |

*Source: RBI, FICCI Calculations*

Historically, India's expenditure management strategy has been aimed at reducing subsidies and cutting down on non-capital expenditure. However, subsidies component of total revenue expenditure has increased significantly from 9.1 percent in 1995-96 to as high as 20.7 percent in 2012-13, post which there have been attempts to rein in subsidies. In fact, the period between 2001-02 and 2012-13 saw subsidies rise at an average annual growth rate of 21.1 percent from Rs 31,210 crore to Rs 2.57 lakh crore.

**Major Components of Central Government's Revenue Expenditure**

| Indicators | 1995-96 | 2000-01 | 2010-11 | 2012-13 | 2013-14 | 2014-15 | 2015-16 BE |
|---|---|---|---|---|---|---|---|
| Defence (Rs cr) | 18,841 | 37,238 | 92,061 | 1,11,277 | 1,24,374 | 1,40,405 | 1,52,139 |
| y-o-y growth (%) | 14.7% | 5.7% | 1.5% | 8.0% | 11.8% | 12.9% | 8.4% |
| % of revenue expenditure | 13.5% | 13.4% | 8.8% | 8.9% | 9.1% | 9.4% | 9.9% |
| Interest (Rs cr) | 50,045 | 99,314 | 2,34,022 | 3,13,170 | 3,74,254 | 4,11,354 | 4,56,145 |
| y-o-y growth (%) | 13.6% | 10.0% | 9.8% | 14.7% | 19.5% | 9.9% | 10.9% |
| % of revenue expenditure | 35.8% | 35.7% | 22.5% | 25.2% | 27.3% | 27.6% | 29.7% |
| Subsidies (Rs cr) | 12,666 | 26,838 | 1,73,420 | 2,57,079 | 2,54,632 | 2,66,692 | 2,43,811 |
| y-o-y growth (%) | 6.9% | 9.6% | 22.7% | 18% | -1.0% | 4.7% | -8.6% |
| % of revenue expenditure | 9.1% | 9.7% | 16.7% | 20.7% | 18.6% | 17.9% | 15.9% |

*Source: RBI, FICCI Calculations*

India spends major subsidies on food, fuel and fertilizers. Over the last few years, fuel, food and fertilizer subsidies have roughly accounted for 14 - 18 percent of total budgetary expenditure and around 2 – 2.4 percent of GDP.

**Payment of Subsidies in Central Budget (Amount in Rs crore)**

| S.no | Indicators | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|---|---|
| | | Actuals | Actuals | Actuals | Actuals | RE | BE |
| 1 | **Major Subsidies** | **164,516.1** | **211,319.1** | **247,493.1** | **244,716.9** | **253,913.1** | **227,387.6** |
| | (as a % of GDP) | 2.1% | 2.3% | 2.4% | 2.2% | 2.0% | 1.6% |
| | (as a % of total expenditure) | 13.7% | 16.2% | 17.5% | 15.7% | 15.1% | 12.8% |
| | Major subsidies components: | | | | | | |
| | *Food subsidy* | *63,844.0* | *72,822.0* | *85,000.0* | *92,000.0* | *122,675.8* | *124,419.0* |
| | (as a % of GDP) | 0.8% | 0.8% | 0.8% | 0.8% | 1.0% | 0.9% |
| | *Fertilizers subsidy* | *62,301.0* | *70,013.0* | *65,613.0* | *67,338.8* | *70,967.3* | *72,968.6* |
| | (as a % of GDP) | 0.8% | 0.8% | 0.6% | 0.6% | 0.6% | 0.5% |
| | *Petroleum subsidy* | *38,371.0* | *68,484.0* | *96,880.0* | *85,378.2* | *60,270.0* | *30,000.0* |
| | (as a % of GDP) | 0.5% | 0.8% | 1.0% | 0.8% | 0.5% | 0.2% |
| 2 | Interest | 4,680.0 | 5,049.0 | 7,270.0 | 8,137.2 | 11,147.2 | 14,903.4 |
| | (as a % of GDP) | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% |
| 3 | Others | 12,867.9 | 8,148.9 | 7,132.9 | 1,777.7 | 1,631.6 | 1,520.0 |
| | **Subsidy Expenditure** | **182,064.0** | **224,517.0** | **261,896.0** | **254,631.8** | **266,691.8** | **243,811.0** |

*Source: Union Budget Documents, FICCI calculations*

## Trends in Revenue

The tax reforms in the economy have been primarily directed towards reduction in proportion of trade taxes, increase in the share of consumption taxes by converting excise into a VAT, and enhancement of share of direct taxes to the total revenue.

Consequently, the sources of central government revenues have seen a gradual reduction in share of indirect taxes and increase in share of direct taxes. The contribution of indirect taxes in Central government's revenues in the last few years has steadily come down to 35 - 37 percent from as high as 65 percent in 1990-91. On the other hand, direct taxes now account for almost 43 - 44 percent of revenues when compared to mere 12.6 per cent in 1990-91.

### Trends in Revenue Receipts

| Indicators | 2010-11 Actuals | 2011-12 Actuals | 2012-13 Actuals | 2013-14 Actuals | 2014-15 RE | 2015-16 BE |
|---|---|---|---|---|---|---|
| Tax Revenue (net) in Rs cr | 569,869 | 629,765 | 741,877 | 815,854 | 908,463 | 919,842 |
| (as a % of GDP) | 7.3% | 7.0% | 7.3% | 7.3% | 7.1% | 6.5% |
| Non Tax Revenue in Rs cr | 213,941 | 121,841 | 131,596 | 198,870 | 217,831 | 221,733 |
| (as a % of GDP) | 2.7% | 1.4% | 1.3% | 1.8% | 1.7% | 1.6% |
| **Total Revenue Receipts in Rs cr** | 788,471 | 751,437 | 879,232 | 1,014,724 | 1,126,294 | 1,141,575 |

### Gross Tax Revenue Composition (Central) in Rs crores

| Indicators | 2010-11 Actuals | 2011-12 Actuals | 2012-13 Actuals | 2013-14 Actuals | 2014-15 RE | 2015-16 BE |
|---|---|---|---|---|---|---|
| **Direct Tax** | **445,962.0** | **493,947.0** | **558,659.0** | **638,543.0** | **705,628.0** | **797,995.0** |
| (as a % of GDP) | 5.7% | 5.5% | 5.5% | 5.7% | 5.5% | 5.6% |
| *- Corporation Tax* | 298,688.0 | 322,816.0 | 356,326.0 | 394,678.0 | 426,079.0 | 470,628.0 |
| *- Income Tax* | 146,587.0 | 170,343.0 | 201,487.0 | 242,857.0 | 278,599.0 | 327,367.0 |
| *- Wealth Tax* | 687.0 | 788.0 | 846.0 | 1,008.0 | 950.0 | |
| | | | | | | |
| **Indirect Tax Revenue** | **345,128.0** | **392,445.0** | **474,482.0** | **497,061.0** | **542,325.0** | **647,918.0** |
| (as a % of GDP) | 4.4% | 4.4% | 4.7% | 4.5% | 4.2% | 4.6% |
| *- Customs* | 135,813.0 | 149,328.0 | 165,346.0 | 172,085.0 | 188,713.0 | 208,336.0 |
| *- Union Excise duties* | 138,299.0 | 145,608.0 | 176,535.0 | 170,198.0 | 185,480.0 | 229,808.0 |
| *- Service Tax* | 71,016.0 | 97,509.0 | 132,601.0 | 154,778.0 | 168,132.0 | 209,774.0 |
| | | | | | | |
| Tax to GDP ratio (Gross Central Tax) | 10.1% | 9.8% | 10.2% | 10.2% | 9.7% | 10.2% |

*Source: Union Budget Documents, FICCI calculations*

**Non tax revenue** has emerged as one of the important component of government resources. With tax revenues under pressure due to slow pace of economic growth, the rise in non-tax revenues has played a key role in fiscal balance over the last few years. These non-tax revenues mainly comprise of interest and dividend receipts of the Government, as well as revenue from telecom spectrum auctions. In-fact, between 2011-12 and 2014-15, the non-tax revenues have grown at a CAGR of 21.4%.

However, despite various tax reforms, the country's **tax to GDP ratio has remained narrow at 9 – 10 percent**. In comparison, Brazil's tax to GDP ratio is 14 percent, Russia's is 15 percent and for South Africa it is 25 percent. Widening the tax base is extremely important if long term development needs of the country have to be met. In India, incomes from several sources go unreported, which leads to significant revenue loss for the exchequer. Hence, it is suggested that the government should include all incomes (irrespective of source) above a certain threshold under the tax net. To start with, the government can make it mandatory for every individual/entity with income above a certain threshold (say Rs 10 lakhs) to file tax returns.

# The Current Scenario (2015-16)

## Expenditure management: Greater productive spend and reining in subsidies

The Union Budget 2015-16 laid adequate thrust on public capital expenditure while displaying prudence in revenue expenditure. While capital expenditure was raised by 25.5 percent over previous fiscal to Rs 2.43 lakh crore for 2015-16, the budgeted allocation for revenue expenditure was raised by only 3.2 percent to Rs 15.3 lakh crore.

**Central Government's Total Expenditure (Rs crore)**

| Indicators | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|---|
| | Actuals | Actuals | Actuals | Actuals | RE | BE |
| Revenue Expenditure | 1,040,723.0 | 1,145,785.0 | 1,243,514.0 | 1,371,772.0 | 1,488,780.0 | 1,536,047.0 |
| y-o-y growth (%) | 14.1% | 10.1% | 8.5% | 10.3% | 8.5% | 3.2% |
| (as a % of GDP) | 13.4% | 12.7% | 12.3% | 12.3% | 11.6% | 10.8% |
| Capital Expenditure | 156,605.0 | 158,580.0 | 166,858.0 | 187,675.0 | 192,378.0 | 241,430.0 |
| y-o-y growth (%) | 39.0% | 1.3% | 5.2% | 12.5% | 2.5% | 25.5% |
| (as a % of GDP) | 2.0% | 1.8% | 1.6% | 1.7% | 1.5% | 1.7% |
| **Total expenditure** | **1,197,328.0** | **1,304,365.0** | **1,410,372.0** | **1,559,447.0** | **1,681,158.0** | **1,777,477.0** |
| y-o-y growth (%) | 15.4% | 14.5% | 13.9% | 14.0% | 13.1% | 12.5% |
| (as a % of GDP) | 15.4% | 14.5% | 13.9% | 14.0% | 13.1% | 12.5% |

*Source: Union Budget Documents, FICCI calculations*

**Trends in Central Government Finances: April - November (2015-16)**

| Indicator (amount in Rs crore) | Budget Estimates | April-November | | Col.3 asper cent of 2014-15 BE | Col.4 as per cent of 2015-16 BE | y-o-y change (%) | |
|---|---|---|---|---|---|---|---|
| | 2015-16 | 2014-15 | 2015-16@ | | | 2014-15 | 2015-16 |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| **1. Non-Plan Expenditure** | **1,312,200** | **780,532** | **844,289** | **64.0%** | **64.3%** | **6.9%** | **8.2%** |
| (a) Revenue Account | 1,206,027 | 721,223 | 783,154 | 64.7% | 64.9% | 9.0% | 8.6% |
| of which: | | | | | | | |
| Interest payments | 456,145 | 232,650 | 252,599 | 54.5% | 55.4% | 8.5% | 8.6% |
| Major Subsidies | 227,388 | 195,504 | 188,394 | 77.8% | 82.9% | 6.9% | -3.6% |
| Pensions | 88,521 | 61,316 | 60,471 | 74.8% | 68.3% | 28.5% | -1.4% |
| (b) Capital Account | 106,173 | 59,309 | 61,135 | 56.3% | 57.6% | -13.7% | 3.1% |
| | | | | | | | |
| **2. Plan Expenditure** | **465,277** | **293,651** | **298,018** | **51.1%** | **64.1%** | **0.9%** | **1.5%** |
| (a) Revenue Account | 330,020 | 231,505 | 200,230 | 51.0% | 60.7% | -1.1% | -13.5% |
| (b) Capital Account | 135,257 | 62,146 | 97,788 | 51.2% | 72.3% | 9.4% | 57.4% |
| | | | | | | | |
| **Total Expenditure (1+ 2)** | **1,777,477** | **1,074,183** | **1,142,307** | **59.8%** | **64.3%** | **5.2%** | **6.3%** |
| **Revenue Expenditure** | 1,536,047 | 952,728 | 983,384 | 60.8% | 64.0% | 6.4% | 3.2% |
| **Capital Expenditure** | 241,430 | 121,455 | 158,923 | 53.6% | 65.8% | -3.2% | 30.8% |

*@ Provisional actuals figures*

*Source: Ministry of Finance, Controller General of Accounts*

During the eight month period of the current fiscal (Apr-Nov 2015-16), the government has incurred Rs 1.59 lakh crore, i.e. 65.8 percent of the budgeted amount for capital expenditure. On a y-o-y basis, this is 30 percent higher over the corresponding period in previous fiscal. On the other hand, the growth of revenue expenditure has been curtailed to 3.2 percent during the first eight months, in accordance with the budgeted growth estimates for same. As estimated, the expenditure on major subsidies has been reduced. During Apr-Nov 2015, expenditure on major subsidies was Rs 1.88 lakh crore, 3.6 percent lower over the corresponding period in previous fiscal.

For the entire fiscal year 2015-16, major subsidies are estimated at Rs 2.27 lakh crores i.e. roughly 1.6% of GDP. While there will be reduction in petroleum subsidies owing to cooling of global crude prices and rollout of LPG subsidy via the Direct Benefit Transfer (DBT) route, at the same time the other major subsidy bill is expected to increase on account of higher than anticipated demand for food and fertilizer subsidy[2].

## Revenue Management

### A. Tax collections in 2015-16:

As per the latest press release by Ministry of Finance, Direct and Indirect Tax collections are together expected to meet the target of Revenue collections for 2015-16 without any shortfall. As against the Annual BE target for tax collections of Rs. 14.49 lakh crore, the Government has received Rs.10.66 lakh crore, which is 73.5% of the BE target. Latest tax collections figures up to 31st January, 2016 indicate healthy growth of 33.7% in Indirect Tax and 10.9% in Direct Tax collections. *The indirect tax collections have been higher owing to hike in excise duties on diesel and petrol, coupled with increase in service tax rate*. As far as Indirect Tax collections are concerned, the Government may get more than Rs 40,000 crore extra over and above the BE target for Indirect Taxes for 2015-16 while there might be an equal amount of shortfall in Direct Tax collections.

**Tax revenue collections in 2015-16 (till January 2016)**

| | Actual Collection (up to Jan 31, 2016)* | Budget Estimate 2015-16* | Growth % (y-o-y) | % of Budget Estimate |
|---|---|---|---|---|
| Direct tax | 5.22 | 7.97 | 10.9 | 65.0 |
| Indirect tax | 5.44 | 6.46 | 33.0 | 88.0 |
| Total tax | 10.66 | 14.49 | 22.2 | 73.5 |

*Figures in Rs. lakh crore

| Increase in Indirect Taxes Collection (%) | |
|---|---|
| **Customs Duty (in %)** | |
| Electrical machinery | 34.4 |
| Other machinery | 27.8 |
| **Service Tax (total: in %)** | 27.2 |
| Banking, financial services | 44.6 |
| Work contract services | 39.9 |
| Goods transportation | 41.0 |

| Increase in Direct Taxes collection (in %) | |
|---|---|
| Corporate tax | 10.44 |
| Personal income tax | 11.85 |

*Source: PIB, Hindu Business Line*

### B. Non Tax Revenues

For the year 2015-16, the budgeted non-tax revenue is Rs 2.2 lakh crore, which is 1.8% higher over the previous fiscal year (2014-15). Out of this budgeted amount, over Rs 1 lakh crore has been budgeted from dividends, of which around Rs 36,000 crore is to come from Central Public Sector Enterprises (CPSEs) and Rs 64,000 crore from banks, financial institutions and RBI. For April-November 2015, the overall non-tax revenue collections

[2] http://www.business-standard.com/article/economy-policy/subsidy-payouts-might-offset-crude-oil-cushion-116021500023_1.html

have been 35 percent higher (y-o-y) at Rs 1.73 lakh crore. The Ministry has already received a dividend of Rs 65,986 crore[3] from the RBI. Additionally, with capital infusion into public sector banks, the revenue from PSB's dividends is expected to increase due to higher Government stake. The dividend from Central Public Sector Enterprises is also expected to be higher.

### C. Disinvestments

The government's disinvestment plans have not materialized as desired owing to volatile market conditions. The government had budgeted disinvestments proceeds worth Rs 69,500 crore in 2015-16 (or 0.5% of GDP), of which only Rs 13,340 crores have been mobilized from stake sales in Indian Oil, Dredging Corporation of India, Power Finance Corporation, Rural Electrification Corporation and Engineers India Limited.

**Disinvestment of equity in Public Sector Enterprises**

| Amount in Rs crore | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|---|
| | Actuals | Actuals | Actuals | Actuals | RE | BE |
| Disinvestment receipts | 22,846.0 | 18,088.0 | 25,890.0 | 29,368.0 | 31,350.0 | 69,500.0 |
| (as a % of GFD) | 6.1% | 3.5% | 5.3% | 5.8% | 6.1% | 12.5% |
| (as a % of total capital receipts) | 5.7% | 3.2% | 4.4% | 5.2% | 5.5% | 11.1% |

*Source: Union Budget Documents, FICCI calculations*

The global meltdown in commodity prices has affected several Public Sector Undertaking's profits as well as market capitalization. Under such environment, there is a possibility of derailing of government's disinvestment plans. Additionally, there is also a likelihood that the government may scale down the disinvestment target[4] in the upcoming Union Budget.

## <u>Will Fiscal Deficit target of 3.9 percent be met</u>?

The fiscal deficit target for 2015-16 has been put at 3.9 percent (i.e. around Rs 5.6 lakh crore). Meeting this target could be challenging owing to the lower than expected nominal GDP growth (which has now been estimated at 8.6 percent as against 11.5 percent in the budget estimates) and significant shortfall in revenues from disinvestment. However, on the positive side there has been robustness in tax collections till January 2016 and expenditure incurred till Nov 2015 has been in line with the budgeted estimates. It is likely that the Finance Minister will manage the fiscal deficit target of 3.9 percent through minor budgetary adjustments.

**Central Government Finances: April - November (2015-16)**

| Indicator (amount in Rs crore) | Budget Estimates 2015-16 | April-November 2014-15 | % of 2014-15 BE | Apr-Nov 2015-16 | % of 2015-16 BE | y-o-y change (%) | |
|---|---|---|---|---|---|---|---|
| | | | | | | 2014-15 | 2015-16 |
| Revenue Deficit | 394,472 | 411,075 | 108.6 % | 345,328 | 87.5 % | 4.6% | -16.0% |
| Fiscal Deficit | 555,649 | 525,134 | 98.9% | 483,523 | 87.0% | 3.1% | -7.9% |
| Primary Deficit | 99,504 | 292,484 | 280.8% | 230,924 | 232.1% | -0.9% | -21.0% |

*Source: Ministry of Finance, Controller General of Accounts.*

[3] http://economictimes.indiatimes.com/news/economy/finance/non-tax-receipts-top-rs-2-lakh-crore-finance-ministry/articleshow/50997257.cms
[4] http://www.business-standard.com/article/markets/tough-task-as-psu-stocks-lose-quarter-of-their-value-in-one-year-116021100035_1.html

# The Outlook for 2016-17 Union Budget

## Thrust on Public Infrastructure

Last year's budget gave a huge thrust on capital expenditure (25 percent increase over that of previous year). Given the need to support economic recovery, we feel that public investments, particularly in infrastructure, need to be stepped up even next year. For the upcoming Union Budget for 2016-17, the government has also indicated a continued thrust on public investments in infrastructure. Hence, we expect significant rise in the budgetary allocation towards capital expenditure, particularly infrastructure.

## Rationalisation of Subsidies

There is scope of bringing down the subsidies expenditure significantly, as a large portion of it is misdirected. The Direct Benefit Transfer model is a good initiative and needs to be expanded for payment of all subsidies.

**Petroleum subsidy:** The government has decided to rollout kerosene subsidy also through DBT mode in 26 districts from April this year. As per the Economic Survey 2014-15, estimated leakage of PDS kerosene was 41% of the total allocation made to states for the year 2013-14. Budgetary allocation for Kerosene subsidy in 2015-16 was around Rs 22,000 crore. A complete rollout of Kerosene subsidy could thus result in considerable savings.

**Direct benefit transfer (DBT) implementation**

- In January 2015, Government brought LPG under DBT route
- Encouragement for voluntary giving up of LPG subsidy
- LPG subsidy withdrawn for those with taxable income above Rs 10 lakh a year
- Pilot DBT for food, MNREGA, fertilizer subsidy and scholarships
- Kerosene subsidy to be rolled out through DBT from April 2016 in 26 districts across 8 states

**Food subsidy:** The government has set a deadline for nationwide implementation of Food Security Act by April 1, 2016 and most State Governments are expected to start its implementation in next fiscal. As a result, food subsidy burden in 2016-17 is expected to be much higher than the 2015-16 estimates of Rs 1.24 lakh crore. Given the magnitude of the food subsidy bill, better targeting of food subsidy is important. The government has already started pilot rollout of food subsidy via DBT route in some Union Territories. If the complete rollout is implemented in coming fiscal year, there would be significant level of savings on food subsidy.

**Fertilizer subsidy:** There is an urgent need to rationalize fertilizer subsidies, which have been increasing substantially over the years. The government is considering the direct transfer of fertilizer subsidy to the farmers and has initiated pilot experiments in this regard. However, this could take some time as it is a daunting task to identify the actual beneficiaries owing to poor condition of land records.

## Additional Revenue Expenditure Commitments

The government is expected to incur additional expenditure on account of implementation of recommendations of seventh pay commission, implementation of One-Rank-One-Pension scheme as well as for Bank recapitalization, as laid out under the Indradhanush plan for revamp of public sector banks.

**a. Seventh Pay Commission awards**

Seventh pay commission's recommendation of a 23.55 percent increase in the pay and allowances of government employees will need an estimated Rs 1.02 lakh crore extra expenditure. Of this, Rs 73,650 crore will be borne by the General Budget and Rs 28,450 crore by the Railway Budget. Since the award is implemented from January 1, 2016, there will be some additional payment of arrears as well.

**b. Pension expenditure with implementation of OROP**

The defence pension budget is likely to be around Rs 65,000 crore for 2016-17, up 20 percent from 2015-16 budget estimate of Rs 54,000 crore (incremental Rs 11,000 crore). As per the statement of Defence Ministry, the annual recurring financial implication of OROP would be around Rs 7,500 crore. The arrears from July 1, 2014 to December 31, 2015 would be about Rs 10,900 crore. The payment of arrears would however be staggered (in four installments).

**c. Bank recapitalisation**

In August 2015, the government announced Indradhanush reforms for Public Sector Banks, which entailed capital infusion of Rs 70,000 crore in PSBs over four years. As per the Capital Infusion roadmap, PSBs will get Rs 25,000 crore each in 2015-16 and 2016-17 and Rs 10,000 crore each in 2017-18 and 2018-19. As per government estimates, Banks will require additional capital of about Rs 1.8 lakh crores by 2018-19, hence the PSBs would have to raise further Rs 1.1 lakh crore from markets.

However, under current market conditions, the public sector banks' interest in equity market has diminished and they are seeking additional capital support from the government. Thus, it is likely that the Finance Minister could enhance the allocation for capital infusion in the forthcoming Budget.

## Tax reforms

There are huge expectations of further tax reforms in the Union Budget 2016-17. The Finance Minister has already laid a roadmap of reduction in corporate tax and exemptions by 2018-19, and the first phase of same is expected in the upcoming budget. The biggest tax reform i.e. Goods and Services Tax is also awaited and hopefully, some political consensus could emerge on same in the forthcoming Budget session of the Parliament.

## Will Fiscal Deficit target adhere to the consolidation roadmap?

As per the fiscal consolidation roadmap, the fiscal deficit for 2016-17 is set at 3.5 per cent of GDP. The Finance Minister thus faces a highly challenging task – on the one hand there are firm commitments that require extra expenditure of almost Rs 1.1 lakh crore, or roughly 0.7 percent of GDP[5]. Additionally, there is a need to enhance capital expenditure substantially. On the other hand, if deflationary pressures continue, nominal GDP growth will mirror real GDP growth, which could impact overall revenue collections. With a limited fiscal space, the Finance Minister could in all probability consider some relaxation of fiscal deficit target.

In FICCI's views, if needed, the government should not shy away from recalibrating the fiscal deficit target in order to push public investments with a view to add productive capacity to the economy. It is not sacrosanct to keep fiscal deficit target at 3.5 percent of GDP as long as the direction is downwards and quality of spending is maintained.

[5] *Assuming nominal GDP growth of 10 percent over BE 2015-16*