Fiscal Developments

02

CHAPTER

In the backdrop of an evolving pandemic situation, Government of India's agile policy response differed from the waterfall strategy of introducing front-loaded stimulus packages, adopted by most other countries in 2020. Immediately after the COVID-19 outbreak, Government of India chose to first create safety-nets for the vulnerable sections of the society/ small businesses before going on to introduce stimulus packages to boost economic recovery in the second half of 2020-21. On the fiscal front, capital expenditure was restrained during Q1 and Q2 of 2020-21 owing to movement restrictions in containment zones, and unavailability of contractors/workers to carry out capital works. However, with the easing of movement and health-related restrictions, capital spending was pushed up in Q3 of 2020-21. Thus, the change in the mix of stimulus effected in 2020-21 towards a larger share of capital spending, has continued in the current year as well. The stimulus measures announced so far during the year 2021-22 include liquidity enhancing and investment boosting measures such as the Production Linked Incentives scheme, credit guarantee schemes and export boosting initiatives.

With the bouncing back of the economy in the current financial year, the revenue receipts of the central government during April to November 2021 have gone up by 67.2 per cent (YoY), as against an expected growth of 9.6 per cent in the 2021-22 Budget Estimates (over 2020-21 Provisional Actuals). The buoyant tax collections of both direct and indirect taxes, along with the non-tax revenue boosted by RBI's surplus transfer to the Government, have contributed to the increase in the revenue pool. The gross tax revenue during this period has registered a growth of over 50 per cent in YoY terms. This performance is strong not only over the corresponding period of the previous year but also when compared to the pre-pandemic levels of 2019-20. The gross monthly GST collections have crossed the ₹ 1 lakh crore mark consistently since July 2021, after quickly recovering from a dip in June 2021 following the second wave of COVID-19. The impact of the second wave of COVID-19 on GST collections was much more muted as compared to the first wave. The ongoing improvement in revenue performance during the current year can also be attributed to increased tax compliance enabled by various tax administration and policy reforms implemented by the Government in the past few years.

The New Public Sector Enterprise Policy and Asset Monetisation Strategy introduced by the Government reaffirm its commitment towards privatization and strategic disinvestment *of Public Sector Enterprises. The privatisation of Air India has been particularly important, not only in terms of garnering disinvestment proceeds but also for boosting the privatisation drive.*

The expenditure policy of the central government during 2021-22 has a strong emphasis on capital expenditure. The Budget 2021-22 had not only enhanced the expenditure estimates but also directed them towards more productive capital expenditure. The capital expenditure shows an increasing trend over the first three quarters of 2021-22. During April- November 2021, the capital expenditure has grown by 13.5 per cent (YoY), with focus in infrastructure-intensive sectors like roads and highways, railways, and housing and urban affairs. This increase is particularly substantial given the high YoY growth in capital expenditure registered during the corresponding period of the previous year as well. In addition, the Centre has also put in place several incentives to boost the capital expenditure by the States.

On account of a sustained revenue collection and a targeted expenditure policy by the Government of India, the fiscal deficit for April to November 2021 has been contained at 46.2 per cent of BE which is nearly one third of the proportion reached during the same period of the previous two years (135.1 per cent of BE in April-November 2020 and 114.8 per cent of BE in April-November 2019). The fiscal deficit budgeted in the current year was more realistic as it brought in several off-budget items to within the budget allocation such as the food subsidy requirements of FCI. With the enhanced borrowings on account of COVID-19, the Central Government debt has gone up from 49.1 per cent of GDP in 2019-20 to 59.3 per cent of GDP in 2020-21, but is expected to follow a declining trajectory with the recovery of the economy. The General Government finances are also expected to witness a consolidation during 2021-22, after the uptick in deficit and debt indicators during the pandemic year 2020-21.

INTRODUCTION

2.1 Over the last two years, fiscal policy has remained a significant tool for addressing the economic fallout of the pandemic. Government of India has adopted a calibrated fiscal policy approach to the pandemic, which had the flexibility of adapting to an evolving situation in order to support the vulnerable sections of society/firms and enable a resilient recovery. India's unique agile policy response differed from the waterfall strategy[1] of introducing front-loaded stimulus packages, adopted by most other countries in 2020. Such an adaptive approach has now been widely accepted in the policy circles (IMF Fiscal Monitor October 2021).

2.2 This chapter reviews the fiscal developments in India in the aftermath of the pandemic outbreak. It begins with fiscal policy strategy and performance of the fiscal parameters in the current year 2021-22, followed by a detailed analysis of the medium to long-term trends in Central, State and General Government finances. The chapter concludes with a discussion on policy measures to enhance efficiency of Government spending.

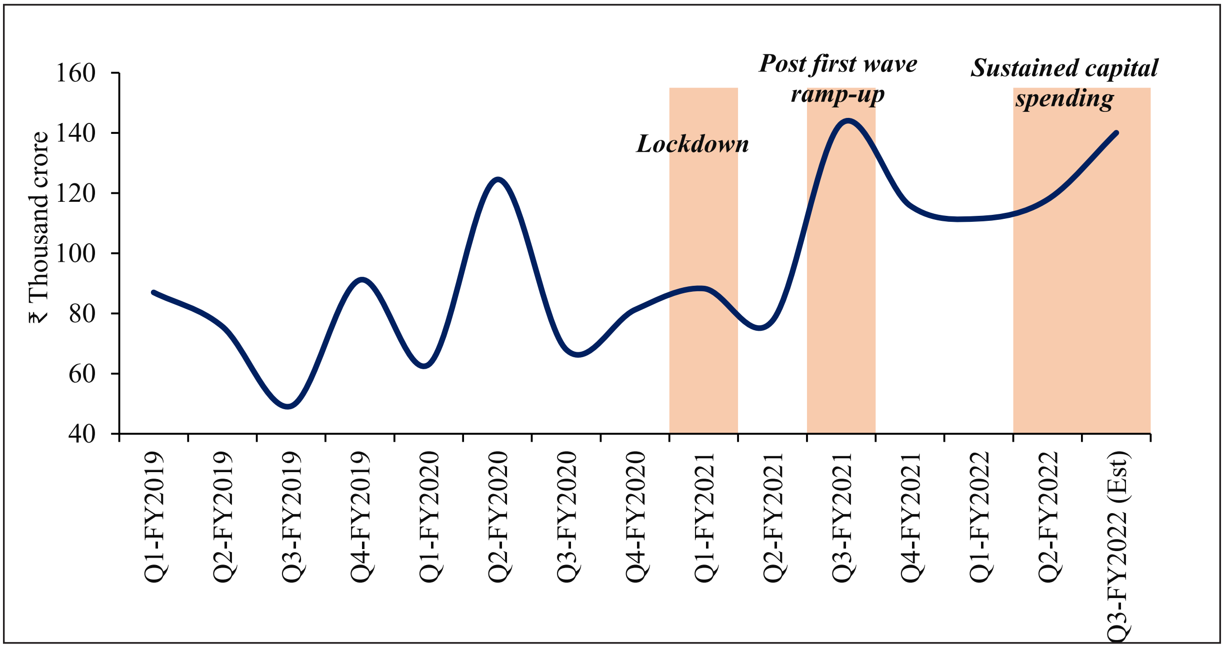
[1]Waterfall strategy as explained in chapter 1 of the Survey

FISCAL POLICY STRATEGY IN THE AFTERMATH OF THE PANDEMIC OUTBREAK

2.3 The agile fiscal policy response adopted by Government of India encompassed a change in mix of the stimulus measures amidst an uncertain evolution of the pandemic situation. In the initial phase of the pandemic, the fiscal policy focused on building safety-nets for the poor and vulnerable sections of society to hedge against the worst-case outcomes. Stimulus measures such as direct benefit transfers to the vulnerable sections, emergency credit to the small businesses, and the world's largest food subsidy programme targeting 80.96 crore beneficiaries enabled the creation of safety-nets, by ensuring that the essentials are taken care of. This was followed by a series of stimulus packages spread throughout the year 2020-21, driven by a Bayesian updating of information as the situation evolved. With the restoration of economic activities, the fiscal response focused on stimulating demand in the economy. During this phase of economic recovery, the stimulus mix included investment boosting measures like Production Linked Incentives (PLI), steps to encourage investment in infrastructure sector and enhancing capital expenditure by the Central and state Governments (**Figure 2 A to 2 D**).

2.4 This enhanced focus on capital expenditure in the second half of the year 2020-21 is reflective of the responsive fiscal policy which Government of India has adopted against COVID-19. Due to movement restrictions in containment zones, and unwillingness or inability of contractors and workers to carry out works, the quarterly capital expenditure was restrained during the first two quarters of 2020-21. With the easing of movement and health-related restrictions in Q3 of 2020-21, the capital spending was pushed for encouraging expenditure in sectors with the most positive effect on the economy. The focus on capital spending has been sustained during the current fiscal, as the capital expenditure shows an increasing trend during the first three quarters of 2021-22 **(Figure 1)**.

Figure 1: Trends in quarterly capital expenditure

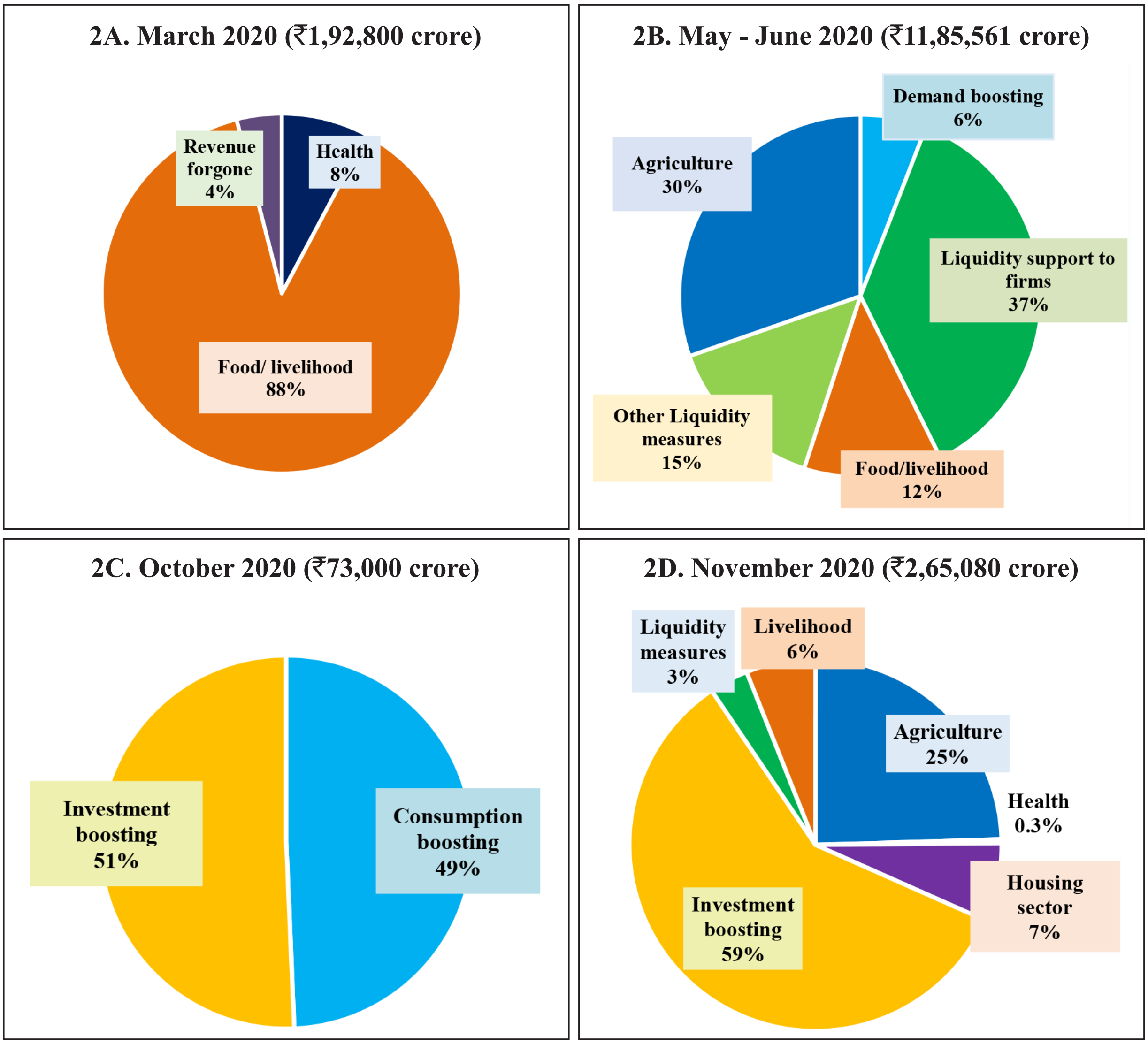


Source: CGA Monthly Accounts

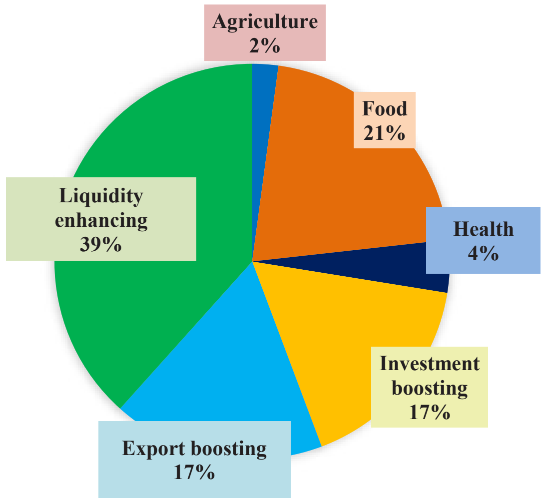
Note: The estimate for Q3 FY2021-22 uses flash figures for Dec 2021.

2.5 Building on the same approach, the Union Budget 2021-22 had enhanced the budget outlays for the more productive capital expenditure. The Government budgeted for a 34.5 per cent growth in capital expenditure over 2020-21 BE – with emphasis on railways, roads, urban transport, power, telecom, textiles and affordable housing amid continued focus on the National Infrastructure Pipeline. The National Infrastructure Pipeline covering 6835 projects was expanded to 7400 projects in Budget 2021-22. In order to unlock the domestic manufacturing potential across sectors, such as renewable energy, heavy industry, agriculture, automotive and textiles, Budget 2021-22 launched PLI schemes for 13 sectors, with an outlay of ₹1.97 lakh crore, for a period of 5 years starting from 2021-22. All these initiatives are expected to collectively generate employment and boost output in the medium to long term through multiplier-effects. The stimulus measures announced during the year 2021-22 have continued the emphasis on liquidity enhancing and investment boosting measures such as the PLI Scheme, credit guarantee schemes and export boosting initiatives to support the reviving economy, apart from providing free food grains to the poor (**Figure 2E**). The details may be seen at **Box 1**. In line with the agile approach, this mix can be changed again as per the requirement of the evolving situation.

Figure 2: Changing mix of stimulus announcements in 2020-21 and 2021-22



2E. June to December 2021 (₹6,97,338 crore)



Source: PIB
Note: Details of stimulus announcements from June to December 2021 may be seen at Box 1.

Box 1: STIMULUS ANNOUNCEMENTS DURING 2021-22

In order to reduce the impact of the shock caused by the COVID-19 second wave and support the recovering economy, Government of India announced additional relief measures in 2021-22 which have been listed in the table below. These measures were targeted towards providing economic relief to the vulnerable people and sectors, strengthening the health system, and providing impetus to growth and employment.

Details of the measures	Amount (₹ Crore)
June 2021 (₹6.29 lakh crore)	
Stimulus package for COVID-19 relief	**6,28,993**
Loan Guarantee Scheme for COVID-19 affected sectors	1,10,000
Emergency Credit Line Guarantee Scheme (ECLGS)	1,50,000
Credit Guarantee Scheme for Micro Finance institutions	7,500
Scheme for tourist guides/stakeholders	-
Free one month tourist visa to 5 lakh tourists	100
Extension of Atma Nirbhar Bharat Rozgar Yojana	-
Additional subsidy for DAP & P&K fertilizers	14,775
Free food grains under PMGKY (May to November, 2021)	93,869
New scheme for public health	15,000
Release of climate resilient special traits varieties	-

Revival of North Eastern Regional Agricultural Marketing Corporation (NERAMAC)	77
Boost for project exports through NEIA	33,000
Boost to export insurance cover	88,000
Broadband to each village through BharatNet PPP Model	19,041
Extension of tenure of PLI scheme for large scale electronic manufacturing	
Reform based result linked power distribution scheme (Budget announcement)	97,631
July 2021 (₹23,123 crore)	
India COVID-19 Emergency Response & Health System preparedness package: Phase-II	23,123 *(Centre Share-₹15,000 cr; State Share-₹8,123 cr)*
December 2021(₹53,344 crore)	
Extension of PM Garib Kalyan Ann Yojana (December 2021- March 2022)	53344.5

Source: PIB

PERFORMANCE OF FISCAL INDICATORS DURING 2021-22

2.6 This section analyses the performance of fiscal indicators and their components for the period April to November 2021. The data on Government accounts for April to November 2021, released by the Controller General of Accounts, show that the fiscal deficit of the Central Government at end November 2021 stood at 46.2 per cent of the BE 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 (**Figure 4).** During this period both fiscal deficit and primary deficit stood at levels much below the corresponding levels in the previous two years. The primary deficit during the period April to November 2021 turned up at nearly half of the level it had reached during April to November 2019 (**Figure 3**).

Figure 3: Trends in Fiscal deficit and primary deficit

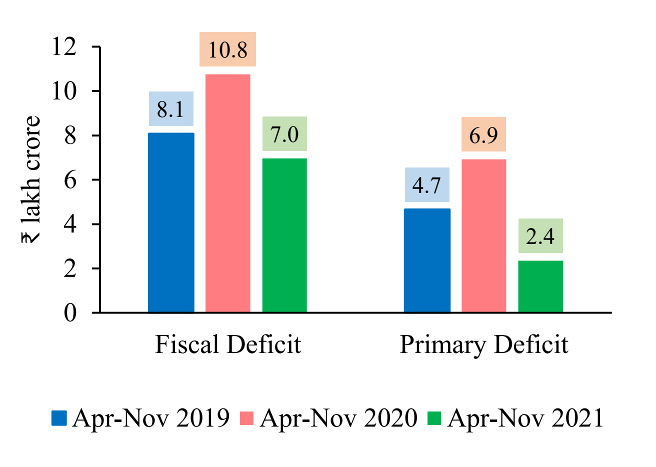
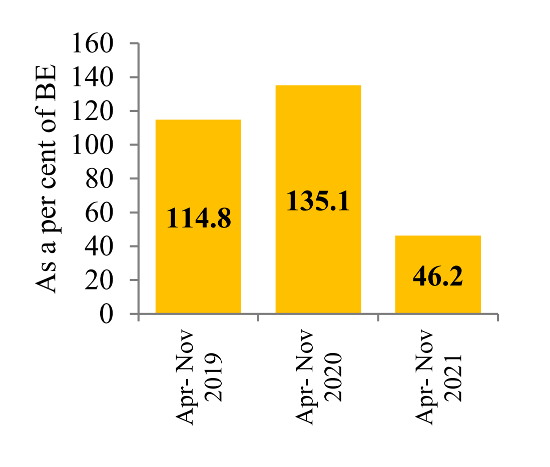


Figure 4: Fiscal deficit as a per cent of Budget estimate



Source: CGA Monthly Accounts

Table 1: Provisional Outcome for 2021-22 (April to November 2021)

		2021-22 BE	In ₹ lakh crore		Percentage of respective BE		YoY Growth (per cent)		
			2020-21	2021-22	2020-21	2021-22	FY21 over FY20	FY22 over FY21	FY22 over FY20
1	Revenue Receipts	17.88	8.13	13.59	40.2	76.0	-17.3	67.2	38.2
2	Gross tax revenue	22.17	10.26	15.42	42.3	69.5	-12.6	50.3	31.3
3	Assignment to States	6.66	3.34	4.03	42.6	60.5	-20.7	20.4	-4.5
4	Tax Revenue (net to Centre)	15.45	6.88	11.35	42.1	73.5	-8.3	64.9	51.2
5	Non Tax Revenue	2.43	1.24	2.23	32.3	91.8	-46.6	79.5	-4.1
6	Non Debt Capital Receipts	1.88	0.18	0.21	8.1	11.0	-37.5	14.1	-28.6
7	Non Debt receipts	19.76	8.31	13.79	37.0	69.8	-17.9	66.0	36.2
8	Total Expenditure	34.83	19.06	20.75	62.7	59.6	4.7	8.8	14.0
9	Revenue Expenditure	29.29	16.65	18.01	63.3	61.5	3.7	8.2	12.1
10	Capital Expenditure	5.54	2.41	2.74	58.5	49.4	12.8	13.5	28.0
11	Revenue Deficit	11.41	8.52	4.43	139.9	38.8	36.8	-48.1	-28.9
12	Fiscal Deficit	15.07	10.76	6.96	135.1	46.2	33.1	-35.3	-13.9
13	Primary Deficit	6.97	6.92	2.35	785.3	33.8	48.5	-66.0	-49.5

Source: CGA Monthly Accounts; BE: Budget Estimates

Revenue collection

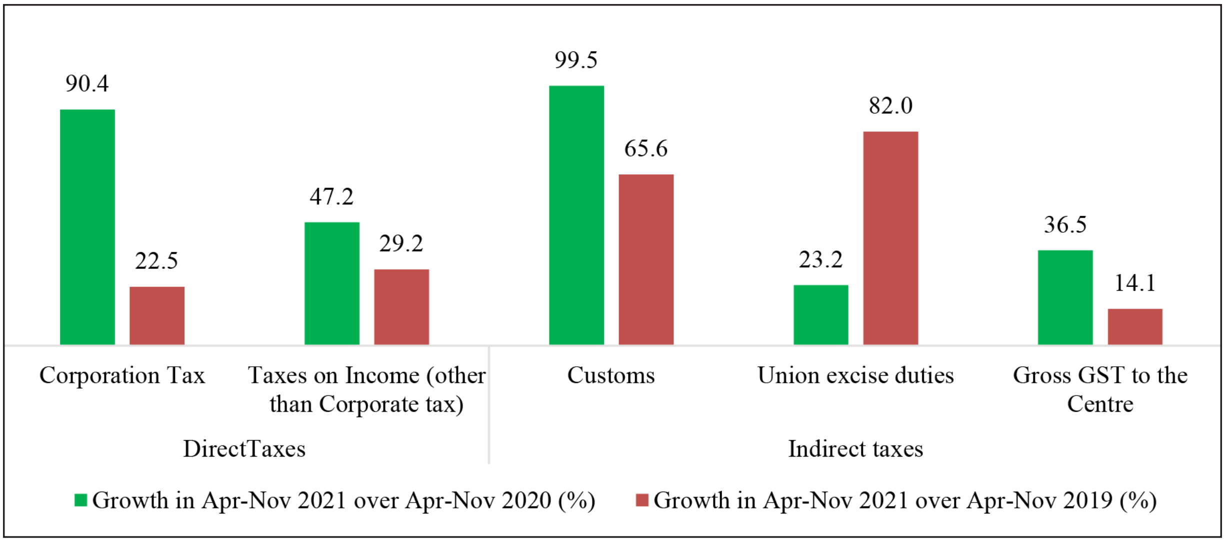
2.7 The period April to November 2021 witnessed a strengthening of fiscal position by the Central Government, which was led by buoyant revenue collection and expenditure allocations targeted towards capital expenditure. Revenue receipts have grown at a much higher pace during the current financial year (April to November 2021) compared to the corresponding periods during the last two years (**Table 1**). This performance is attributable to considerable growth in both tax and non-tax revenue.

2.8 Net tax revenue to the Centre, which was envisaged to grow at 8.5 per cent in 2021-22 BE relative to 2020-21 PA, grew at 64.9 per cent during April to November 2021 over April to November 2020 and at 51.2 per cent over April to November 2019 (**Table 1**). This improved performance in tax revenues is due to high growth shown by all major direct and indirect taxes with respect to the same period of the last two years. Within direct taxes, personal income tax has grown at 47.2 per cent over April-November 2020 and at 29.2 per cent over the April-November

2019. The corporate income tax registered a growth of 90.4 per cent over April-November 2020 and 22.5 per cent over April-November 2019 (**Figure 5 and 6**).

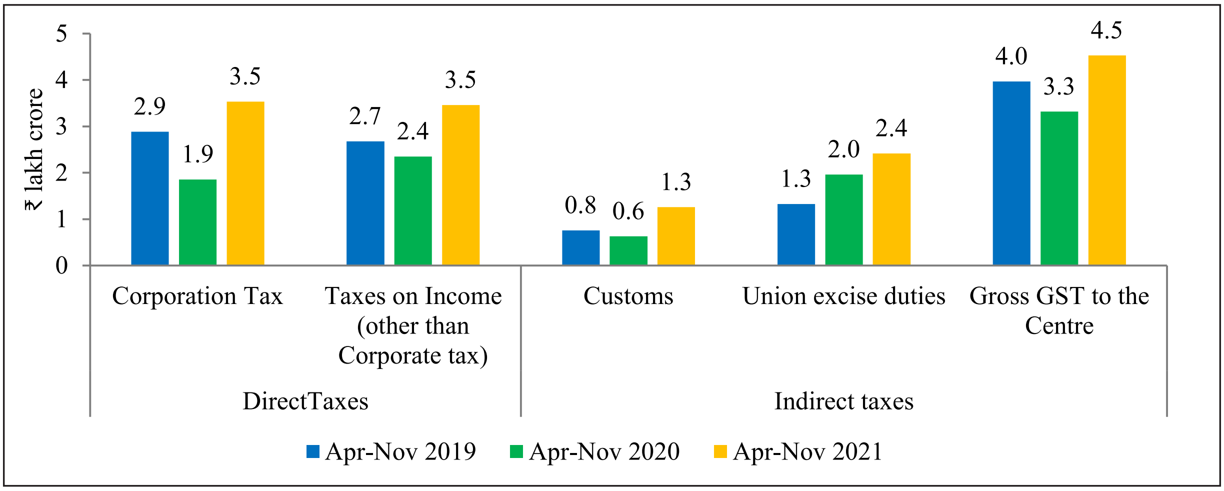
2.9 Among the various factors which may have led to such an increase in corporate tax collection, improved profitability of the corporates, formalization of the economy and improved compliance due to tax reforms are noteworthy. As per RBI, the gross profits of Listed Non-Government Non-Financial Companies(sample) had grown by 132.5 per cent for manufacturing sector and 21.5 per cent for IT sector during Q1 of 2021-22. In the following quarter Q2 of 2021-22, gross profits grew by 39.7 per cent for manufacturing sector and 18.4 per cent for IT sector. In addition, various tax administration and policy reforms introduced by the Government of India over the past few years (details may be seen at Annex) have also led to the improved compliance. Data available at the time of writing this chapter was not adequate to meaningfully separate out the net impact of these factors.

Figure 5: Growth in major direct and indirect taxes during April-November 2021



Source: CGA Monthly Accounts

Figure 6: Trends in major direct and indirect taxes during April-November period



Source: CGA Monthly Accounts

2.10 The indirect tax receipts have registered a YoY growth of 38.6 per cent in the first eight months of this fiscal year. The rise in imports of goods and services ensued due to the recovery in both manufacturing sector and consumption demand, have led to a rise in customs collection. The revenue collection from customs during April to November 2021 has registered a growth of almost 100 per cent over April to November 2020 and over 65 per cent compared to April to November 2019.

2.11 The revenue from excise duties has registered a YoY growth of 23.2 per cent during April-November 2021. The Government had raised the excise duty on petrol and diesel to garner revenues during the year 2020-21, when the collection of other direct and indirect taxes was adversely impacted by COVID-19 and low global petroleum prices created some elbow-room for raising taxes on petroleum. The revenue from excise duty registered an YoY growth of more than 60 per cent in 2020-21 PA. However by the end of November 2021, when the global oil prices had increased, other tax revenue sources had recovered and inflationary pressures were building up in the economy, the government changed its' policy as per the requirement of the situation, and the Central excise duty on petrol and diesel was reduced. Such a responsive feedback-based policy making by the Government is imperative for ensuring efficient management of limited fiscal resources in the economy. The Revised Estimates would give more clarity on the impact of excise duty cut on the tax revenue during the current year.

2.12 With the revival of the economy, the Goods and Services Tax has emerged as a buoyant source of revenue for both the Centre and the States. The GST collections for the Centre were 61.4 per cent of BE during April to November 2021. Gross GST collections, Centre and States taken together, were ₹10.74 lakh crore during April to December 2021, which is an increase of 61.5 per cent over April to December 2020 and 33.7 per cent over April to December 2019. Notably, the average monthly gross GST collection for the third quarter of the current year was ₹ 1.30 lakh crore, higher than the average monthly collection of ₹ 1.10 lakh crore and ₹ 1.15 lakh crore in the first and second quarters respectively.

2.13 After falling during the phase of nationwide lockdown in 2020-21 and during the second COVID-19 wave in India, there was a quick recovery in monthly GST collections. **Figure 7** shows that the impact of the second wave of COVID-19 on GST collections was much more muted than the impact of nationwide lockdown during the first wave. Over the last 4 years, GST revenues have steadily grown and the year-average of monthly GST collection has increased from 0.9 lakh crore in 2017-18 to 1.19 lakh crore in 2021-22 (upto December) (**Figure 8**). The improvement in GST collections has been due to the combined effect of the rapid economic recovery post pandemic, the nation-wide drive against GST evaders and fake bills along with many systemic changes introduced recently, and various rate rationalization measures undertaken by the GST Council to correct inverted duty structure.

Figure 7: Buoyant GST collections during 2021-22

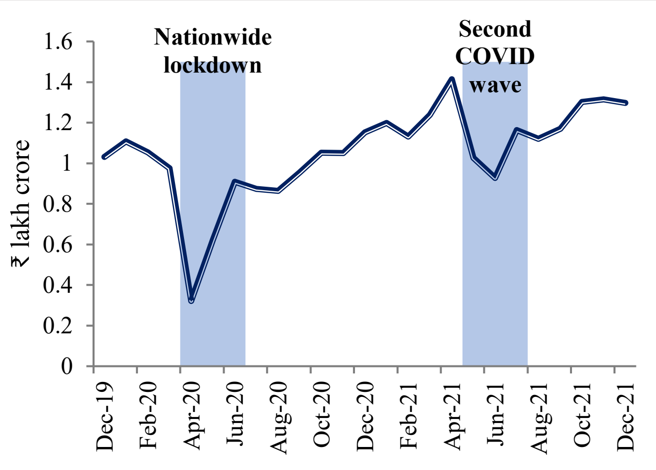
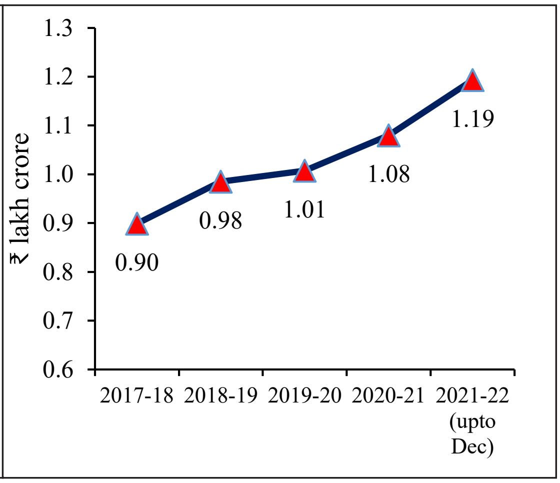


Figure 8: Rising year-average of monthly Gross GST collections



Source: Department of Revenue

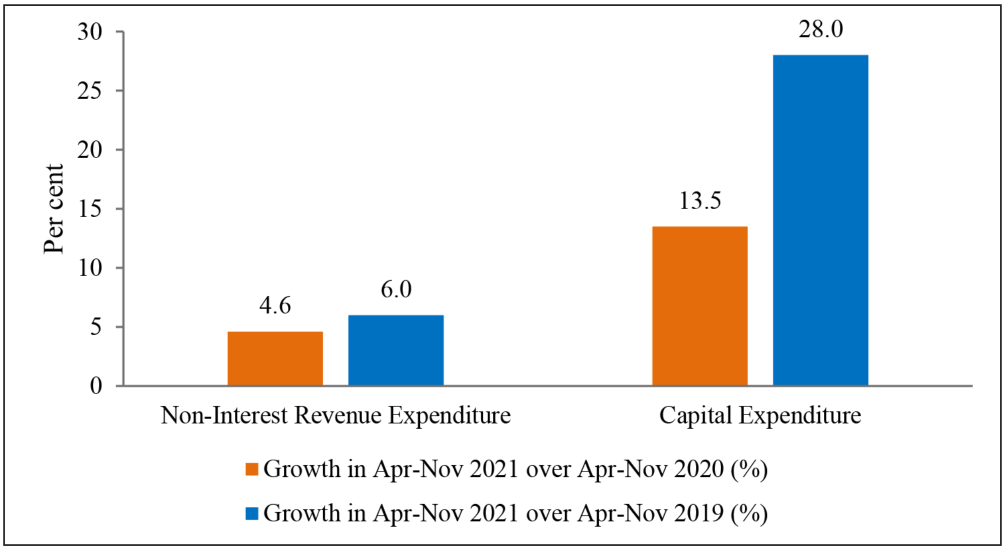
2.14 The non-tax revenue collections up to November 2021 registered an YoY increase of 79.5 per cent. This increase was driven by dividends and profits, which stood at ₹1.28 lakh crore against BE of ₹1.04 lakh crore. The key component of dividends and profits during this period was ₹ 0.99 lakh crore surplus transfer from RBI to the Central Government.

2.15 The non-debt capital receipts include recovery of loans and disinvestment receipts. The Budget 2021-22 had envisaged to mobilise ₹ 1.75 lakh crore from disinvestment proceeds this year. So far, the government has been able to raise ₹ 9330 crore (as on 24 January 2022) from disinvestment. The recently introduced New Public Sector Enterprise Policy and Asset Monetisation Strategy by the Government reaffirm its commitment towards privatization and strategic disinvestment of Public Sector Enterprises. The privatisation of Air India has been particularly important, not only in terms of garnering disinvestment proceeds but also for boosting the privatisation drive. The details of disinvestment during 2021-22 and new initiatives being undertaken by Department of Investment and Public Asset Management (DIPAM) are given in **Box 2**.

Expenditure

2.16 The expenditure policy of the government during 2021-22 has been characterized by restructuring and prioritization of spending in sectors which have a long-term impact on output. The total expenditure of the Government increased by 8.8 per cent during April to November 2021 and stood at 59.6 per cent of Budget Estimate. While the revenue expenditure has grown by 8.2 per cent during the first eight months of 2021-22 over the same period in 2020-21, the non- interest revenue expenditure grew by 4.6 per cent over April to November 2020 **(Figure 9)**.

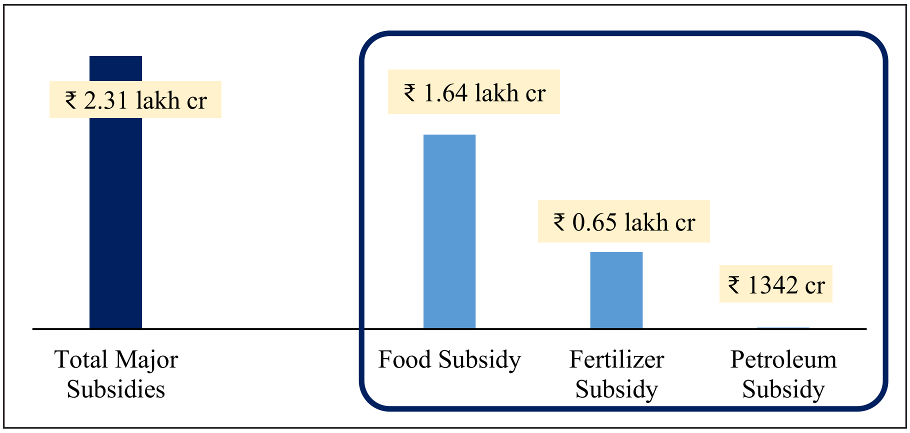
Figure 9: Growth in expenditure components during April to November 2021



Source: CGA Monthly Accounts

2.17 During April to November 2021, the expenditure on major subsidies stood at ₹ 2.31 lakh crore. The components of expenditure on major subsidies may be seen in **Figure 10**. Food subsidy being the major component of total subsidies was at two third of its BE *i.e.* ₹ 1.64 lakh crore during the first eight months of 2021-22. The implementation of Pradhan Mantri Garib Kalyan Ann Yojana – Phase III (May to June 2021), Phase IV (July to November 2021) and Phase V (December to March 2022), announced during 2021-22, would entail an estimated food subsidy requirement of ₹ 1.47 lakh crore. This scheme provides free food grains to beneficiaries over and above the regular monthly NFSA food-grains.

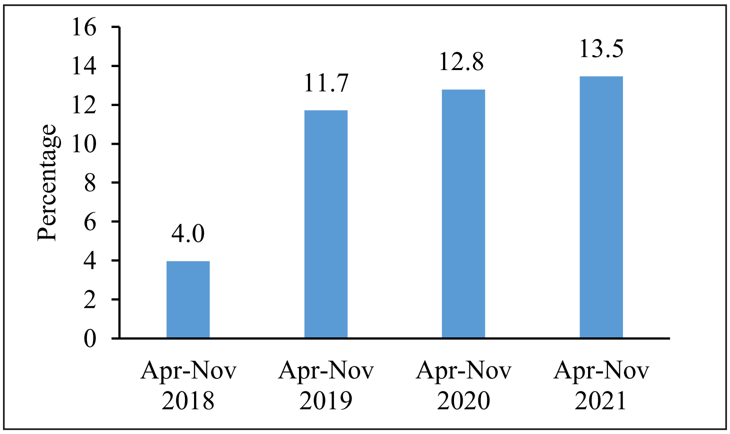
Figure 10: Expenditure on Subsidies during April to November 2021



Source: CGA Monthly Accounts

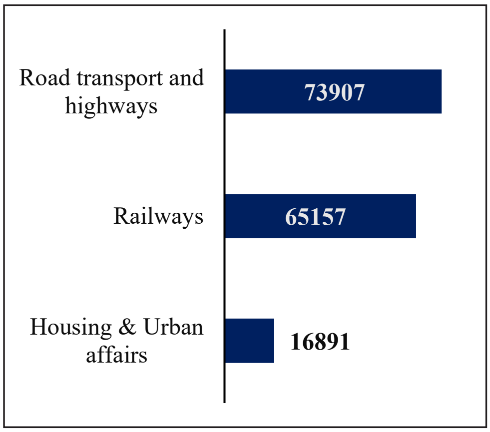
2.18 Emphasis on capital expenditure has been the highlight of expenditure policy during the current fiscal. During April to November 2021, capital expenditure registered a growth of 13.5 per cent over April to November 2020 and 28 per cent over April to November 2019 **(Figure 9)**. As depicted in **Figure 11**, this growth is higher than the YoY capital expenditure growth recorded in the last few years during the same period. It is noteworthy to mention that there is a strong seasonality in capital expenditure by the Government. A large proportion of capital spending takes place in the second half of the year, which is not being captured with the available data. The focus of capital expenditure from April to November 2021 has been directed towards infrastructure-intensive sectors like roads and highways, railways, and housing and urban affairs (**Figure 12**). In addition, the Centre has also put in place several incentives to boost the capital expenditure by the States (discussed in **Box 3**).

Figure 11: YoY growth in Capital Expenditure during April to November over the years



Source: CGA Monthly Accounts

Figure 12: Emphasis sectors for Capital expenditure (April to November 2021) (In ₹ crore)



Source: CGA Monthly Accounts

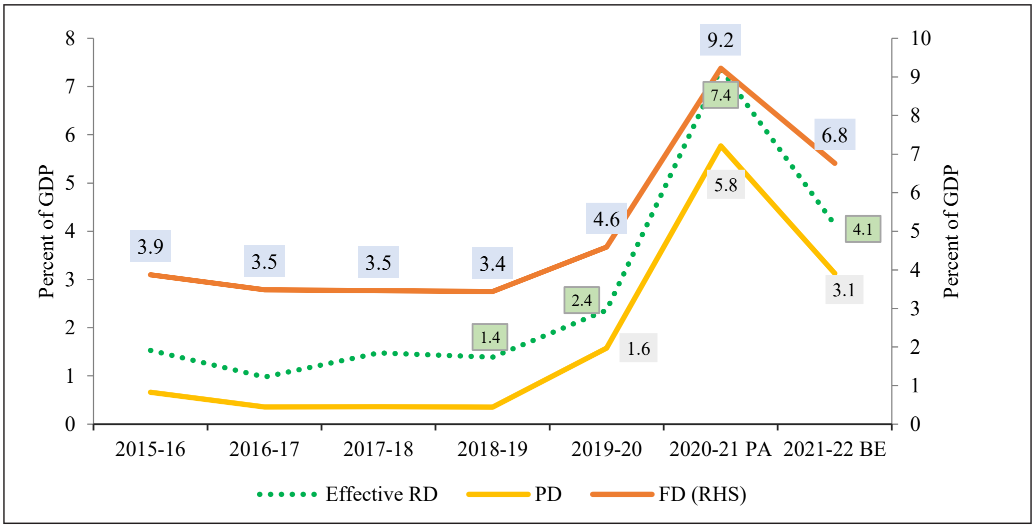
2.19 Based on the above analysis, it may be seen that the agile fiscal policy approach adopted by the Government, coupled with the buoyant revenue collection received so far this year, has created headroom for taking up additional fiscal policy interventions based on the need of the evolving situation. The targeted focus on capital expenditure, with its resulting multiplier effects, will be vital in sustaining the economic growth. As the economy grows further, the revenue collection from all the sources is expected to be more robust, which will help to strengthen the fiscal position on one hand, and create fiscal space on the other. Thus, it is expected that reaching the budget estimate for fiscal deficit during 2021-22 will not be a concern for the Central Government. A robust economic growth path and various tax policy and administration reforms undertaken over the last few years will be fundamental in sustaining the buoyant revenues in the medium term, and thus, be on track with the fiscal path outlined by the Medium-Term Fiscal Policy Statement.

LONG-TERM TRENDS IN GOVERNMENT FINANCES: CENTRE, STATES AND GENERAL GOVERNMENT

Central Government Finances

2.20 During the year 2020-21, the shortfall in revenue collection owing to the interruption in economic activity and the additional expenditure requirements to mitigate the fallout of the pandemic on vulnerable people, small businesses, and the economy in general, created immense pressure on the available limited fiscal resources. As a result, the budgeted fiscal deficit for 2020-21 was revised from 3.5 per cent in BE to 9.5 per cent in RE. The fiscal deficit for 2020-21 Provisional Actuals stood at 9.2 per cent of GDP i.e. lower than RE **(Figure 13)**. The Medium-Term Fiscal Policy (MTFP) Statement presented with Budget 2021-22 envisaged a fiscal deficit target of 6.8 per cent of GDP for 2021-22. This reduction in deficit during the current year was budgeted on account of reduction in expenditure from 17.7 per cent of GDP in 2020-21 RE to 15.6 per cent in 2021-22 BE; and a budgeted marginal increase in gross tax revenues to the tune of 0.1 per cent of GDP. The data on Government accounts for April to November 2021, released by the Controller General of Accounts, shows that the Government is well on track for achieving the budget estimate for fiscal deficit in 2021-22.

Figure 13: Trends in Deficits



Source: Union Budget Documents & CGA
BE: Budget Estimate, PA: Provisional Actuals
FD: Fiscal Deficit; RD: Revenue Deficit; PD: Primary Deficit

2.21 The long-term trends in major fiscal indicators of the Central Government and their growth rates are presented in **Table 2** and **Table 3**, respectively. This section analyses these trends in detail.

Table 2: Central Government's Fiscal Indicators

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 PA	2021-22 BE
(in ₹ lakh crore; Figures in parenthesis are as a per cent of GDP)							
Revenue receipts	11.95 (8.7)	13.74 (8.9)	14.35 (8.4)	15.53 (8.2)	16.84 (8.3)	16.32 (8.3)	17.88 (8.0)
Gross tax revenue	14.56 (10.6)	17.16 (11.2)	19.19 (11.2)	20.8 (11.0)	20.1 (9.9)	20.25 (10.3)	22.17 (9.9)
Net tax revenue	9.44 (6.9)	11.01 (7.2)	12.42 (7.3)	13.17 (6.9)	13.57 (6.7)	14.24 (7.2)	15.45 (6.9)
Non-tax revenue	2.51 (1.8)	2.73 (1.8)	1.93 (1.1)	2.36 (1.2)	3.27 (1.6)	2.08 (1.1)	2.43 (1.1)

Non-debt capital receipts*	0.63 (0.5)	0.65 (0.4)	1.16 (0.7)	1.13 (0.6)	0.69 (0.3)	0.58 (0.3)	1.88 (0.8)
Non-debt receipts	12.58 (9.1)	14.40 (9.4)	15.51 (9.1)	16.66 (8.8)	17.53 (8.6)	16.90 (8.6)	19.76 (8.9)
Total expenditure	17.91 (13.0)	19.75 (12.9)	21.42 (12.5)	23.15 (12.2)	26.86 (13.2)	35.11 (17.8)	34.83 (15.6)
Revenue expenditure	15.38 (11.2)	16.91 (11.0)	18.79 (11.0)	20.07 (10.6)	23.51 (11.6)	30.86 (15.6)	29.29 (13.1)
Capital expenditure	2.53 (1.8)	2.85 (1.9)	2.63 (1.5)	3.08 (1.6)	3.35 (1.6)	4.25 (2.2)	5.54 (2.5)
Fiscal deficit	5.33 (3.9)	5.36 (3.5)	5.91 (3.5)	6.49 (3.4)	9.34 (4.6)	18.21 (9.2)	15.07 (6.8)
Revenue deficit	3.43 (2.5)	3.16 (2.1)	4.44 (2.6)	4.54 (2.4)	6.67 (3.3)	14.54 (7.4)	11.41 (5.1)
Primary deficit	0.91 (0.7)	0.55 (0.4)	0.62 (0.4)	0.67 (0.4)	3.22 (1.6)	11.39 (5.8)	6.97 (3.1)
Memo Item							
GDP at Market Price	137.72	153.62	170.95	189.71	203.51	197.46	222.87

Source: Union Budget Documents & CGA
BE: Budget Estimate, PA: Provisional Actuals
*includes disinvestment proceeds

Table 3: Growth rate of Central Government's Fiscal Indicators (in per cent)

ITEMS	2016-17	2017-18	2018-19	2019-20	2020-21 PA*	2021-22 BE^
Revenue receipts	15.0	4.4	8.2	8.4	-3.1	9.6
Gross tax revenue	17.9	11.8	8.4	-3.4	0.7	9.5
Net tax revenue	16.7	12.8	6.0	3.0	4.9	8.5
Non-tax revenue	8.6	-29.4	22.3	38.8	-36.4	16.8
Non-debt capital receipts	3.8	77.0	-2.5	-39.2	-16.0	226.2
Total non-debt receipt	14.4	7.7	7.4	5.2	-3.6	17.0
Total expenditure	10.3	8.4	8.1	16.0	30.7	-0.8
Revenue expenditure	9.9	11.1	6.8	17.1	31.3	-5.1
Capital expenditure	12.5	-7.5	16.9	9.1	26.5	30.5

Source: Union Budget Documents & CGA
BE: Budget Estimate, PA: Provisional Actuals
* Rate of growth vis-à-vis 2019-20 actual;
^ Rate of growth vis-à-vis 2020-21 PA

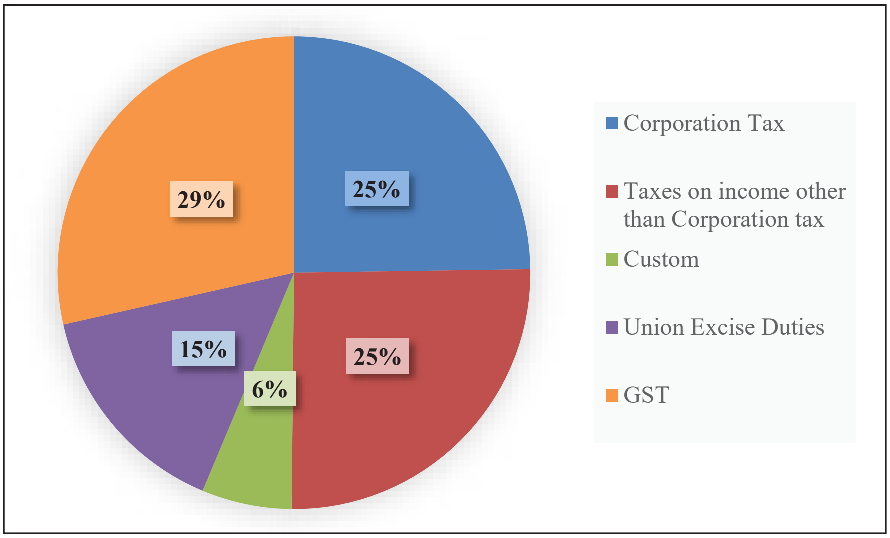
Trends in Receipts

2.22 Central Government receipts can broadly be divided into non-debt and debt receipts. The non-debt receipts comprise of tax revenue, non-tax revenue, recovery of loans, and disinvestment receipts. Debt receipts mostly consist of market borrowings and other liabilities, which the government is obliged to repay in the future. The Budget 2021-22 targeted significantly high growth in non-debt receipts of the Central Government, which was driven by robust growth in all its' components (refer to **Table 3**).

Tax Revenue

2.23 The Provisional Actual figures released by the Controller General of Accounts for 2020-21 show that the gross tax revenue grew by 0.7 per cent (YoY) during 2020-21. The muted tax collections were driven by 11.7 per cent (YoY) decline in direct taxes, which was offset by 12.6 per cent (YoY) growth in indirect taxes. However, Budget 2021-22 envisaged a growth of 16.7 per cent in gross tax revenue (GTR) over the revised estimates (RE) of 2020-21. GTR was estimated at ₹ 22.17 lakh crore for 2021-22 BE, which was 9.9 per cent of the GDP. The budgeted growth in GTR was estimated to be led by 22.4 per cent growth in direct taxes and 11.4 per cent growth in indirect taxes over the revised estimates of 2020-21. Broadly, 50 per cent of GTR was estimated to accrue from direct taxes and the remaining 50 per cent from indirect taxes. The contribution of different taxes in GTR for 2021-22 BE is shown in **Figure 14**.

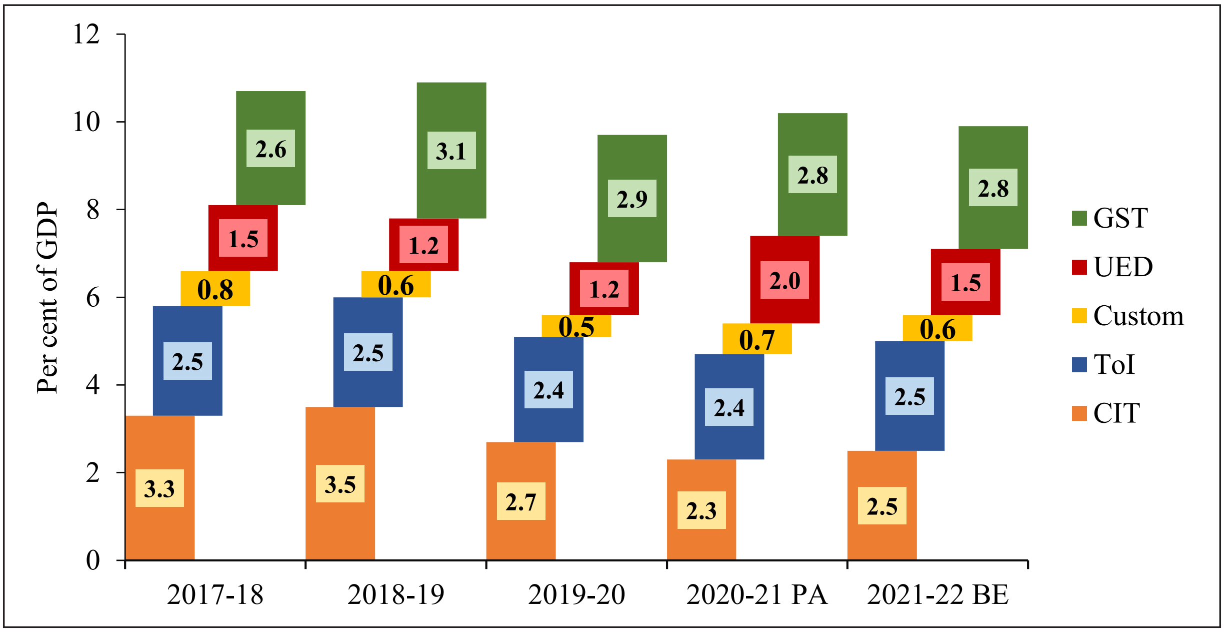
Figure 14: Composition of taxes in Gross Tax Revenue in 2021 -22 BE



Source: Union Budget Documents

2.24 The trend in major taxes in relation to GDP, depicted in **Figure 15**, clearly show the muted collections from direct tax receipts, particularly the corporate tax since 2019-20. This is due to the moderation in growth of the economy during this period and implementation of structural reforms like corporate tax rate cut. During the current fiscal year, the corporate tax collections have been buoyant, registering an above 90 per cent growth during April to November 2021 over April to November 2020.

Figure 15: Taxes as a per cent of GDP



Source: Union Budget Documents & CGA
BE: Budget Estimate, PA: Provisional Actual, CIT: Corporation Tax, ToI: Taxes on Income other than Corporation Tax (includes STT), UED: Union Excise Duties, GST: Goods and Services Tax

Non-Tax Revenue

2.25 Non-tax revenue consists mainly of interest receipts on loans to States and Union Territories, dividends and profits from Public Sector Enterprises including surplus of Reserve Bank of India transferred to Government of India, and external grants and receipts for services provided by the Central Government. These services include fiscal services like currency, coinage and mint, general services such as Public Service Commission and police, social services like education and health, and economic services like irrigation, transportation and communication. The Budget for 2021-22 envisaged generation of ₹ 2.43 lakh crore of non-tax revenue, 16.8 per cent higher than 2020-21 PA. (refer **Table 4**).

Table 4- Trends in Non-tax Revenue of Central Government

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 PA	2021-22 BE
							(in ₹ lakh crore)
Interest receipts	0.25	0.16	0.14	0.12	0.12	0.17	0.12
Dividends & Profits	1.12	1.23	0.91	1.13	1.86	0.97	1.04
External Grants	0.02	0.01	0.04	0.01	0.00	0.02	0.01
Others	1.12	1.32	0.84	1.07	1.27	0.92	1.25
Non-tax Revenue	2.51	2.73	1.93	2.36	3.27	2.08	2.43

Source: Union Budget Documents & CGA

Non-Debt Capital Receipts

2.26 Non-debt capital receipts mainly consist of recovery of loans and advances, and disinvestment receipts. The share of recovery of loans has declined over the years following disintermediation of loan portion of Central assistance to States consequent to the recommendation of the Twelfth Finance Commission, and States allowed to borrow directly from the market. The Budget for 2021-22 has envisaged generation of ₹ 1.88 lakh crore of non-debt capital receipts, comprising ₹ 1.75 lakh crore of disinvestment receipts. In order to minimize the presence of the Government in the PSEs across all sectors of the economy, the Government has adopted a new disinvestment policy for Atmanirbhar Bharat in February 2021. The evolution of the disinvestment policy of the Government may be seen at **Box 2**.

Box 2: Evolution of the Disinvestment Policy of the Government of India

With the passing of the Constitution (First Amendment) Act, 1951, nationalisation of private firms became a standard policy tool by the Government. The Act stated that 'the citizen's right to practise any profession or to carry on any occupation, trade or business conferred by article 19(1)(g) is subject to reasonable restrictions which the laws of the State may impose "in the interests of general public"'. The Act allowed for nationalisation or trading by the state in any business.

Soon under the Air Corporations Act, 1953, the Government nationalised nine airlines—Air India, Air Services of India, Airways (India), Bharat Airways, Deccan Airways, Himalayan Aviation, Indian National Airways, Kalinga Airlines, and Air India International—and brought them under two PSEs, Indian Airlines, and Air India International. This was followed by nationalisation of life insurance in 1956 through the Life Insurance Corporation Act 1956, whereby 154 Indian insurers, 16 non-Indian insurers, and 75 provident societies were nationalised into Life Insurance Corporation of India (LIC). Through the General Insurance Business (Nationalisation) Act, 1972, the general insurance business of 55 Indian companies and the 52 foreign insurers was nationalised. Further in the banking system, the government nationalised 14 banks in 1969 through the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, followed up by a second round of bank nationalisation in 1980, through which another six banks were nationalised. Coal mines were also nationalised during the period 1971-1975. Nevertheless, the issue of nationalisation has always been a highly debated issue, to the extent that in the year 1958, the then Finance Minister, Mr. TT Krishnamachari, had to resign owing to controversies around nationalisation of LIC (Mundhra Scandal, 1958).

After the 1991 reforms, there was a transition in thinking about public and private sector. The term 'disinvestment' was used first time in Interim Budget 1991. However, the policy on disinvestment gathered steam under the Government of PM Vajpayee, when a new Department of Disinvestment was created in 1999, which became a full Ministry in 2001. It was during this period that the concept of strategic sales of state-owned companies became a part of policy debate. This government stakes were sold in as many as 12 public sector companies during this tenure, including Maruti Udyog, Hindustan Zinc, Bharat Aluminum and Videsh Sanchar Nigam Limited. The process of disinvestment continued intermittently over the next decade 2004-2014, until the recent emphasis in this direction over the last five years.

After 2014, the disinvestment policy was renewed with stake sales in PSEs such as Hindustan Petroleum Corporation Limited (HPCL), Rural Electrification Corporation Limited (REC), Dredging Corporation of India Limited (DCIL), Hospital Services Consultancy Corporation Limited (HSCC), National Projects Construction Corporation Limited (NPCC), THDC India Limited and North Eastern Electric Power Corporation Limited; and successful listing of PSEs like IRCTC, HUDCO, Cochin Shipyard Ltd., General Insurance Corporation, New India Assurance Company Ltd., Mazagon Dock Shipbuilders Ltd. (MDL) and RailTel on the stock market. In order to realize the mission of New, Self-reliant India, there was a need to redefine public sector participation in business enterprises and to encourage private sector participation in all sectors.

Against this backdrop, New Public Sector Enterprise ("PSE") Policy for Atmanirbhar Bharat was notified on 4th February 2021. The policy intends to minimize the presence of the Government in the PSEs across all sectors of the economy. Under the New PSE Policy, public sector commercial enterprises have been classified as Strategic and Non-Strategic sectors. Following four broad strategic sectors have been delineated based on the criteria of national security, energy security, critical infrastructure, provision of financial services and availability of important minerals- (i) Atomic Energy, Space and Defense; (ii) Transport and Telecommunication; (iii) Power, Petroleum, Coal and other minerals; and (iv) Banking, Insurance and Financial Services.

The B.E for disinvestment proceeds for the year 2021-22 was fixed at ₹1,75,000 crore. So far, Government has received ₹ 9,330 crores (as on 24 January 2022) from disinvestment of CPSEs through Offer for Sale (OFS) route and sale of shares through the stock exchange. CPSE stocks have gained traction among the investors, as reflected in the BSE CPSE index, which has risen by 40.02 per cent since January 2021 to date (24 January 2022), in comparison to the benchmark index, which rose by 23.33 per cent. Total dividend receipts from CPSEs in 2020-21 stood at ₹ 39,607 crore, which exceeds the Revised Estimate (RE) of ₹ 34,717 crore, and is more than actual dividend receipts (₹ 35,543 crore) during the previous financial year. Total dividend receipts in the current financial year (as of 24.01.2022) stand at ₹ 40,201.47 crore.

Since 2016, the government has given 'in-principle' approval for strategic disinvestment of 35 CPSEs and/or Subsidiaries/ Units/ Joint Ventures of CPSEs and IDBI Bank. During the present year, with progress on privatization of Air India, the government has crossed a significant milestone with M/s Talace Pvt Ltd, a wholly-owned subsidiary of M/s Tata Sons Pvt Ltd emerging as the successful bidder for sale of 100 per cent equity shareholding of GoI in Air India along with equity shareholding of Air India in AIXL and AISATS. Share Purchase Agreement was signed among M/s Talace Private Ltd, Air India and Ministry of Civil Aviation on 25.10.2021. This progress on privatization of Air India is particularly important, not only in terms of garnering disinvestment proceeds but also for boosting the privatisation drive.

Asset Monetization

The National Infrastructure Pipeline (NIP) envisaged a projectd infrastructure investment of ₹ 111 lakh crores during FY 2020 to FY 2025. The NIP task force report has estimated that about 15-17 per cent of this outlay is to be met through innovative and alternative initiatives such as asset monetisation, funding through a new Development Finance Institution (DFI) etc[2]. The Union Budget 2021-22 also emphasized monetization of assets as one of the three pillars for enhanced and sustainable infrastructure financing in the country.

Based on the mandate for Asset Monetisation under Union Budget 2021-22, the National Monetisation Pipeline (NMP) has been developed by NITI Aayog in consultation with infrastructure line ministries. It is envisaged to serve as an essential roadmap for the asset monetisation of various brownfield infrastructure assets across roads, railways, shipping, aviation, power, telecom, oil & gas, and warehousing sectors. The NMP will also form a baseline for the asset owning ministries for monitoring and tracking performance of the potential assets.

The NMP estimates aggregate monetisation potential of ₹ 6.0 lakh crores through core assets of the Central Government, over a four-year period, from FY 2022 to FY 2025. The top 5 sectors which capture around 83 per cent of the aggregate pipeline value include: Roads (27 per cent) followed by Railways (25 per cent), Power (15 per cent), oil & gas pipelines (8 per cent) and Telecom (6 per cent). Around 15 per cent of assets with an indicative value of ₹ 0.88 lakh crore are envisaged to be rolled out in the current financial year (FY 2021-22).

The assets and transactions identified under the NMP are expected to be rolled out through a range of instruments. These include direct contractual instruments such as public private partnership concessions and capital market instruments such as Infrastructure Investment Trusts (InvIT) among others. The choice of instrument will be determined by the sector, nature of asset, timing of transactions (including market considerations), target investor profile and the level of operational/ investment control envisaged to be retained by the asset owner etc.

While the monetization of core assets is steered by NITI Aayog, the initiative for monetization of non-core assets has been hitherto steered by the Department of Investment and Public Asset Management (DIPAM). Monetization of non-core assets envisages unlocking of value of these thus far unutilized or underutilized assets and generate returns on the equity that the Government has invested in them. So far, CPSEs have referred ~3400 acres of land and other non-core assets to DIPAM/MoF for monetization. Monetization of non-core assets of different CPSEs i.e., MTNL, BSNL, BPCL, B&R, BEML, HMT Ltd, Instrumentation Ltd etc. is at present under various stages of the transaction.

Since, at present, the desired skill set to take on the responsibility of management and monetization of non-core assets in Government is limited. Hon'ble Finance Minister in her Budget speech 2021-22 announced setting up of a Special Purpose Vehicle (SPV), with capacity and expertise, to carry out the monetization of the land and other non-core assets in an efficient and prudent manner, in line with international best practices. In pursuance of the Budget announcement, 'National Land Monetisation Corporation' (NLMC) is being incorporated as a 100 per cent Govt of India owned entity with an initial authorized share capital of ₹ 5000 crores and subscribed share capital of ₹ 150 crores.

[2]Monetisation Guidebook Volume 1, National Monetisation Pipeline, NITI Aayog.

Trends in Expenditure

2.27 The expenditure policy during the pandemic year 2020-21 was focused on prioritisation of expenditure according to evolving situation. In the initial phase of the pandemic, the Government ensured that funds were made available for essential activities and that scarce resources were conserved for re-prioritisation. With the easing of movement and health-related restrictions later in the year, expenditure was focused in sectors with the most positive effect on the economy, either in terms of re-kindling growth or meeting welfare needs. Second to pandemic relief, the Government placed maximum priority on productive domestic capital expenditure which has a high multiplier effect on the economy.

2.28 In the wake of the pandemic, the additional expenditure requirements led to a YoY growth of more than 30 per cent in the revenue expenditure of the Government in 2020-21 PA (**Table 5**). Expenditures on salaries, pensions and interest payments are, by and large, committed in nature and have limited headroom for creation of additional fiscal space. The decline in salaries during 2020-21 PA was largely due to freezing of the additional installment of Dearness Allowance to Government employees and disruptions in hiring. Nearly 60 per cent of the increase in revenue expenditure during 2020-21 PA was due to increase in major subsidies. The major subsidies registered a growth of over 200 per cent in 2020-21 PA over 2019-20. This increase was driven by almost 400 per cent growth in food subsidies from ₹ 1.09 lakh crore in 2019-20 to ₹ 5.25 lakh crore in 2020-21 PA. The steep rise in food subsidy bill was on account of Pradhan Mantri Garib Kalyan Ann Yojana introduced as part of the Economic Response to COVID-19, and the pre-payment of around ₹ 1.5 lakh crore of outstanding food subsidy related loans of the Food Corporation of India.

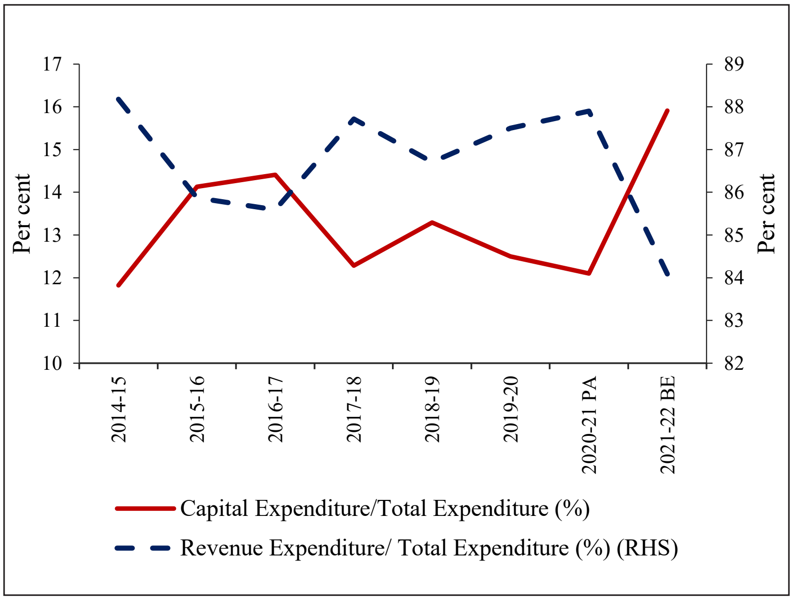
Table 5: Major Items of Revenue Expenditure

Items	2016-17	2017-18	2018-19	2019-20	2020-21 PA	2021-22 BE
						(in ₹ lakh crore)
Revenue Expenditure of which	16.91 (9.9)	18.79 (11.1)	20.07 (6.8)	23.51 (17.1)	30.86 (31.3)	29.29 (-5.1)
a. Salaries (pay & allowances)	1.77 (22.6)	1.94 (9.3)	2.11 (9.0)	2.28 (7.8)	2.05 (-10.0)	2.52 (22.9)
b. Pensions	1.31 (35.8)	1.46 (10.9)	1.60 (9.9)	1.84 (14.8)	2.09 (13.7)	1.90 (-9.0)
c. Interest payment	4.81 (8.8)	5.29 (10.0)	5.83 (10.2)	6.12 (5.0)	6.82 (11.4)	8.10 (18.7)
d. Major subsidies	2.04 (-15.6)	1.91 (-6.3)	1.97 (2.9)	2.28 (16.0)	6.90 (202.0)	3.35 (-51.4)
e. Defence Services	1.65 (13.3)	1.86 (12.5)	1.96 (5.1)	2.08 (6.1)	2.06 (-0.9)	2.12 (3.1)

Source: Union Budget Documents & CGA
BE: Budget Estimate, PA: Provisional Actuals
Numbers in parenthesis are growth rates
*The figure for Salaries (Pay & allowances) for 2020-21 is Revised Estimate (RE).

2.29 Government has focused on improving the quality of expenditure in both 2020-21 and 2021-22 BE. Capital expenditure registered a YoY growth of 26.5 per cent in 2020-21 PA, as it increased from 1.6 per cent of GDP in 2019-20 to 2.2 per cent of GDP in 2020-21 PA. The emphasis on capital expenditure was envisaged to continue in 2021-22 BE to reach a budget estimate of ₹ 5.54 lakh crore i.e. 2.5 per cent of GDP. This translates into a growth of 34.5 per cent and 30.5 per cent over 2020-21 BE and 2020-21 PA, respectively. As a proportion of total expenditure, capital expenditure has been estimated to increase from 12.1 per cent in 2020-21 PA to 15.9 per cent in 2021-22 BE **(Figure 16)**. The higher capital expenditure with a focus on infrastructure spending in 2021-22 BE will have a multiplier effect on the ongoing economic recovery.

Figure 16: Share of Revenue and Capital Expenditure in Total Expenditure



Source: Union Budget Documents & O/o CGA
BE: Budget Estimate, PA: Provisional Actuals,

2.30 Apart from budgetary spending, Extra Budgetary Resources (EBR) have also been mobilised to finance infrastructure investment since 2016-17. Government has raised EBRs of ₹ 6.04 lakh crore from 2016-17 to 2020-21, of which ₹ 1.43 lakh crore have been mobilised from the issue of Govt. fully serviced bonds and ₹ 4.61 lakh crore have been raised through financial support extended through loans from NSSF. The Budget 2021-22 focusses on improving fiscal transparency, as the EBRs for 2021-22 have been estimated at ₹ 30,000 crore. Further, in 2020-21 RE, the Government has estimated to pre-pay around ₹ 1.5 lakh crore of outstanding food subsidy related loans of the Food Corporation of India. In 2021-22 BE, the food subsidy requirements of FCI has been provided in the Budget.

Transfer to States

2.31 The Union Government has accepted the recommendations made by the Fifteenth Finance Commission (XV-FC) in its Report for the award period 2021-22 to 2025-26 relating to the grants-in-aid amounting to ₹ 2,33,233 crore to the States during 2021-22 for Post Devolution Revenue Deficit grant, grants to Local Bodies, Health sector grant and Disaster Management grants.

2.32 The Post Devolution Revenue Deficit Grants are provided to the States under Article 275 of the Constitution. The grants are released to the States as per the recommendations of the Fifteenth Finance Commission to meet the gap in Revenue Accounts of the States post devolution. The Fifteenth Finance Commission has recommended a total Post Devolution Revenue Deficit grant of ₹ 1.18 lakh crore to 17 States in the financial year 2021-22, of which an amount of ₹ 98,710 crore has already been released, as on 6th January 2022.

2.33 With regard to the grants to Local Bodies, the XV-FC had recommended that urban areas are grouped into two broad categories for recommending grants to urban local bodies: (a) Category-I cities: urban agglomerations/cities with more than one million population and (b) Category-II cities: other than million-plus cities. The Commission has recommended that for cities with million plus population (Million-Plus cities), 100 per cent of the grants are performance-linked through the Million-Plus Cities Challenge Fund (MCF). The Commission has recommended that 60 per cent of the grants to rural local bodies and for urban local bodies in non-Million-Plus cities should be tied to supporting and strengthening the delivery of two categories of basic services: (a) sanitation, maintenance of 'Open Defecation Free' status (for Rural Local Bodies), solid waste management and attainment of star ratings as developed by Ministry of Housing and Urban Affairs (for non-million plus cities / Category-II Cities / Towns; (b) drinking water, rain water harvesting and water recycling (both for Rural Local Bodies and Urban Local Bodies).

2.34 The XV-FC has recommended grants for Health to be channelised through Local Governments amounting to ₹ 13,192 crore for the year 2021-22. To strengthen and plug the critical gaps in the health care system at the primary health care level, XV-FC has also identified interventions that will directly lead to strengthening the primary health infrastructure and facilities in both rural and urban areas.

2.35 With regard to the Disaster Management grants, the Commission has recommended that the total States allocation for State Disaster Risk Management Fund (SDRMF) should be sub-divided into funding windows that encompass the full disaster management cycle. Thus, the SDRF (State Disaster Response Fund) should get 80 per cent of the total allocation and the SDMF (State Disaster Mitigation Fund) 20 per cent. Similarly, the Commission has recommended that NDRF (National Disaster Response Fund) should get 80 per cent of the total allocation of the National Disaster Risk Management Fund and balance 20 per cent for National Disaster Mitigation Fund.

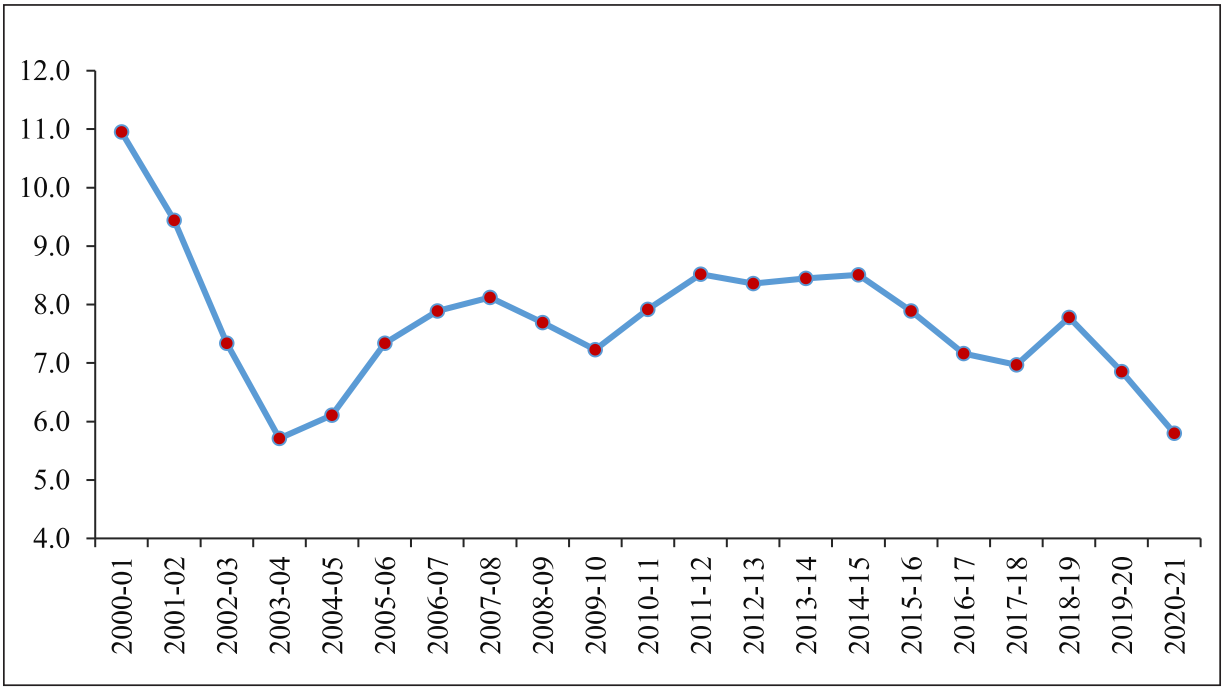
2.36 The component wise grants recommended by XV-FC for the year 2020-21 and for the year 2021-22 are as under:

S. No.	Components	Allocation for 2020-21	Allocation for 2021-22
			(in ₹ crore)
1.	Post Devolution Revenue Deficit grant	74,340	1,18,452
2.	Local Bodies grants including grant for health sector	90,000	80,207
3.	Disaster Management grant (Union Share)	34,574	34,574
	Grand Total	**1,98,914**	**2,33,233**

Central Government Debt

2.37 During the year, a major challenge in the aftermath of COVID-19 pandemic was the management of debt, both for the Central and State Governments. In this milieu, conventional and unconventional measures were taken in order to maintain the orderly market conditions to ensure that the increased financial needs of the Governments are met smoothly, while keeping in mind the major objectives of cost minimization, risk mitigation and market development. Supported by these measures, the weighted average cost of the Government on dated securities during 2020-21 was at 17-year low of 5.79 per cent, despite a 141.2 per cent jump in net market borrowings (**Figure 17**).

Figure 17: Weighted average interest rate on Central Government Securities (Per cent)



Source: RBI

2.38 Total liabilities of the Central Government include debt contracted against the Consolidated Fund of India, technically defined as Public Debt, as well as liabilities in the Public Account. These liabilities include external debt (end-of-the financial year) at current exchange rate but exclude part of NSSF liabilities to the extent of States' borrowings from the NSSF and investments in public agencies out of the NSSF, which do not finance Central Government deficit. Central Government's total outstanding liabilities were at ₹117.04 lakh crore at end-March 2021. Public Debt accounted for 89.9 per cent of total liabilities, while Public Account Liabilities, which include National Small Savings Fund, State Provident Funds, Reserve Funds and Deposits and other Accounts, constituted the remaining 10.1 per cent. A brief description of the major components of total liabilities of the Central Government may be seen at **Table 6**.

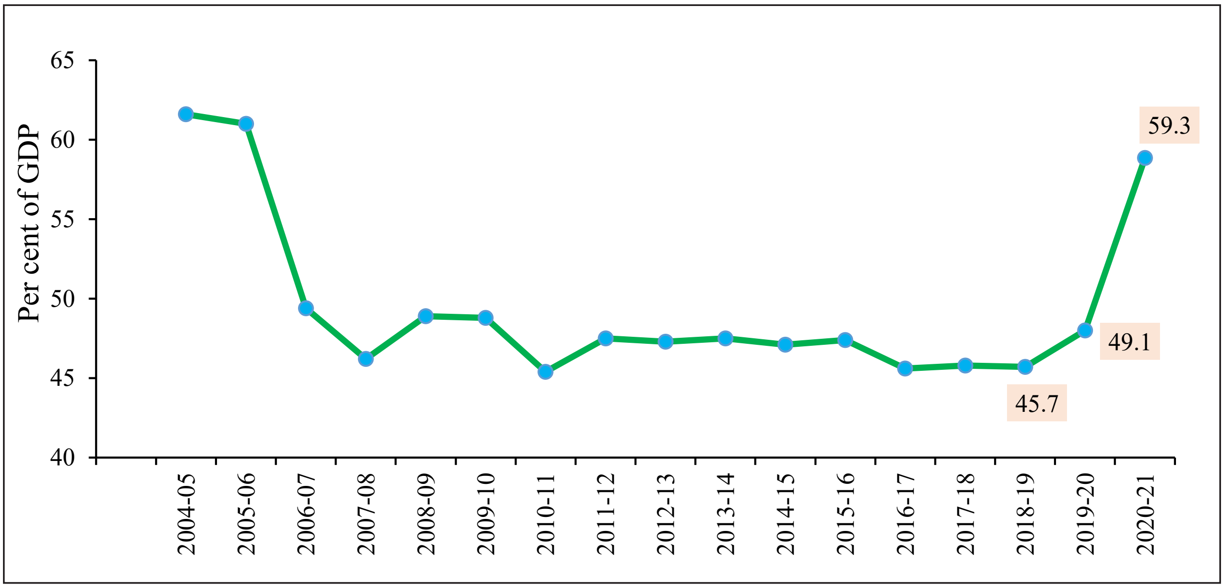
Table 6: Debt Position of the Central Government (in ₹ lakh crore)

Components	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 PA
1	2	3	4	5	6	7	8
A. Public Debt (A1+A2)	51.05	57.11	61.50	68.45	75.49	85.65	105.24
A1. Internal Debt (a+b)	47.38	53.05	57.42	64.01	70.75	80.20	99.09
a. Marketable Securities	43.08	47.28	50.49	55.10	59.69	65.60	78.60
b. Non-marketable Securities	4.29	5.77	6.93	8.91	11.06	14.60	20.50
A2. External Debt	3.66	4.07	4.08	4.45	4.74	5.44	6.15
B. Public Account - Other Liabilities	7.62	8.16	8.57	9.15	9.96	13.70	12.74
C. Extra-Budgetary Resources (EBRs)	-	-	0.09	0.24	0.99	1.12	1.43
D. Total Liabilities (A+B+C)	58.66	65.27	70.16	77.85	86.35	99.91	117.04

Source: Union Budget and Finance Accounts (Various Issues); Provisional Accounts, CGA.

2.39 **Figure 18** shows that total liabilities of the Central Government, as a ratio of GDP, which were relatively stable over the past decade have risen sharply in 2020-21. This increase is on account of higher borrowing resorted to due to COVID-19 pandemic as well as sharp contraction in the GDP. The Debt-GDP is however expected to follow a downward trajectory in the upcoming years.

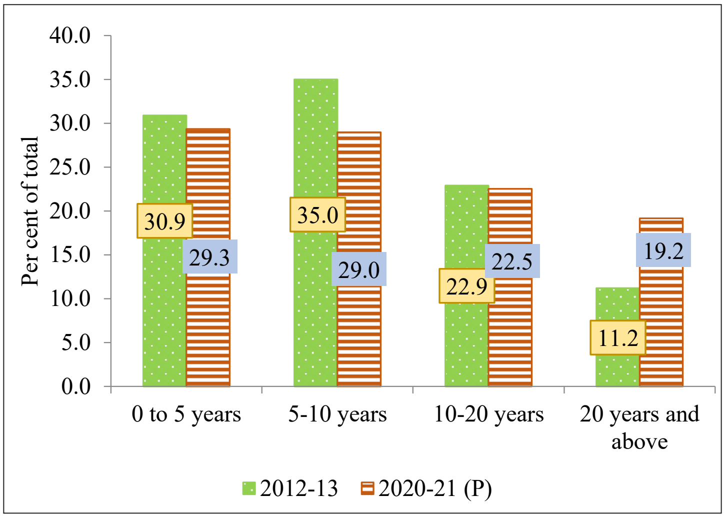
Figure 18: Trend in Centre's Debt-GDP ratio



Source: Various issues of Status Paper on Government Debt
Note: The figures for 2020-21 are Provisional

2.40 Public debt portfolio exhibits low currency and interest rate risk owing to low reliance on external borrowing and issuance of majority of securities at fixed coupon. Further, most of the external borrowing are from official sources which are of long term and concessional in nature. The roll over risk is also low owing to low issuance of short-term bonds with a view to elongate the maturity profile. The proportion of dated securities maturing in less than five years has seen consistent decline in recent years. The weighted average maturity of outstanding stock of dated securities of Government has increased from 9.7 years at end March 2010 to 11.31 years at the end March 2021, thus reducing the rollover risk (**Figure 19**).

Figure 19: Maturity Profile of Outstanding Dated Central Government Securities



Source: Status Paper on Government Debt; Quarterly Report on Public Debt Management;
Note: P: Provisional

2.41 Public debt is largely owned by institutional segments like banks, insurance companies, provident funds etc. The share of commercial banks stood at 37.77 per cent at end-March 2021, lower than 40.4 per cent at end-March 2020. Share of insurance companies and provident funds at end-March 2021 stood at 25.3 per cent and 4.44 per cent, respectively. Share of mutual funds increased from 1.4 per cent at end-March 2020 to 2.94 per cent at end-March 2021. Share of RBI went up to 16.2 per cent at end March-2021 from 15.1 per cent at end-March 2020. Issuance of dated securities is planned and conducted, keeping in view the debt management objective of keeping the cost of debt low, while assuming prudent levels of risk and promoting market development. All these factors make the public debt portfolio stable and also sustainable.

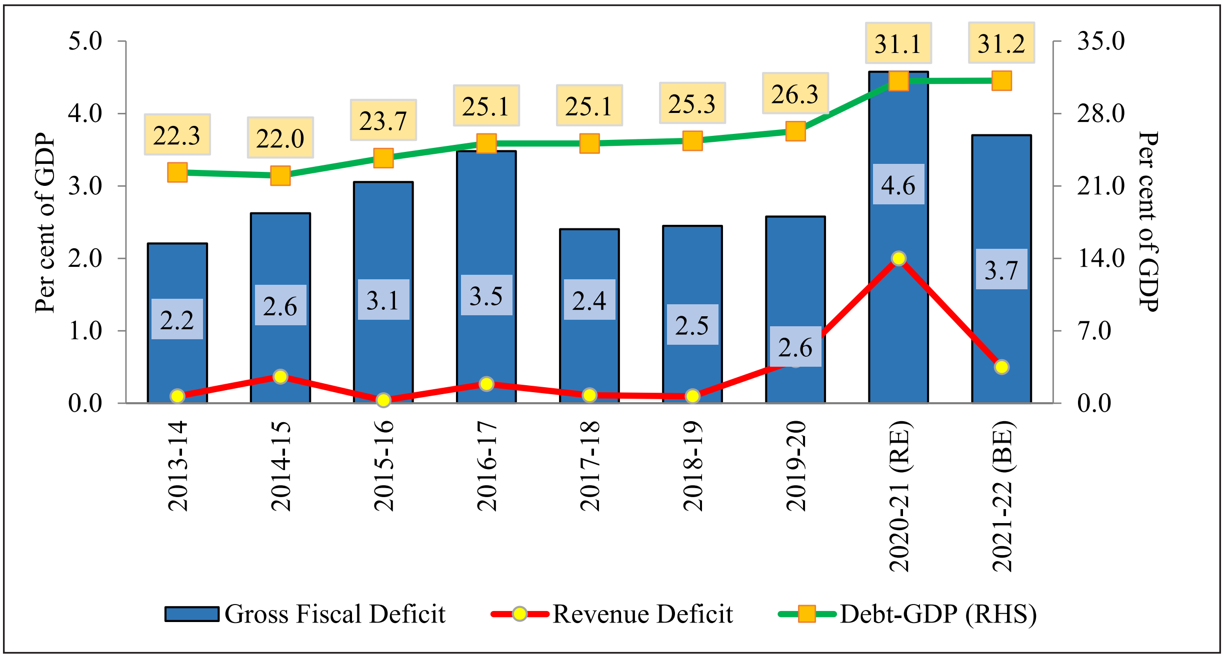
2.42 A vibrant secondary market provides opportunity to the investors to balance their portfolio as desired. Availability of government securities upto 40 years provides a wide choice to the investors. Trading though currently concentrated in few securities, is showing signs of more even spread. Moreover, the recently launched Retail Direct Scheme by RBI will be instrumental in channelizing the savings of middle class, small businessmen and senior citizens directly into risk free government securities. With an objective to facilitate efficient direct access of retail individual investor to the G-Sec market, which was earlier directly being accessed only by large institutional investors, this scheme will give a boost to financial inclusion and broaden the investor base.

2.43 Under the scheme, retail investors will be able to open a Retail Direct Gilt (RDG) account using an online portal through which it can directly invest minimum of ₹10,000 and maximum of ₹2 crore per security. The retail investors can not only place a non-competitive bid in primary issuance of all Central & State Government securities such as Treasury Bills and bonds but also access Secondary market through Negotiated Dealing System-Order Matching (NDS OM) - RBI's trading system, which was previously accessible only to select financial institutions. As of now, bulk of the G-Sec is held by few institutional investors like commercial banks, insurance companies and mutual funds. Diversified investor base provides flexibility to the Government in its borrowing program. Also, it would enable stable demand for G-sec from different investor categories.

State Finances

2.44 The Gross Fiscal Deficit of States is estimated to cross the Fiscal Responsibility Legislation (FRL) threshold of 3 per cent of GDP during 2020-21 RE and 2021-22 BE. The Revenue Deficit of the States also increased from 0.1 per cent of GDP in 2018-19 to 2 per cent of GDP in 2020-21 (RE) (**Figure 20**). This relaxation in borrowing limits was allowed on account of the additional expenditure needs and constrained revenues of the States due to COVID-19. The net borrowing ceilings of the States were enhanced to 5 per cent of GSDP of the States for the year 2020-21 and 4 per cent of GSDP of the States for 2021-22. The details may be seen in **Box 3.** Both Gross Fiscal Deficit and Revenue Deficit for the States are budgeted to decline in 2021-22 from the high levels they reached in 2020-21.

Figure 20: Major deficit and debt indicators of States



Source: RBI State Finances: A Study of Budget; RE: Revised Estimates ; BE: Budget Estimates
Note: States include 29 states and 2 Union Territories with legislatures.

2.45 In addition to the net borrowing ceilings fixed for the States, XV-FC had recommended performance based additional borrowing space of 0.50 per cent of Gross State Domestic Product

(GSDP) to States in the power sector. The objective of the additional borrowing space is to improve the operational and economic efficiency of the sector, and promote a sustained increase in paid electricity consumption. This special dispensation has been recommended for each year for a four-year period from 2021-22 to 2024-25.

2.46 As per 2021-22 Budget Estimates of the State Governments, the States' combined own Tax revenue and own Non-Tax revenue were anticipated to grow at 28.5 per cent and 36 per cent respectively over 2020-21 RE, as against the low growth displayed in 2020-21 RE. On the expenditure side, revenue expenditure and capital expenditure in 2021-22 BE were envisaged to grow at 12.1 per cent and 30.5 per cent respectively over 2020-21 RE (refer to **Table 7**).

2.47 The RBI Study on State Finances highlights that the States have budgeted for a higher capital outlay in 2021-22 BE vis-à-vis 2020-21 RE. The increased Capex outlays by the States are in sectors such as medical and public health, urban development, water supply and sanitation, irrigation and transport. In order to emphasize the importance of the States' fiscal policy towards capital expenditure, Central Government has continued the Scheme for Special Assistance to States for Capital Expenditure for 2021-22. The steps taken by the Central Government to support the State Governments towards a faster economic recovery amidst the COVID-19 pandemic may be seen in **Box 3**.

Table 7: Fiscal Indicators of States

Items	2016-17	2017-18	2018-19	2019-20	2020-21(RE)	2021-22 BE
(in ₹ lakh crore; Numbers in parenthesis are growth rates)						
Own Tax Revenue	9.46 (11.3)	11.3 (19.5)	12.15 (7.5)	12.24 (0.7)	12.41 (1.4)	15.95 (28.5)
Own Non-Tax Revenue	1.7 (14.0)	1.8 (5.3)	2.19 (21.7)	2.61 (19.2)	2.11 (-19.2)	2.87 (36.0)
Revenue Expenditure	21.22 (15.3)	23.4 (10.3)	26.38 (12.7)	27.92 (5.8)	31.86 (14.1)	35.72 (12.1)
Capital Expenditure	5.17 (23.1)	4.31 (-16.6)	4.87 (13.0)	4.6 (-5.5)	5.54 (20.4)	7.23 (30.5)

Source: Source: RBI State Finances: A Study of Budget for 2020-21,
RE: Revised Estimates; BE: Budget Estimates;
Note: States also includes 2 UTs (Delhi and Puducherry) from 2017-18

Box 3: Measures taken by the Centre to support the States during 2021-22

The Central Government has taken consistent steps to impart unflinching support to the States in the challenging times of the pandemic. These measures are as follows:

1. Enhanced limit of borrowing for the States

FY 2020-21: Under the Atma Nirbhar Bharat package, additional borrowing limit of up to 2 per cent of Gross State Domestic Product (GSDP) was allowed to the States for FY2020-21, which was equivalent to ₹ 4.27 lakh crore. Of the additional 2 per cent borrowing allowed to the States, the first instalment of 0.5 per cent borrowing was untied for all the states. The second part amounting to 1 per cent of GSDP was subject to implementation of following four specific State level reforms, where weightage of each reform is 0.25 per cent of GSDP:-

a) Implementation of One Nation One Ration Card System;
b) Ease of doing business reform;
c) Urban Local body/ utility reforms; and
d) Power Sector reforms

Another, 0.5 per cent of GSDP, which was earlier linked to the completion of at least 3 out of 4 above mentioned reforms, was made untied for States choosing Option 1 to meet the shortfall arising out of GST implementation. 17 States implemented the One Nation One Ration Card System, 20 States completed the stipulated reforms in the Ease of Doing Business, 11 States had done local body reforms and 17 States carried out fully/partly Power Sector Reforms. Thus, for the year 2020-21 total borrowing permission of ₹3,19, 939 crore was issued to States out of the additional borrowing ceiling of 2 per cent allowed to States.

FY 2021-22: The net borrowing of the States for the year 2021-22 has been fixed at ₹ 8,46,922 crore at 4 per cent of GSDP of the States. Out of the net borrowing ceiling (NBC) of 4 per cent of GSDP for the States for 2021-22, 0.50 per cent of GSDP was earmarked for the incremental capital expenditure to be incurred by the States during 2021-22. For this, a target for capital expenditure was fixed for each State. To become eligible for incremental borrowing, States were required to achieve at least 15 per cent of the target set for 2021-22 by the end of first quarter of 2021-22, 45 per cent by the end of second quarter, 70 per cent by the end of third quarter and 100 per cent by 31st March 2022. As on 15 November 2021, a total additional borrowing permission of ₹ 32,412 crore had been issued to the States for fulfilling quarterly capital expenditure targets, of which ₹ 15,721 crore is enabled for 11 states for meeting the Q1 target and ₹ 16,691 crore has been given to 7 states for achieving the Q2 target.

2. Loan to States in lieu of GST Compensation shortfall

In order to meet the shortfall in Goods and Services Tax (GST) compensation to be paid to States, the Government of India had set up a special borrowing window in the year 2020-21. An amount of ₹ 1,10,208 crore was borrowed through this window by the Government of India during 2020-21 on behalf of the States and UTs with legislative assembly, and was passed on to the States/UTs as loan on back to back basis to help the States/UTs to meet the resource gap due to non-release of compensation (owing to inadequate balance in GST compensation fund). The aforesaid borrowing arrangement was extended for the current financial year 2021-22 to raise their endeavour, Ministry of Finance has frontloaded the release of assistance under the back-to-back loan facility during FY 2021-22 of ₹ 1.59 lakh crore.

3. Scheme for Special Assistance to States for Capital Expenditure

Considering the fiscal environment faced by the State Governments during 2020-21 due to the shortfall in tax revenues arising from the COVID-19 pandemic, 'Scheme for Special Assistance to States for Capital Expenditure', was approved wherein special assistance of ₹ 11,830 was provided to the State Governments in the form of 50-year interest free loan during 2020-21. This Scheme of Special Assistance to States for Capital Expenditure has been extended for the year 2021-22 with an allocation of ₹ 10,000 crore. The Scheme for the financial year 2021-22 has three parts:

Part-I is for the 8 north eastern States i.e. Assam, Arunachal Pradesh, Meghalaya, Manipur, Mizoram, Nagaland, Sikkim and Tripura, and for the hill States of Uttarakhand and Himachal Pradesh. The sum allocated for this part is ₹ 2,600 crore. Out of this amount, ₹ 1,400 crore is divided equally among 7 north eastern States while ₹ 1,200 crore is earmarked for Assam, Uttarakhand and Himachal Pradesh in equal shares (₹400 crore each).

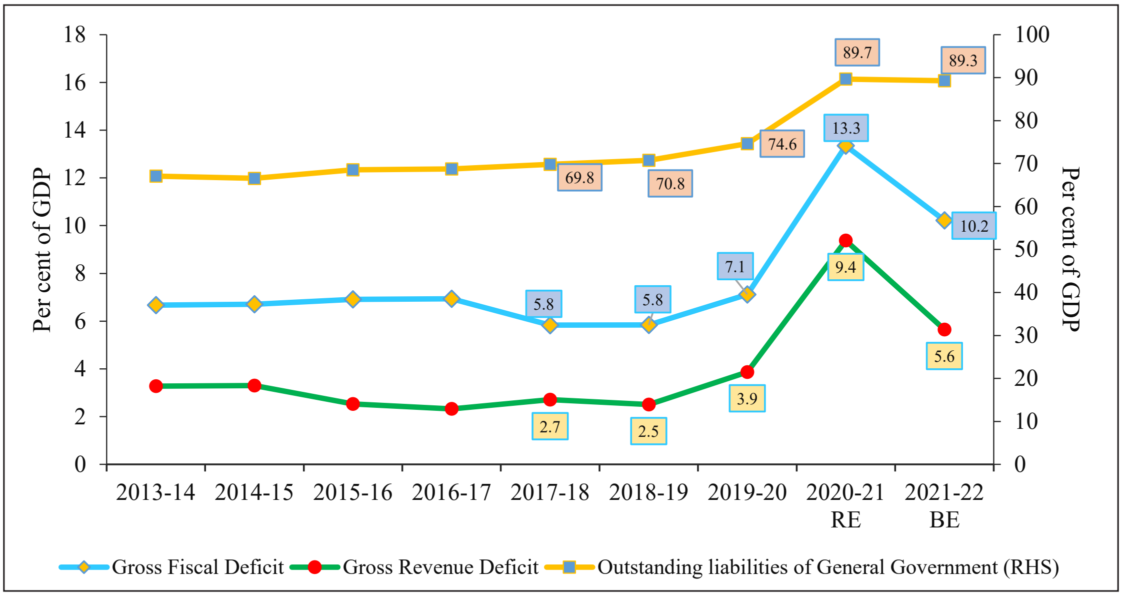
Part-II is for all other States not included in Part-I. An amount of ₹ 7,400 crore is earmarked for this part. This amount has been allocated amongst these States in proportion to their share of Central Taxes as per the award of the 15th Finance Commission for the year 2021-22.

Part-III is for providing incentives to States Governments for privatization/disinvestment of the State Public Sector Enterprises (SPSEs) and monetization/recycling of assets. Under this part, States will be provided additional funds as 50 years interest free loan over and above their allocation under Part-I/Part-II of the Scheme. An amount of ₹ 5,000 crore is allocated for this part of the Scheme.

General Government Finances

2.48 The General Government finances give an overview of fiscal position of the Government sector as a whole. **Figure 21** shows the trends in General Government debt and deficits over the past few years. The General Government liabilities as a proportion of GDP increased steeply during 2020-21 on account of the additional borrowings made by Centre and States due to the shortfall in revenue and higher expenditure requirements arising out of COVID-19 pandemic. However, in 2021-22 BE, the fiscal indicators are expected to rebound with the recovery in the economy and the General Government is expected to follow the path of fiscal consolidation. Detailed discussion on the dynamics of debt sustainability may be seen in Chapter 2 of Volume 1 (Economic Survey 2020-21).

Figure 21: Trends in General Government Debt and Deficits (as a per cent of GDP)



Source: RBI Handbook of Statistics for Indian Economy;
BE: Budget Estimates; RE: Revised Estimates

POLICY MEASURES TO ENHANCE THE EFFICIENCY OF GOVERNMENT SPENDING

2.49 While restructuring expenditure is a significant aspect of fiscal policy, enhancing the efficiency of Government spending is also important. Public procurement, which involves purchase of goods and services by the Government with an aim to not only carry day-to-day tasks but to also create social and economic infrastructure, is an important component of the Government expenditure. Government has undertaken consistent efforts to boost the efficiency of public procurement policy. Two of such reforms viz. Government e-Marketplace for routine procurement and new guidelines for reforms in Public Procurement and Project Management have been discussed in this section.

Government e-Marketplace (GeM)

2.50 The Government in 2016 had set up a dedicated e-market known as Government e-Marketplace (GeM) for purchase of certain standard day to day use goods. This is a simple, transparent and completely digital process for procurement. The General Financial Rules 2017 mandates all Ministries and Departments to procure Goods and Services available on GeM from GeM. The procedural changes in the procurement method after the introduction of GeM are given below (**Table 8**).

Table 8: Procedure for public procurement before and after GeM

Category	Before GeM	After GeM
Process of invitation of bids	Manual process for the invitation of bids, bid evaluation and finalization of the winning bid.	Completely online, no requirement for physical documentation.
Public procurement policy	Multiple agencies with multiple procurement guidelines and procedures.	Single, unified, fully online public procurement portal with clear guidelines.
Method of procurement	Paper-based procurement procedure with physical interaction.	Contactless, paperless and cashless with time-bound payments and real-time monitoring.
Method of negotiation and deliberation	Manual negotiation and fixing rates with the bidder and arriving at one rate applicable to all bidders.	Automatic, digitization and transparent processes.
Process of registration of vendors	Registration of vendors was a manual process involving visit by officials to the vendor premises and was a time-consuming process.	Authentication of users is done through API integration with respective domain databases.
Eligible articipants to the bid	Limited bidding & only registered vendors could participate.	Any vendor of the platform can participate in the bid as long the product matches the bid.
Monitoring of product delivered or service provided	Huge delay in delivery of products and delay in payment.	Real-time monitoring to ensure on-schedule delivery of products and services.

Source: Ministry of Commerce, PIB

2.51 Anecdotal evidence suggests that prior to GeM, government procurement prices were much higher than the prices prevailing in the market and there were constant complaints about inefficiency and rent seeking. The use of this e-marketplace has resulted in a substantial reduction in prices in comparison to the rates used earlier, with average prices falling by at least 15-20 per cent, up to 56 per cent[3]. **Box 5** depicts a comparison of prices on the GeM portal and other online marketplaces for a selected sample of goods.

Box 5: Prices of various commodities on the GeM portal vis-a-vis other online platforms

A comparison of prices of various commodities on the GeM portal with those of company websites or other online platforms such as Amazon, Flipkart, etc. is given in the table below. A similar analysis was included in Chapter 6 of Economic Survey 2020-21. For a close comparison, sample of same commodities as selected last year, is used to the extent possible. In cases where the exact commodity was not available, the newly available models were chosen. While in the last year's analysis, GeM prices were on an average 3 per cent lower when compared with other platforms, this time it is around 9.5 per cent lower for the chosen sample. 10 out of 22 commodities in the sample were cheaper on the GeM portal as compared to other platforms.

[3] GeM Booklet, Ministry of Commerce, January 2021

Table: GeM Portal Prices Comparison (as on 6th January 2022)

Name and Description (Model, features)	Price on GeM portal (in ₹)	Price at Amazon/ Flipkart/company Website etc. (in ₹)	% Variation in Offer Price (GEM prices over market prices)
Parker Jotter Standard Ball Pen	MRP: 250; Offer Price (OP): 200	Amazon; MRP: 250; OP: 207	-3.50
Rorito Greetz Gel Pen Maxtron Gold Robotic Fluid Ink System Pen -Blue	MRP: 99; OP:51	Amazon; MRP: Not Mentioned; OP: 119	-133.33
Samsung Basic Television TV 43 Inch LED Backlit LCD Model: SAMSUNG DC43J	MRP: 49,069 OP: 40,000; Warranty- 5 Year	Amazon.in- MRP: 69,000 OP: 43,900	-9.75
Omron White HEM 7156AP Blood Pressure Monitor	MRP: 3,860; OP: 3,100; Warranty - 2 years	Industryowl.com MRP: 2749; OP: 2,749 Warranty - 3 years	11.32
HP LaserJet Enterprise M507dn	MRP: 81,780 OP: 69,005 Warranty - 3 Years	Amazon; MRP: 82,450; OP: 69,005 Warranty - 1 Year	0.00
Kores Easy Cut 871 Paper Shredder	MRP: 25,490, OP: 22,940	Amazon; MRP: 23,990, OP: 20,130	12.25
HERO CYCLES Jet Gold 28T Unisex Road Cycle (Single Speed, Black)	MRP: 8,900; OP: 5,599	Amazon; MRP: 6,250; OP: 5,500	1.77
Milton 1500ml thermos	MRP: 1,560, OP: 1,101	Amazon: MRP: 1,875; OP: 1,499	-36.15
Nilkamal Dustbin 60 Litres	MRP: 2,150, OP: 840	Amazon- MRP: 1,599; OP: 1,350	-60.71
Nilkamal Pinnacle High Back Chair	MRP: 23,500, OP: 21,150	Nilkamalfurniture.com MRP: 17,000; OP: 16,674	21.16
Bajaj Pulsar 220 F	MRP: 1,18,250 OP: 1,18,250	Bikewale.com- MRP: 1,30,827 (Ex-showroom price in New Delhi)	-10.64
Godrej Interio Elite Mid Back Chair	MRP: 15,020, OP: 13,150	Godrej Interio website- MRP: 15,020	-14.22
Godrej Interio Steel Almirah 2400 mm (Slide N Store Compact Plus Wardrobe)	MRP: 34,374, OP: 32,239	Godrej Interio website- MRP: 34,374	-6.62

GODREJ INTERIO RHINE 3-SEATER RECLINER	MRP: 60,226, OP: 54,203 Warranty 1 year	Amazon; MRP: 66,444, OP: 66,444 Warranty- 1 year	-22.58
Dell OptiPlex 5490 AIO	MRP: 125,000, OP: 98,560 Warranty: 3 years	Hp website MRP: 138,490; OP: 79,069 Warranty: 1 Year Additional 2-year warranty: 10,500	9.12
Microtek Twin Guard Pro+ 1000VA UPS	MRP: 6,700, OP:6,030	Flipkart MRP: 6,000, OP: 5,100	15.42
Sony MHC-V21D High Power Portable Party System (HDMI, DVD, Bluetooth, NFC & USB) - Black	MRP: 27,999, OP:24,997	MRP: 27,999, OP:18,999	23.99
Ambrane 27000mAh Li-Polymer Powerbank with Type C	MRP: 3,999, OP:1,390	MRP: 3,400, OP:1,999	-43.81
BLUE STAR Floor Mounted Hot, Cold and Normal Water Dispenser	MRP: 9,900, OP:8,570	MRP: 11,700, OP: 8,398	2.01
BAJAJ Majesty RH11 F Plus Oil Filled Room Heater	MRP: 15,000, OP:11,113	MRP: 12,171, OP: 10,299	7.32
Neelgagan Notepad No. 33, 160 Pages/Notepad, Pack of 05	MRP: 480, OP:190	MRP: 499, OP: 179	5.79
Philips Base B22 7-Watt LED Bulb	MRP: 160, OP:143	MRP: 140, OP: 111	22.38

Source: GeM portal, Amazon, Flipkart, product websites
Note: OP: Offer Price

These results are broadly in line with the assessment of GeM conducted by the World Bank, which found that GeM enabled an average savings of 9.75 per cent on the median price for the period between February 2019 and January 2020. The maximum savings in the top five categories ranged from 23.5 per cent to 60.5 per cent. The study attributed this, in large part, to increased participation per bid and better price discovery.

New guidelines for reforms in Public Procurement and Project Management

2.52 Apart from the purchases of common goods from GeM, the government also procures non-routine Goods, Services and Works like construction of highways, buildings, hiring of consultants etc. This is done using the Central Public Procurement Portal as per the General Financial Rules (GFR) 2017. The GFR 2017 guidelines provide three methods for selection and evaluation of bidders viz Least Cost System[4], Quality-cum-Cost Based Selection (QCBS)[5] and Single Source Selection[6] (SSS) for different categories of procurement. However, in practice, as

[4]Least Cost System is based on a two-step consecutive evaluation, wherein a contract is granted to the bidder with the lowest financial bid among those who passed the minimum technical evaluation. There is no weightage for technical score in the final evaluation.

[5]In Quality-cum-Cost Based Selection, a bidder is selected on the basis of both the technical and financial proposals. A contract is granted to that bidder whose bid has received the highest combined score.

[6]A Single-source selection is one in which two or more vendors can supply the commodity, technology and/or perform the services required, but the State agency selects one vendor over the others for reasons such as expertise or previous experience with similar contracts.

a default, in most cases, the principle of Least Cost System, commonly known as ‘L1’ is the most prevalent.

2.53 While the L1 system may be good for procurement of routine works and non-consulting services, this method may not be able to cater to the need for innovation, quality, speed and functionality for high impact, complex and technology-intensive procurements. Various organisations including Central Vigilance Commission and NITI Aayog have advocated the need for reforming the current procurement system over the last many years. They argued that solely relying on L1 does not work well and there is a need to move from ‘one size fits all’ to ‘fit to purpose’ approach and various alternatives such as Value for Money, Rated Criteria to consider non-price attributes should be included in the procurement methods. Chapter 6 in Economic Survey 2020-21 (Volume 1) also argued for the need of going beyond L1 for public procurement.

2.54 Alternative methods of procurement other than L1, which consider non-price attributes as well, allow for choosing the contractor based on a certain amount of technical skills, previous experience *etc*. This puts an indirect pressure on the contractors to perform well for being eligible for future contracts, thus ensuring that contractors have ‘Skin in the game’. Evidence suggests that contractors who have ‘Skin in the Game’ are more likely to make optimal long-term decisions. Singh (2019)[7] points out that the national highway projects executed by L1 combined with bundling contracts (commonly called PPPs) have lower project delays and better quality, compared to the projects executed through traditional unbundling contracts, *i.e.*, with the standard L1 process, despite same environmental and regulatory conditions being faced by both kinds of projects.

2.55 Keeping in mind the limitations of the earlier procurement strategy, the Government issued new guidelines for procurement and project management in October 2021, which have expanded the ambit of selecting bidders for executing government projects and procuring goods and services. The key changes in the procurement process are as follows:

- ***QCBS for Works and Non-consultancy Services:*** As per the earlier procurement guidelines, QCBS was allowed for only Consultancy Services. The revised guidelines now allow QCBS for the selection of bidders for works and non-consultancy services as well (where estimated value of procurement does not exceed ₹10 crore). The bidders would be scored both on cost and technical parameters and one with the highest weighted combined score (quality and cost) would be selected. The maximum weight for non-financial parameters is 30 per cent.
- ***Fixing of Evaluation/ Qualification and Scoring Criteria under QCBS for Works and Non-consultancy Services:*** In order to ensure quality, the procuring entities now have the freedom to amend the specifications based on their requirements and make any criteria used in evaluation as mandatory. Any bid that does not meet the pre-requisite criteria need not be evaluated further. Moreover, weightage may also be given for timely completion of past projects of similar nature by the bidder. In the scoring criteria, marks for quality compliance have also been included.

[7] Singh, Ram, Do Public Private Partnerships Deliver Better Outcomes? Delays and Cost Overruns in Highways Projects in India (December 5, 2021)

- ***Stringent deadlines for making payments*:** Delay in payments to contractors results in prolonged project execution, cost overruns and disputes. The new guidelines stipulate timely release of payments of 75 per cent or more of bills raised within 10 working days of the submission of the bill. The remaining bill payment is to be made after final checking within 28 working days. The procuring entity is also liable to pay interest if the payment of bills is delayed by over 30 working days.
- ***Single bid rejection**:* The new rules stipulate public authorities to consider single bid as valid provided that the procurement was satisfactorily advertised, sufficient time was given for submission of bids, the qualitative criterion were not unduly restrictive and prices are reasonable in comparison to market values.
- ***Fixed Budget based Selection for Consultancy Services**:* An additional method, fixed budget-based Selection has been added for consultancy services wherein the type of consulting service required is simple and/or repetitive and can be precisely defined. Under this method, the cost of consulting services shall be specified as affixed budget in the tender document itself. Because of the basic and repetitive nature of the consultancy work, its budget can be reasonably approximated.

Table 9: Alternative Methods of Public Procurement

Alternatives	Goods	Works	Services (Consultancy)	Services (Non-Consultancy)
Least Cost System (LCS)	√	√	√	√
Quality-cum-Cost Based Selection	X	√√	√	√√
Single Source Selection	√	√	√	√
Fixed Budget Based Selection	X	X	√√	X

Source: General Financial Rules
Note: √ - Already available in GFR 2017; √√ - Allowed in 2021 notification; X- Not allowed

ANNEX

Annex 1: Direct Tax measures by CBDT during 2021-22

Improvements in tax administration

- In continuation with the Government's emphasis on providing a more transparent, efficient and tax-payer friendly tax administration and improving taxpayer convenience, several initiatives have been launched by the Government. These will also ensure promotion of investment and employment generation.

Ease of compliance for taxpayers

- Most of the processes and compliance requirements have been shifted to online platforms and the need for the taxpayers to physically visit the Income Tax Offices has been eliminated or minimized. Interaction with taxpayers is characterized by a spirit of trust and respect, relying more on voluntary compliance.

- A new e-filing portal was launched in 2021 with improved features such as a new taxpayer-friendly portal integrated with immediate processing of ITR return, pre-filled returns, free of cost ITR preparation software, new call centre for taxpayer assistance including chat bot/ live agent and mobile app function.

- To ease burden of senior citizens above the age of 75 years, they have been given exemption from filing income tax returns if they only have pension income and interest income. In their case the specified bank will be responsible for computing their income and deduction of tax.

- The time limit for re-opening of assessment has also been reduced from six years to three years. Beyond the period of three years, only where there are books of account / documents / evidence of concealment of income of Rs 50 lakh or more in a year represented in the form of an asset, can the assessment be re-opened up to a period of 10 years with the approval of the Principal Chief Commissioner of Income Tax.

- Certain non-resident persons have also been exempted from the requirement of furnishing of income tax returns, subject to fulfilment of prescribed conditions. The benefit of exemption is available from Assessment Year 2021-22 onwards. Relief has also been provided to NRIs regarding issues being faced on accrued incomes in their foreign retirement accounts.

- To reduce the compliance on small charitable trusts running educational institutions and hospitals, relief by way of tax exemption to such trusts has been provided by the Finance Act 2021 by increasing the existing threshold of annual receipts from Rs 1 crores to Rs 5 crores. Certain improvements have also been introduced in the registration process for charitable trusts with the Department including online process for filing of application, on-line processing of the applications and passing of the registration orders, online filing of donation statements by donee etc.

- To reduce litigation, Finance Act 2021 has introduced a special mechanism for dispute resolution to reduce the disputes particularly for small and medium taxpayers having taxable income of upto Rs 50 lakhs and any disputed income of Rs 10 lakhs can approach this committee. It will prevent new disputes and settle the issue at the initial stage.

Faceless procedures to promote transparency

- The Faceless Assessment Scheme was launched in 2020 which abolishes the earlier system of tax administration and assessment based on territorial jurisdiction. It provides for assessment by randomly chosen virtual teams with dynamic jurisdiction. More than two lakh cases have been allocated out of which 1.99 lacs have been completed without any interaction with the taxpayer. So far around 11.20 lac notices have been issued in a faceless manner out of which responses have been received in more than 6.93 lac cases (as on 16.11.2021).

- Faceless Appeals Scheme has also been launched which allows taxpayers to file their documents in an electronic mode and saves them the hassle of visiting the Income Tax Department. About 88 per cent of the appeals are handled under the Faceless Appeals mechanism. To ease compliance, it has been clarified that e-verification and digital signature is not needed if documents are filed through e-filing account in faceless assessment proceedings.

- Faceless Penalty scheme 2021 was also launched to impart greater efficiency, transparency and accountability to the procedure for imposition of penalty. The Scheme makes it possible for taxpayers to submit replies and participate in the proceedings at their convenience. It also provides for peer review of orders which will result in orders that are qualitatively better, reasonable and fair.

- The Finance Act 2021 has also empowered the Central Government to notify a scheme for disposal of appeals by the Income Tax Appellate Tribunal (ITAT) to impart greater efficiency, transparency and accountability by eliminating the interface between the Appellate Tribunal and parties to the appeal in the course of appellate proceedings to the extent technologically feasible, optimizing utilization of resources through economies of scale and functional specialization and introducing an appellate system with dynamic jurisdiction. All communication between the Tribunal and the appellant shall be electronic. In case where personal hearing is needed, it shall be done through video-conferencing.

Reduction in compliance requirement

- A comprehensive study of the Income Tax Act and rules had been undertaken to identify those compliance which can be reduced. Out of total 271 compliances which belong to Income-tax Act, 74 compliances have already been reduced. However, out of the remaining 197 compliances, 152 are already online and 45 are offline. Out of these 45 offline compliances, 42 compliances will be made online. 3 compliances will need to be manual due to non-availability of PAN in certain cases. Further efforts are continuously being made to provide online facilities to the taxpayers for ease of compliance. In 2021, a utility was released where taxpayers can check in quick time from PAN of their clients, if the client has filed return of income and therefore no extra tax to be deducted.

Measures to boost investment

- To promote foreign investment and tax certainty, the retrospective part of the amendment made by Finance Act 2012 regarding taxation of offshore indirect transfer of assets located in India has been nullified by the Taxation Laws (Amendment) Act 2021 so as to provide that no tax demand shall be raised in future on the basis of the said retrospective amendment for any offshore indirect transfer of Indian assets if the transaction was undertaken before 28th May 2012. A framework has been notified specifying conditions under which existing litigation on this issue can be settled. The amount paid/collected in these cases shall be refunded, without any interest, on fulfilment of certain conditions. Removal of the retrospective taxation on offshore indirect transfer of Indian assets signals the Government's resolve to ensure a non-adversarial tax environment.

- Incentives have been provided by Finance Act 2020 to encourage foreign investments of Sovereign Wealth Funds and Pension Funds into the infrastructure sector of India. Finance Act 2021 relaxed some of the conditions. Since January 2021, nine Sovereign Wealth Funds and 14 Pension Funds have been notified to claim exemption.

- In order to incentivize start-ups, the eligibility for claiming tax holiday has been extended for start-ups incorporated till 31st March 2022 by the Finance Act 2021. The capital gains exemption for investment in start-ups has also been extended for one more year till 31st March 2022.

- Various tax incentives have been provided for units located in International Financial Services Centre (IFSC) in order to make it a hub for financial services in the world. IFSCs provide Indian corporates easier access to global financial markets and promote further development of financial markets in India. Further incentives have been provided in the Finance Act 2021 like tax holiday on capital gains for aircraft leasing companies, tax exemption for aircraft lease rentals paid to foreign lessor, tax incentives for relocating foreign funds into IFSC and allowing tax exemption for the investment division of foreign banks located in IFSC.

Promoting digital transactions

- It is the declared policy of the Government to encourage digital transactions and move towards cash less economy. In furtherance of this objective, through the Finance Act 2021, the monetary threshold of getting books of accounts audited has been increased to Rs 10 crores in case of businesses whose total turnover or gross receipts made in cash does not exceed 5 per cent of the total turnover or gross receipts and the total expenditure including purchases made in cash does not exceed 5 per cent of the total expenditure during the previous year.

Measures undertaken to curb Tax Evasion and promote the widening of tax-base

- For widening the tax net of Tax Deduction at Source (TDS) and Tax Collection at Source (TCS) several new transactions were brought into its ambit. These transactions include huge cash withdrawal, foreign remittance, purchase of luxury car, e-commerce participants, sale of goods, acquisition of immovable property, etc.

- In order to promote the furnishing of income-tax returns, a special provision has been inserted to the Act to deduct/ collect tax at higher rates in case of certain persons who have not filed their income tax return for both of the preceding two previous years and the tax deducted/ collected was greater than Rs 50,000 in each of the two years. Further, TDS at the rate of 0.1 per cent on payment made for purchase of goods by a buyer (having sales/ turnover of Rs 10 crores or more in the financial year preceding the year in which the sale is made) to a person during the financial year exceeding Rs 50 lakh has also been introduced in the Finance Act 2021.

CBDT's response to COVID-19 pandemic during 2021-22

- The Central Government, in continuation of its commitment to address the hardship being faced by various stakeholders on account of the COVID-19 pandemic instituted many policies to help cope with the impact of COVID-19.

- Unfortunately, certain taxpayers have lost their life due to COVID-19. Employers and well-wishers of such taxpayers had extended financial assistance to their family members so that they could cope with the difficulties arisen due to the sudden loss of the earning member of their family. In order to provide relief to the family members of such taxpayer it has been announced that income-tax exemption will be given to ex-gratia payment received by family members of a person from the employer in the event of death on account of COVID-19 during 2019-20 and subsequent years. The exemption is proposed to be allowed without any limit for the amount received from the employer and to be limited to ₹ 10 lakh in aggregate for the amount received from any other persons.

- It was recognized that many taxpayers have received financial help from their employers and well-wishers for meeting their expenses incurred for treatment of COVID-19. In order to ensure that no income tax liability arises on this account, it has been announced that income-tax exemption will be provided to the amount received by a taxpayer for medical treatment for treatment of COVID-19 during 2019-20 and subsequent years.

- The Central Government also extended timelines for compliances under the Income-tax Act, 1961 such as furnishing of statements, filing of income tax returns etc. The time limits for passing various orders under various sections of Income Tax Act were also extended due to COVID-19 pandemic.

- The last date of linkage of Aadhaar with PAN has been extended to 31st March 2022.

Annex 2: Indirect tax measures by CBIC during 2021-22

A. Customs

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 interalia 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. In accordance with this policy, the MFN rates of BCD have been increased in recent years on such items which are being manufactured in India or which domestic industry aspires to manufacture. Accordingly, during the last 6 years, about 4000 tariff lines (approximately 1/3rd of total tariff lines) have seen upward calibration of BCD. Such items include, metals, metal products, auto parts, footwear, fabrics, garments, specified chemicals, toys, certain machinery, medical equipment, a number of MSME items like bells, gongs, ceramic wares, table ware, utensils, hardware etc, consumer electronics and home appliances including mobile, TV, refrigerators, washing machine, AC, fans, heaters, hair dryers, shavers, toasters, ovens etc. At the same time, duties of inputs and raw materials have been rationalized.

Under the Phased Manufacturing Plan (PMP) in respect of significant products like mobile phones, other electronic goods like TVs, electric vehicles, batteries, solar panel etc, the BCD rates in respect of different stages of the value chain of these products are calibrated in a manner that encourages gradual deepening of domestic value addition. For example, in respect of mobile phones, initially the parts were placed under nil BCD while duty was imposed on mobiles. Gradually, duty has been raised on parts in phased manner as their production began in India.

Changes in Customs Law and Procedure:

- In order to ensure swift and secure movement of dutiable goods from port of import to customs warehouse, CBIC has launched the use of ECTS (Electronic Cargo Tracking System) in Oct 2021. This concept is borrowed from transhipment procedure for cargo meant for neighbouring countries.
- CBIC has launched version 2 of online application for filing, real time monitoring and digital certification for on boarding Authorized Economic Operators (AEOs) Tier 2 and Tier 3.
- In addition, CBIC has taken major decisions which would lead to significant reduction of dwell time and faster Customs clearances on import. The facilitation percentage has been increased to 90 per cent w.e.f. 15th July 2021. Linked to this enhanced facilitation, the scheme of Direct Port Delivery (DPD) has been revamped to a Customs document based DPD from the previous client based DPD.
- CBIC has introduced Risk Management System (RMS) to facilitate faster drawback disbursal for genuine exporters and to help in better checking of fraudulent drawback claims on exports.
- CBIC has launched the Indian Customs Compliance Information Portal (CIP) for providing free access to information on all Customs procedures and regulatory compliance for nearly 12,000 Customs Tariff Items.
- To address the shortage of containers across the Country, CBIC issued instructions to enable more availability of containers for exports.
- Remission of Duties and Taxes on Exported Products Scheme enables issue of Export Rebate in the form of a transferable duty credit/ electronic scrip (e-scrip) which will be maintained in an electronic ledger by the CBIC. This revamped end-to-end automated scheme aims to provide a boost to Indian exports by providing a level playing field to domestic industry abroad.

- Various agreements/MoUs were signed by Indian Customs with countries like Maldives, USA, BRICS etc on various Customs related matters for mutual co-operation. This will facilitate movement of goods across the countries

B. Union Excise Duties

Retail Selling Price of petrol and diesel in the country are linked to the prices of crude. The crude prices have been falling in this year. The crude prices have been increasing in last few months. Indian basket is moving upwards and reached beyond $ 84 per barrel in October, 2021. The Dollar exchange rate was also on the upward trend and is hovering around ₹ 75 per USD which was also impacting the prices of Petrol and Diesel. In this background, Excise Duty on petrol and diesel was rationalized by Rs 5 per litre on Petrol and ₹ 10 per litre on Diesel. After this move, many states and Union Territories have also reduced VAT on Petrol and Diesel to give relief to the consumers.

C. Goods and Services Tax

GST consolidated a myriad and complex rate structure with multitude of rates, varying with states, local bodies etc., and with huge cascading into one tax and a simplified procedural regime. The scale of reform was gigantic and the law and regime evolved in an inclusive way. There has been extensive participation of all stake holders. Continuous improvements are being made in an extremely responsive way in GST, with the GST Council responding swiftly, glitches being addressed quickly, and timely necessary changes being made. A massive exercise of calibration of GST rates has also been done so as to fix the rates and maintain revenue neutrality. Following are some of the changes made to GST rates on goods and services during 2021:

- In the 45th and 46th GST Council, the recommendation of the Fitment Committee for calibrating the GST rate structure to correct the inverted duty structure on textiles and footwear were discussed. Accordingly, it was decided to correct duty inversion in textiles by prescribing 12 per cent GST for footwear of sale vale exceeding Rs 1000 per pair.
- Brick kilns would be brought under special composition scheme with threshold limit of ₹ 20 lakhs, with effect from 1.4.2022. Bricks would attract GST at the rate of 6 per cent without ITC under the scheme. GST rate of 12 per cent with ITC would otherwise apply to bricks.
- Services supplied to an educational institution including anganwadi (which provide pre-school education also), by way of serving of food including mid- day meals under any midday meals scheme, sponsored by Government is exempt from levy of GST irrespective of funding of such supplies from government grants or corporate donations.
- Services provided by way of examination including entrance examination, where fee is charged for such examinations, by National Board of Examination (NBE), or similar Central or State Educational Boards, and input services relating thereto are exempt from GST.
- In order to extend the same dispensation as provided to MRO units of aviation sector to MRO units of ships/vessels, so as to provide level playing field to domestic shipping MROs vis a vis foreign MROs, the GST on MRO services in respect of ships/vessels was reduced to 5 per cent (from 18 per cent). The PoS of B2B supply of MRO Services in respect of ships/ vessels shall be the location of recipient of service.

Changes in GST Law and Procedure: The following measures were undertaken for trade facilitation and ease of doing business under GST in 2021-22:

- To provide relief to the taxpayers from high amount of late fee accumulated on pending GSTR-3B returns, a late fee amnesty scheme has been brought out in respect of pending returns in FORM GSTR-3B for the tax periods from July, 2017 to April, 2021.
- To reduce burden of late fee on smaller taxpayers, late fee structure (under section 47 of the CGST Act) has been rationalized for prospective tax periods from June 2021 onwards by aligning the upper cap of late fee with tax liability/ turnover of the taxpayers.
- Retrospective amendment of section 50 of CGST Act, 2017 was done to provide interest payment on net cash basis with effect from 01.07.2017 to facilitate the taxpayers and to help in removing ambiguity and disputes regarding payment of interest on gross tax basis or net cash basis.
- Instead of quarterly requirement to file FORM GST ITC-04 return, containing details of all goods sent to job worker and received from job worker, it has been made an annual requirement for taxpayers having annual aggregate turnover in preceding financial year is up to ₹ 5 crores and once in six months for taxpayers having annual aggregate turnover in preceding financial year above ₹ 5 crores.

COVID Related Relief Measures

Several measures were taken by CBIC for facilitating Customs clearances of all materials related to COVID-19 during 2021-22.

- CBIC had issued notifications to exempt customs duty on import of Remdesivir injection, Remdesivir API and Beta Cyclodextrin (SBEBCD) used in the manufacture of Remdesivir (up to 31st October, 2021), and also on import of various items related to Oxygen and Oxygen related equipment (for a period of three months).
- During the second wave of COVID-19 pandemic, the Customs has facilitated the import of approx. 7.5 Lakh Oxygen Concentrators into the country. More than 75 IAF landings were facilitated for import of 97 Cryogenic ISO tanks for carrying of liquid oxygen across the country. Other products facilitated on high priority includes Oxygen generating plants, equipments, ventilators, Remdesivir Injection and its raw materials, diagnostics kits markers etc.
- In view of the challenges faced by taxpayers in meeting the statutory and regulatory compliances under GST law due to the outbreak of the second wave of COVID-19, the Government has issued notifications providing various relief measures for taxpayers. Some of these measures are reduction in rate of interest for delayed tax payments, waiver of late fee, extension of due date for filing of return, extension of statutory time limits under section 168A of the CGST Act. A dedicated helpdesk was set up to handhold the trade and handle grievances of the trade across the country.