FDR
FOUNDATION *for* DEMOCRATIC REFORMS

PRESERVING GROWTH MOMENTUM

A POLITICALLY VIABLE FRAMEWORK FOR FISCAL PRUDENCE

DISCUSSION PAPER

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ABBREVIATIONS

AB-PMJAY	Ayushman Bharat Pradhan Mantri Jan Arogya Yojana
AUM	Assets Under Management
BE	Budget Estimates
BoB	Bank of Baroda
C&AG	Comptroller and Auditor General
CBO	Congressional Budget Office
DISCOMs	Distribution Companies
ECI	Election Commission of India
ECLGS	Emergency Credit Line Guarantee Scheme
FC	Finance Commission
FD	Fiscal Deficit
FDI	Foreign Direct Investment
FRBM	Fiscal Responsibility and Budget Management
FY	Fiscal Year
GDP	Gross Domestic Product
GENCOs	Generation Companies
GoI	Government of India
GSDP	Gross State Domestic Product
GST	Goods and Services Tax
IBC	Insolvency and Bankruptcy Code
IMF	International Monetary Fund
IPPs	Independent Power Producers
ISW	Individual Short-term Welfare
JJM	Jal Jeevan Mission
LPG	Liquefied Petroleum Gas
MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act

MSMEs	Micro, Small & Medium Enterprises
NIPFP	National Institute of Public Finance and Policy
NPAs	Non Performing Assets
NPS	National Pension System
OBR	Office for Budget Responsibility
OPS	Old Pension System
PAYG	Pay-As-You-Go
PM SVANidhi	PM Street Vendor's AtmaNirbhar Nidhi
PM-KISAN	Pradhan Mantri Kisan Samman Nidhi
PMAY	Pradhan Mantri Awas Yojana
PMGKAY	Pradhan Mantri Garib Kalyan Anna Yojana
PMJDY	Pradhan Mantri Jan Dhan Yojana
PMUY	Pradhan Mantri Ujjwala Yojana
PNB	Punjab National Bank
PPAs	Power Purchase Agreements
PSBs	Public Sector Banks
RBI	Reserve Bank of India
RD	Revenue Deficit
RE	Revised Estimates
SBI	State Bank of India
SBM	Swachh Bharat Mission
SOR	State's Own Revenues
SPVs	Special Purpose Vehicles
UBI	Union Bank of India
UIDAI	Unique Identification Authority of India
UK	United Kingdom
UPA	United Progressive Alliance
UPI	Unified Payments Interface
USA	United States of America

EXECUTIVE SUMMARY

The most important faultline emerging in our electoral politics in recent times is long-term growth vs individual, short-term welfare measures (ISW). While much of the globe is facing headwinds, India is poised to grow at about 7% on a long-term basis. Astute fiscal management during the covid pandemic ensured real relief to the poor without fiscal profligacy. The sound and pragmatic response to covid crisis on the back of a series of significant economic reforms over the past eight years created a strong platform for sustained high growth. A growth rate of 7% per annum for the next 20-30 years is a realisable goal.

In a country with large numbers of poor, ISW has a strong political appeal. Even in wealthy, mature democracies voters are attracted to ISW. However, the challenge is to balance ISW and pro-growth expenditure in a manner that the public finances remain healthy and economic growth prospects are not hindered. A frontal clash between ISW and growth may be counterproductive.

The recent reversal of policy in several states to switch to defined benefit–based old pension scheme (OPS) from defined contribution-based National Pension System (NPS) will spell disaster to public finances in the long run. In their quest to appease the vocal, influential, well-organised government employees, some states are tempted to take short-term approach at the cost of future generations. OPS is unfunded and has no contributory element in it. Future generations are asked to pay for past services rendered. With index-linked pensions and increasing average life span, the pension burden on governments will be unsustainable, crippling public finances and leading to economic stagnation. Such a fiscal collapse will mean condemning hundreds of million to perpetual poverty.

It is therefore imperative to preserve growth momentum by building an acceptable framework for politically viable fiscal prudence. Any effort to scrutinize individual welfare programmes is futile because there will never be agreement on the merits or demerits of those programmes. Micro-management of a state's welfare programmes and budget priorities is neither constitutionally feasible nor politically viable. In a federal polity with fierce political competition

and high degree of polarisation, the fiscal framework should be pragmatic and effective without encroaching on state's role or relying on subjective, partisan assessments.

Indian families irrespective of caste, creed and region practice thrift and do not borrow for current consumption needs. A state should be free to decide how to spend money from its revenues, but borrowed money cannot be used to finance current expenditure.

This paper proposes a minimalist approach of bringing revenue deficits to zero in a finite period of three years in states. The Union may need a longer period of five to seven because of the structural deficit in Union finances resulting from large transfers to states. Revenue deficit grants to states need to end so that there is no incentive for profligacy. FRBM Act should incorporate mandatory nil revenue deficit norm, and impose the necessary conditions under Article 293(4) of the Constitution of India. There should be an independent, credible institution – either a permanent Finance Commission or a Fiscal Council – to monitor public finances of the states and exercise the function of consenting to state's loans under Article 293. An Office of Budget Responsibility should be created invoking the powers under Article 150 to act as a fiscal watchdog and provide independent analysis of public finances of the Union and states, including forecasts, scrutiny of public policy costings and evaluation of performance against fiscal targets. The Office of Budget Responsibility can be a part of CAG, or Finance Commission or Fiscal Council.

In order to remove the perverse incentives, a government that switches to OPS from NPS should not be refunded the accumulated contributory pension fund, but should only receive annuity from the income derived from fund management. In case of large capital expenditure, there should be a proper cost-benefit analysis and approval of loans should be contingent upon reasonable returns or benefits from investments, as per the conditions imposed under Article 293(4).

Such a minimalist, pragmatic framework is vital to preserve the growth momentum of the economy. Relying on revenue deficit, a measurable, clearly defined indicator as the primary yardstick, respecting the freedom of action of elected governments, an independent, non-partisan, transparent monitoring and decision making, and appropriate safeguards to ensure that the objective is achieved will be broadly acceptable across the political spectrum, and ensure the right balance between short-term welfare and long-term growth.

PRESERVING GROWTH MOMENTUM

A POLITICALLY VIABLE FRAMEWORK FOR FISCAL PRUDENCE

I. Global Headwinds

Global economy is facing headwinds primarily because of two factors. First, the Covid pandemic paralysed economic activity, interrupted supply chains and depressed demand. As a result, growth plummeted around the world, and economic contraction took place on a scale never seen after the Great Depression in the pre-WW2 period. Second, the war in Ukraine and the sanctions imposed on Russia significantly reduced global oil and gas availability leading to price escalation, and interrupted supplies of food and fertilizer.

Globally, inflation rose significantly as a result of excess monetary supply as countries attempted to stimulate their economies by putting money into people's pockets and boost demand for goods and services. As the pandemic subsided and economic activity returned to normal, pent up demand, boosted further by the excess money supply, led to high inflation in most of the large economies. The rise in prices of oil, gas, food and fertilizer because of war in Ukraine further aggravated inflationary pressures. The central banks in most countries had to raise interest rates significantly and take strong measures to reduce money supply in order to reduce inflation to acceptable levels. The net result is depression of global economic growth and demand. Several countries are experiencing economic contraction and recession. Depressed growth and recession is leading to contraction of global trade, affecting exports, and further stunting growth.

China witnessed extraordinary economic growth for over three decades, and was largely unaffected by the pandemic in 2020 and 2021. But the strict zero-Covid policy implemented in 2022 in the wake of the spread of the Omicron variant has depressed

growth in China too, significantly. China is now forced to relax its zero-Covid policy because of unprecedented public protests.

II. Impressive Fiscal Management

In the midst of these global headwinds, India is witnessing significant economic growth in the post-Covid era. The lockdown necessitated in 2020 to contain spread of the virus, and the cessation of most economic activity due to the rapid spread of Delta virus in 2021 led to economic contraction. The Union government's determined, sustained, and successful drive to vaccinate people against Covid was a remarkable success. The mass vaccination and the pragmatic and science-led policies and decisions of the government built up herd immunity in the country. Economic activity resumed full-scale as the pandemic was under control, and there was no risk of large-scale infection or high morbidity and mortality. The Omicron variant, which spreads faster than Delta, has had very little impact on our lives and economic activity in India.

India is now the fastest growing economy among large countries in the world. While the global headwinds are bound to reduce our growth prospects in FY23, most rating agencies, multilateral agencies like World Bank[1] and IMF[2], and our own RBI[3] estimate a growth rate of slightly under 7% this year. There is a real opportunity of sustained 7-8% growth rate on a long-term basis for two decades or more.

Such growth momentum is largely because of the Union government's policies, decisions and steps over the past eight years. A prime example of competent and thoughtful management of the economy is the series of steps the government has taken to provide relief to the poor without causing fiscal stress during the pandemic. Free food grains were provided to 800 million people under Pradhan Mantri Garib Kalyan Ann Yojana

[1] "World Bank revises India's GDP forecast to 6.9% for FY23 due to robust economic activities", Times Now, 06 Dec 2022.
[2] Official Website of IMF, *available at:* https://www.imf.org/en/Countries/IND (last visited on Dec 12, 2022).
[3] Reserve Bank of India, "Monetary Policy Report" (2022).

(PMGKAY) and 112 million tons of food was distributed at a cost of Rs. 3.91 lakh crores (Rs.3.91 Trillion).[4]

MSMEs were supported with emergency credit guarantee under Emergency Credit Line Guarantee Scheme (ECLGS), and as of March, 2022 they were sanctioned Rs. 3.19 lakh crores (Rs.3.19 Trillion)[5] of credit to withstand the Covid crisis. Collateral-free working capital loan under PM Street Vendor's AtmaNirbhar Nidhi (PM SVANidhi) was made available to 33.37 lakh street vendors[6] to help restart their businesses shut down due to Covid pandemic. Collateral-free loans up to Rs. 10 lakh were extended to small and micro enterprises. During the period 2020-21 to 2022-23, 13.36 crore loans worth Rs. 8.77 lakh crores were sanctioned, and an amount of Rs. 8.53 lakh crores was disbursed. In view of the fiscal stress on states on account of rising expenditure and falling revenues during the pandemic, borrowing limits of states were raised significantly.

All these pragmatic, thoughtful and well-implemented measures provided relief to those who needed it and stimulated economic activity without fiscal profligacy. Such a judicious approach ensured relief and economic stimulus without significant inflationary pressure. The Union government's effective, sure-footed, judicious steps are remarkable when we consider the enormous political pressure to spend more and put more money into people's pockets, and the prevailing economic thinking in most developed countries that led to monetary expansion and large money transfers to all people in the hope of stimulating the economy. The economic contraction during the pandemic was a result of the voluntary cessation of economic activity and interruption of supply chains in order to contain the spread of virus. The poor needed support, and the businesses needed help to survive in the pandemic and revive after the pandemic. In those circumstances, fiscal

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[4] PIB Press Release (28 Sep 2022), *available at:* https://pib.gov.in/PressReleasePage.aspx?PRID=1862944 (last visited on Dec 12, 2022).

[5] PIB Press Release (10 June 2022), *available at:* https://static.pib.gov.in/WriteReadData/specificdocs/documents/2022/jun/doc202261063401.pdf (last visited on Dec 12, 2022).

[6] PIB Press Release (21 July 2022), *available at:* https://pib.gov.in/PressReleseDetailm.aspx?PRID=1843429 (last visited on Dec 12, 2022).

profligacy and putting large amounts of cash into people's pockets did not stimulate the economy while the pandemic was raging. People simply saved the cash transferred to them by governments, and as the pandemic subsided and economic activity resumed, vast money supply is causing high inflation. The necessary steps now to reduce money supply are leading to depressed growth and even economic contraction in many countries. The Indian government's prudent and far-sighted policy during the pandemic despite enormous pressures from the West, protected the poor, immunized the people against the pandemic, and stimulated the economy as the pandemic subsided.

III. Significant Reform Initiatives

This sound and pragmatic fiscal response to Covid crisis on the back of a series of significant economic reforms over the past eight years has created a strong platform of sustained high growth in India. Successful introduction of Goods and Services Tax (GST) removed trade barriers within the country and created a single national market boosting growth prospects. Despite initial teething troubles and fall in revenues during the pandemic, GST collections are now showing a robust growth. There is growing formalization of the economy, and the government's revenue mobilization ability has improved.

The Insolvency and Bankruptcy Code (IBC) enacted in 2016 is showing positive results. The average time to resolve insolvency was 4.3 years in 2017, and it has now declined to 1.6 years[7]. 29 disparate labour laws are now systematized into 4 Labour Codes bringing clarity and simplicity, and enhancing flexibility in labour markets. Concerted attempt is being made for rationalization and digitalization of regulatory compliances from start to exit of businesses. 33000 regulations have been simplified and decriminalised so far.[8] Several concerted steps taken have improved India's Ease of Doing Business rankings.

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[7] PRS India, "Standing Committee Report Summary on Implementation of Insolvency and Bankruptcy Code-Pitfalls and Solutions" (2021).

[8] "Govt steps up ease of doing business, many compliances simplified, decriminalized in India", Financial Express, 20 July 2022.

Foreign Direct Investment (FDI) norms have been liberalised to encourage investment in many sectors including defence, civil aviation, railways, coal mining, atomic energy and e-commerce. Significant boost has been given to infrastructure spending and projects are being executed at a record pace. A massive effort is underway to promote manufacturing sector. Corporate taxes have been reduced to 17% for new manufacturing firms and to 25% for other firms.[9] The production-linked incentive scheme is yielding positive results including reduction of import-dependence and increasing exports.

The robust digital infrastructure and a Unified Payments Interface (UPI) platform made India a global leader in electronic transfers of money and boosted economic activity.

The public sector banks which were under great stress in 2014 improved performance significantly. From 2017-2018 to 2021- 2022, the net NPAs of major banks declined significantly – State Bank of India (SBI) from 5.73% to 1.02%; Punjab National Bank (PNB) – from 11.24% to 4.8%; Bank of Baroda (BoB) – 5.49% to 1.72%; Canara Bank – 7.48% to 2.65%; Union Bank of India (UBI) – 8.42% to 3.68% (see Annexure 1). While these five PSBs together showed a net loss of Rs. 17,432 crores in 2017-2018, they recorded a net profit of Rs. 53,892 crores in 2021-2022.[10] Bad debts have been cleaned up, and banks are now capable of serving the needs of the growing pool of domestic investors. This turnaround in banks' performance gives a significant boost to future investment and growth.

A robust digital welfare and safety net backed by massive expansion of banking for the poor through Pradhan Mantri Jan Dhan Yojana (PMJDY) and other initiatives has benefited around 950 million people through direct benefits transfer without any intermediation and leakages. This social safety network along with large welfare programmes viz. Pradhan Mantri Awas Yojana (PMAY) for housing, Pradhan Mantri Ujjwala Yojana (PMUY) for LPG connections, relief to farmers under Pradhan Mantri Kisan Samman Nidhi (PM-KISAN), public distribution system, rural employment

[9] "Government slashes corporate tax to 25.17% for domestic companies", The Times of India, 20 Sep 2019.
[10] Annual Reports of the respective banks.

guarantee under Mahatma Gandhi National Rural Employment Guarantee Act 2005 (MGNREGA), health insurance under Ayushman Bharat Pradhan Mantri Jan Arogya Yojana (AB-PMJAY), toilets for rural households under Swachh Bharat Mission (SBM) and piped water supply under Jal Jeevan Mission (JJM) have transformed welfare delivery through Aadhar biometric identity, other digital technologies and direct benefits transfer. The scale of welfare programmes has expanded vastly and leakages have been plugged.

Several other initiatives like shift to renewable energy, better regulation of real estate, ending of petroleum subsidy, blending of ethanol with petrol, revision of definitions of MSMEs to promote scaling up, electrification of rural houses and boost to rural infrastructure have all helped create a strong platform for sustainable high growth.

This growth momentum has been built by the cumulative impact of the policies and decisions of successive governments since 1991. However the present government over the past eight years has done a great job of utilising the existing platforms and leveraging the strengths. On top of it, the accent on promoting investment, building digital and physical infrastructure, liberating the producers from unproductive regulatory burden, unleashing the animal spirits of entrepreneurs, creating a national market, cleaning up the bad loans in the banking sector and above all, emphasis on competent and effective delivery have all boosted confidence of the consumers and investors alike. The most significant positive contribution of the government to the long-term growth prospects of India is the fiscal prudence in the face of grave difficulties and enormous political pressures.

IV. FRBM and NPS – Acts of Foresight

The Vajpayee Government exhibited great foresight in enacting the Fiscal Responsibility and Budget Management Act, 2003 (FRBM) and building a national consensus on fiscal responsibility and persuading all states to enact similar laws and adhere to fiscal discipline. An even more remarkable feat of the Vajpayee government was the

introduction of the contributory pension scheme and the National Pension System (NPS) based on defined contribution of the employee and employer for all new government employees in place of the Old Pension System (OPS) based on defined benefits without any contribution. A national consensus was forged, and all parties and states embraced the NPS for new recruits except the State of West Bengal. The OPS is clearly fiscally unsustainable as there was no pension contribution accruing during the employee's service, and the burden of lifetime pension after retirement and family pension after death is borne by the future generations for past services rendered. This burden is multiplied several fold because the pensions are index-linked, and successive pay revision commissions have substantially enhanced the salary and pension benefits of government employees. India is the only major economy which is adhering to unfunded defined benefit scheme without any contributions to pension fund while the employee is in active service.

V. Rising Pension Burden

Already the pension burden on the exchequer is escalating rapidly in many states. As seen from Table 1, the pension liability of state governments has increased sharply, almost trebling in the nine year period from FY13 to FY22.

The pension outgo as a share of all revenue receipts is around 13.2% for all states combined, and it constitutes 29.7% of own tax revenues of states.

The pension outlay of state governments stands at 1.9% GDP. Out of the total revenues of states including Union transfers, the committed expenditure composed of salaries, pensions and interest payments alone accounts for 56%, leaving little room for core governance functions. In FY21, the total committed expenditure of all states stands at a staggering 125% of the states' own revenue receipts.[11]

[11] State Bank of India, *"Report on NPS Reforms vis-a-vis old pension scheme (PAYG): Why Good Economics can also be Good Politics"*, SBI Research Ecowrap Issue No. 67 (2022).

Table 1: Pension Liability of Select States over the Years (Rs. Crores)					
State	**2012-13**	**2019-20**	**2020-21**	**2021-22 BE**	**2022-23 BE**
Andhra Pradesh	12089	17385	17470	17844	17267
Telangana	NA	11833	13599	10831	11385
Tamil Nadu	13162	30202	27115	28251	39508
Odisha	5379	14273	13629	17200	18221
Punjab	5966	10294	13680	11767	15146
Rajasthan	6858	20761	22440	25473	24439
Chhattisgarh	2412	6638	7136	6609	7603
West Bengal	11036	17462	21394	21263	22998
Maharashtra	11472	27741	32267	34428	45512
Himachal Pradesh	2747	5490	6088	7082	7790
Gujarat	7198	17663	18570	16843	17590
All States and UTs	145124	345505	NA	406867	NA

BE: Budget Estimates; **NA:** Not available

Sources:
1. Pensions for 2012-13, 2019-20, 2021-22 BE – Table 161, Handbook of Statistics on Indian States 2021-22, RBI
2. Pensions for 2020-21, 2022-23 BE – PRS Analysis of State Budgets 2022-23.

In some states the committed expenditure constitutes even higher share of total revenue of the state including all Union transfers (Finance commission devolution and grants-in-aid, special grants, Union share of centrally sponsored schemes, and statutory programmes like MGNREGA etc) - eg: Punjab – 83%; Kerala – 65%; West Bengal – 75%; Andhra Pradesh – 67% (see Figures 1 & 2).

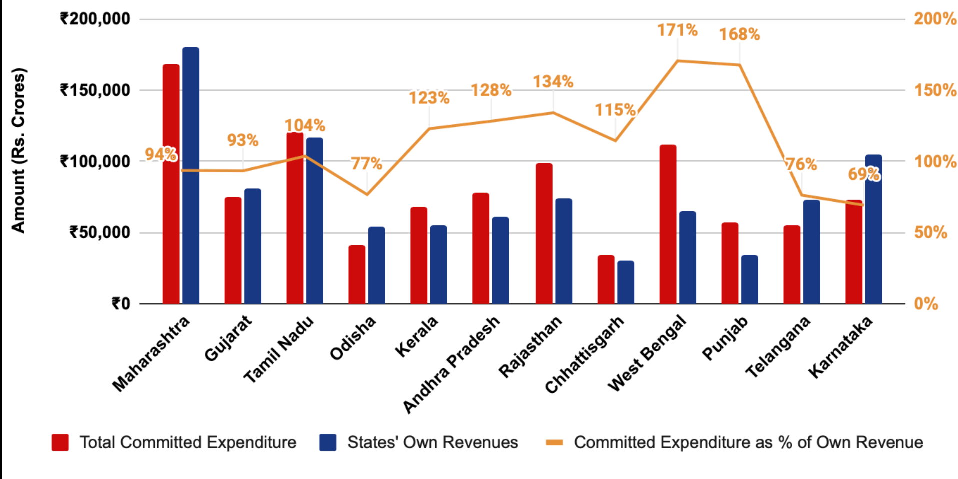


Figure 1: Committed Expenditure vs. Own Revenues in Select States, 2020-21

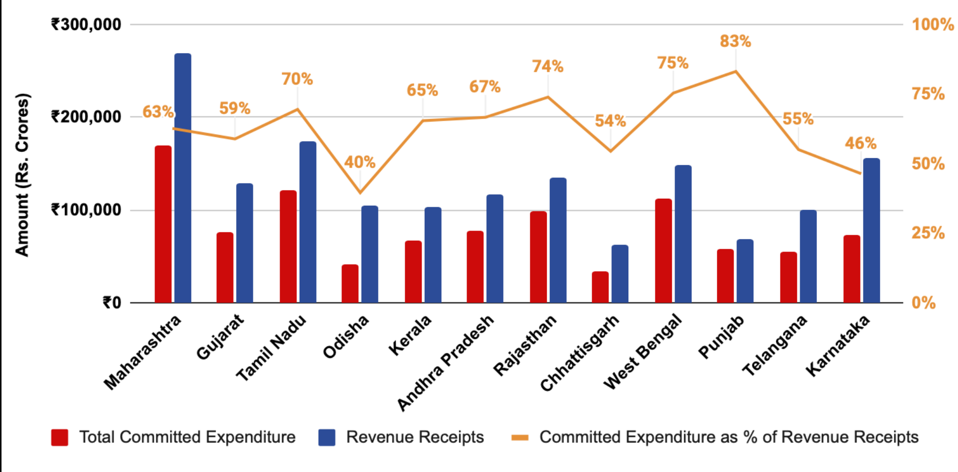


Figure 2: Committed Expenditure vs. Revenue Receipts in Select States, 2020-21

This is the context in which the Vajpayee government introduced NPS in 2004 by broad national consensus. As stated before, all states except West Bengal embraced NPS for new recruits. Manmohan Singh's UPA government pursued NPS vigorously. In the Union and all states, the burden of OPS will continue to rise for several years: but after a decade or two there will be no pension burden under NPS on the exchequer, because the government's pension contributions are made concurrently with the service of the employee, and pension will be drawn from the income from the pension fund in future.

This is not only fiscally prudent protecting the future; it is also morally imperative so that the next generation does not pay for the services rendered to earlier generations. Indian families of all castes, religions and regions sacrifice present desires for the next generation, and even poor families practice thrift and build assets for their children. Governments borrowing heavily for current expenditure and transferring pension burden to future generations because it is an unfunded defined benefit scheme is alien to Indian society's norms and culture.

i. Regressive Switch to OPS

But now several states are unfortunately yielding to pressures from vocal, highly organised government employees and reversing the healthy trend of NPS established and running since 2004. In addition to West Bengal which persisted with unviable OPS, the states of Punjab, Rajasthan, Chhattisgarh, Jharkhand and Himachal Pradesh have either switched over to OPS, or announced their decision to do so in the near future. Unfortunately, short-term political compulsions to attract the votes of government employees are trumping the considerations of long-term liability of OPS. The core functions of government, and resources needed to invest in the future and promote growth, incomes, employment and opportunities to the poor are ignored at the altar of instant electoral gain.

ii. Perverse Incentive

There may even be a perverse incentive encouraging profligate governments to switch over to OPS. Paradoxically, a state government that switches over to OPS, while it is seriously undermining the state's fiscal health and future growth, may in the short-term get a bonanza of additional resources to squander. The earlier government and taxpayers have acted prudently since 2004 and funded the future pension liability under NPS through annual budgetary allocations. All that pension fund now constitutes Assets Under Management (AUM). The total NPS assets in AUM have risen 27% in FY22, and stood

at Rs. 7.36 lakh crores.[12] If a state that switches over to OPS gets back earlier contributions of the government and employees now in AUM, they will actually have a one time bonanza to spend more, while the future burden of pensions on the next generation will rise exponentially. In the absence of restraint and concern for long-term sustainability, all short-term political and fiscal incentives are aligned in favour of profligacy at the cost of growth and inter-generational equity.

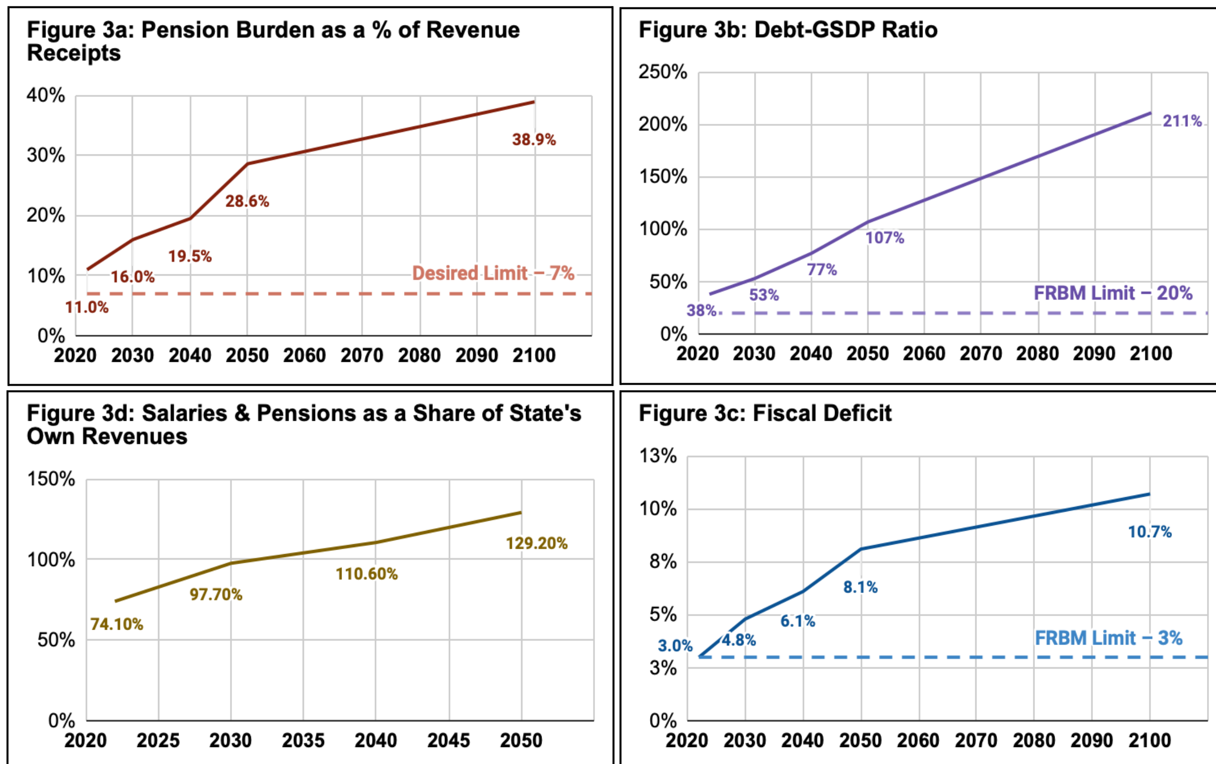
iii. Horrendous Price with OPS

While short-sighted decisions to revert to OPS may give temporary political dividends, the price that will be paid later is horrendous. Andhra Pradesh (AP) government made detailed calculations and presented data to the public based on a rigorous financial model, developed with the help of experts and validated by actuaries. The results clearly establish the unsustainability of OPS. The study shows that in case Andhra Pradesh, if they revert to OPS, the states pension burden as a share of total revenues (including transfers from GoI) will rise from the current 11% to 16% by 2030, 19.5% by 2040, 28.6% by 2050, and 38.9% by 2100, far higher than the sustainable 5-7% total revenues (see Figure 3a). The debt to GSDP ratio will rise from 38% now to 53% by 2030 on account of OPS alone, and to 77% by 2040 107% by 2050 and 211% in 2100, as against the FRBM norm of 20% of GSDP (see Figure 3b). Fiscal deficit, currently about 3% GSDP, will rise to 4.8% in 2030, 6.1% by 2040, 8.1% by 2050 and 10.7% by 2100 (see Figure 3c). Similarly the share of salaries and pensions as a share of state's own revenues (SOR – excluding Union transfers) will rise from the current level of 74.1% to 97.7% by 2030, 110.6% by 2040 and 129.2% by 2050 (see Figure 3d).

[12] National Pension Scheme Trust, "Annual Report and Audited Accounts for the Financial Year 2021-22" (2022).

Figure 3: Andhra Pradesh: Projections of Key Fiscal Indicators upon Reverting to OPS

Source: Government of Andhra Pradesh communication dated 28/08/2022. More details in Annexure 3.



It must be noted that these are not absolute numbers; they are ratios taking into account increase in GSDP, revenues and Union transfers. The absolute increase in outflow of pensions under OPS will be astronomical, leading to fiscal collapse and Sri Lanka-like crises in all states that revert to OPS or continue with OPS. The misery citizens are going to endure with collapse of government finances and failure to deliver even basic services, the burden on the future generations in the form of mountains of debt and high taxes, the opportunity cost because of lost growth, incomes and employment, and the perpetuation and deepening of gruesome mass poverty crippling tens of millions of people in the coming generations are all too real outcomes that can be anticipated with certainty based on the realistic projections. A SBI group research paper of March, 2022 estimates that if all states migrate to the old scheme, the current present value of implicit pension liabilities is around 13% of GDP. This is the implicit pension debt that will be unfunded as per the OPS or pay-as-you-go scheme (PAYG). The SBI report states: “The above fact

(unfunded pension inability) clearly underlines the World Bank's warning that PAYG schemes are illusory…but the implicit pension debt will explode rapidly as population ages."

The report further outlines the demographic transition underway in India. The Ageing Index developed by Rakesh Mohan in 2004 is defined as the number of persons 60 years old and above per hundred persons under the age of 15 years. The Ageing Index, which stands at 40 now, is likely to reach 76 by 2036. The old-age dependency ratio, defined as the number of persons 60 years and over per 100 persons 15 to 59 years old, will touch 23% by 2036 from the current 16%. By 2050, India's population will be 164 crore, out of which 32 crore will be of age 60 years and above. An increase in the old-age dependency ratio imposes heavier demands on the working-age population to maintain the intergenerational flow of benefits to the older people.[13]

VI. Living Beyond the Means

Several states are already spending well beyond their means. As a result governments are incurring revenue deficits, which means that the current day-to-day expenditure is in excess of total revenue receipts (own revenues and all Union transfers), and therefore the states are forced to borrow even to meet current expenditures (see Table 2).

i. Unsustainable Debts

As a result, fiscal deficits (borrowings resulting from excess of expenditure over income) are mounting, and the Debt to GSDP ratio is growing to unsustainable levels. The FRBM Act prescribes that the Debt to GSDP ratio should be at 40% for the Union and 20% for the states.[14] However, the Union debt is about 60% in FY23 GDP,[15] and state debts are at

[13] Supra 11.
[14] The Fiscal Responsibility and Budget Management Act, 2003, s.4.
[15] Saksham Sood, et al., RBI Publications, "*Union Budget 2022-23: Some Pleasant Fiscal Arithmetic*" (March 17, 2022)

31.2% by FY 22.[16] Some states have much higher debt ratios – eg: Punjab: **48%**, Rajasthan: **40%**, West Bengal: **34%**, Kerala: **37%** (see Table 3).

Table 2: Revenue and Fiscal Balance of Select States (% of GSDP, FY21 & FY22)

States	Revenue Deficit (-) / Revenue Surplus (+)		Fiscal Deficit (-)/ Fiscal Surplus (+)	
	2020-21	2021-22 (RE)	2020-21	2021-22 (RE)
Andhra Pradesh	-3.5	-1.63	-5.44	-3.18
Telangana	-2.3	0.38	-5.06	-3.88
Tamil Nadu	-3.28	-2.54	-4.94	-4.17
Punjab	-3.27	-3.66	-4.26	-5.65
Rajasthan	-4.34	-2.98	-5.86	-5.18
Kerala	-3.23	-3.54	-5.12	0.06
Uttar Pradesh	-0.12	1.26	-2.81	-4.27
Madhya Pradesh	-1.88	-0.49	-5.11	-3.7
Odisha	1.67	3.29	-1.8	-0.38
West Bengal	-2.27	-2.15	-3.43	-3.47
Jharkhand	-0.98	0.14	-3.65	-2.59
Chattisgarh	-1.96	-0.26	-4.52	-3.81
Himachal Pradesh	0.06	-0.16	-3.64	-4.05

GSDP: Gross State Domestic Product; **FY:** Fiscal Year; **RE:** Revised Estimates

Note:
1. Revenue Deficits – Instances of States' revenue deficit exceeding 1% of GSDP have been highligted in red, to indicate the extent of the crisis. The threshold is purely illustrative.
2. Fiscal Deficit – Instances of States exceeding fiscal deficit limits have been highlighted in red. The net borrowing ceilings set by the Union Ministry of Finance for 2020-21 and 2021-22 were 5% and 4.5% of GSDP respectively.

Source: *Analysis of State Budgets of Major States 2022-23 in India, NIPFP Working Paper Series No. 386, National Institute of Public Finance and Policy*

These debt figures do not include off-budget loans of many states, which do not come under legislative oversight. And yet the Special Purpose Vehicles (SPVs) or other entities which borrowed the money with government guarantees, sometimes with future

[16] PRS India, "State of State Finances", pg. 17(2022).

government revenues directly flowing into an escrow account for debt repayment, have no revenue stream. The money is spent by the government or at the government's behest, and the government has to repay the amount. These SPVs have clearly been created only to be able to borrow in a non-transparent manner bypassing the FRBM scrutiny at least for some time. Often such loans carry a very high interest burden of 10-12% per annum. If these off-budget borrowings are included, the total debt burden of states is probably close to 35% of the GDP by FY22, and close to 40% by FY23 (see Table 3).

Table 3: Debt Burden of Select States

State	Outstanding Liabilities (2022) (Rs. Crores)	Government Guarantees* (Rs. Crores)	GSDP at Nominal prices (2021-22) (Rs. Crores)	Outstanding Liabilities to GSDP (exclusive of Government guarantees) (in %)	Total Liabilites to GSDP (inclusive of Government Guarantees) (in %)
Andhra Pradesh	398904	117503	1201736	33.19	42.97
Telangana	312191	135283	1148115	27.19	38.97
Tamil Nadu	659869	91818	2065436	31.95	36.39
Punjab	282865	22261	584042	48.43	52.24
Rajasthan	477177	84896	1196137	39.89	46.99
Kerala	335989	31714	901998	37.25	40.77
Uttar Pradesh	653308	153836	1863221	35.06	43.32
Madhya Pradesh	317737	34992	1169004	27.18	30.17
Odisha	167206	7068	642087	26.04	27.14
Himachal Pradesh	74686	1880	175173	42.64	43.71
Chhattisgarh**	114201	19611	400061	28.54	33.44
Jharkhand	117790	1553	343178	34.32	34.77
West Bengal***	528833	6593	1536681	34.41	34.84

GSDP: Gross State Domestic Product

Notes:
* Government Guarantees for states are for latest years as available - Andhra Pradesh (2021-22), Telangana (2021-22), Tamil Nadu (2021 RE), Punjab (2022 RE), Rajasthan (2021), Kerala (2020-21), Uttar Pradesh (as of 31 March 2021), Madhya Pradesh (as of 31 December 2021), Odisha (2021 RE), Himachal Pradesh (2020), Jharkhand (2019), West Bengal (2019).

**Chhattisgarh - Figure for the State's Government Guarantees is as of December 2021 and its GSDP corresponds to Revised Estimates 2021-22. These figures have been taken from Chhatisgarh Budget Analysis 2022-23, PRS. Outstanding Liabilites of the State have been taken from Table 165 of RBI's Handbook of Statistics of Indian States 2021-22.

*** West Bengal - Outstanding Liabilites of the State and the GSDP correspond to Revised Estimates (RE) of 2021-22, as reported by the West Bengal Government in their 'Medium Term Fiscal Policy & Fiscal Policy Strategy Statement 2022-23'. Their Government Guarantees have been taken from Table 166 of RBI's Handbook of Statistics of Indian States 2021-22.

Sources:
1. Outstanding Liabilties – Table 165, Handbook of Statistics of Indian States 2021-22 by RBI
2. Government Guarantees – Table 166, Handbook of Statistics of Indian States 2021-22 by RBI; State Budget Documents, PRS Analysis of State Budgets
3. GDP at Nominal Prices – Table 24; Handbook of Statistics of Indian States 2021-22 by RBI

Incurring high debt burden for current expenditure means that the debt servicing burden will grow over time without increase in revenues because adequate investments for further growth are not made.

The high ratio of debt to meet current expenditure needs is largely because of committed expenditure and individual short-term welfare (ISW) measures that will only meet current desires and needs without promoting growth or future incomes to people. As a result, no matter how many ISW measures are in place, there is only temporary relief from the burden of poverty, and there is no prospect of rising incomes in the future. Poverty therefore is perpetuated, and the poor will continue to remain poor without the opportunities for skills, employment and higher incomes in future.

VII. Short-term Incentives vs. Long-term Public Good

All democracies have a fundamental political challenge. The candidates, leaders and parties have to make difficult and painful choices in the face of limited resources and unlimited wants. When the candidate or a party goes to the people, they have to offer temporary relief from the burden of poverty and high cost of living, and long-term hope of economic growth, rising incomes and escape from poverty and entry into the middle classes. Often there is a clash between the short-term political incentives, and the long-term public good they have to pursue. World over, even in rich countries, voters are attracted to short-term relief. Even in the USA, the massive cash transfers made by the Biden administration toward Covid relief, and the student debt waiver were very popular. In France, another wealthy country, the workers are resisting President Macron's proposal to increase the retirement age from 62 years to 64 or 65 years in order to reduce the pension burden on future generations; this despite the fact that in most of Western Europe and the USA the retirement age is about 65 years.

In a poor, developing country like India, it is particularly important to invest in infrastructure, basic amenities, rule of law, service delivery, and quality education and healthcare in order to boost investment and growth, enhance productivity and promote

prosperity. Otherwise the economy will stagnate and poverty will be perpetuated, and we will never catch up with more prosperous countries, thus stunting the future of our children.

i. Curb Borrowings for Current Expenditure

If we take the committed expenditure, it broadly is composed of salaries, pensions and interest payments on past debt incurred. Of these, salaries and interest payments are inevitable expenditure; however with NPS, over the long-term the outflow from the exchequer can be reduced to zero. When it comes to ISW, it is neither fair nor prudent to withdraw various welfare schemes which are being implemented by the Union and states. But ISWs can be restructured to reduce wastage and corruption, and a reasonable restraint can be exercised to ensure that ISW expenditure is either frozen for some years, or its growth is less than the growth in revenues. Both NPS implementation and restraint on ISW will eliminate revenue deficits within a few years. At the very least we should make sure that we do not spend borrowed money for committed expenditure and ISW.

ii. Zero Revenue Deficit

In a democracy, elected governments and legislatures have a right and duty to decide how to spend public money and what programmes to design and implement; that is the essence of sovereignty. Therefore any external effort to identify each ISW programme, assess its merits and demerits, and approve or reject it is simply neither feasible nor desirable. In a politically polarized and surcharged atmosphere, such an evaluation and value judgment of each ISW measure will not be acceptable, and will lead to further polarization and fruitless polemics. Therefore only a broadly acceptable, measurable indicator should be applied to monitor and moderate or regulate public expenditure. Given our social norm of thrift and protecting income and assets of future generations, a simple norm of not applying borrowed money for committed expenditure and ISW, and limiting all current or revenue expenditure to current revenues with no revenue deficit would be the most pragmatic and effective method of improving public finances.

iii. Power Sector Challenges

Curbing revenue deficits and improving public finances acquire great urgency in the context of two present and impending developments which will further weaken public finances. For long, electricity has been supplied to various groups of customers at a heavily subsidised cost or free. This not only put the utilities in financial crisis, but use of unmetered power has precluded proper energy audit and stymied systematic attempts to reduce distribution losses. Because of failure to recover costs from consumers and inefficient power grid, the annual losses accruing to all power distribution companies taken together is of the order of Rs. 100,000 crores,[17] and the losses have not reduced despite years of effort and various rescue programmes (see Table 4 and Figure 4).

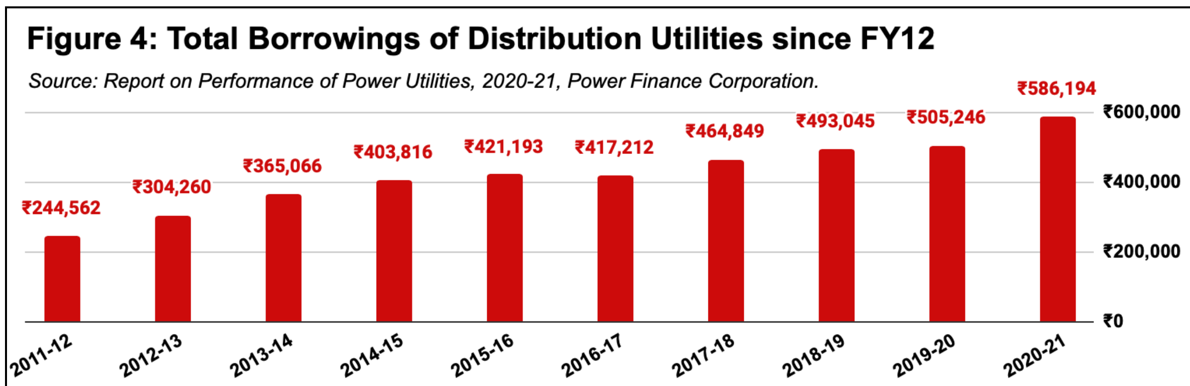
Table 4: States with the Most Financially Distressed Distribution Utilities

State	Annual Loss (FY21) (Rs. Crores)	Outstanding Debt (as of FY21) (Rs. Crores)
Tamil Nadu	17970	145322
Uttar Pradesh	10822	81952
Rajasthan	5994	53030
Madhya Pradesh	9883	50702
Maharashtra	6836	40236
Andhra Pradesh	7350	34288
Telangana	6686	31032
Karnataka	5382	29795
West Bengal	3863	22993

FY: Fiscal Year

Source: *Report on Performance of Power Utilities 2020-21, Power Finance Coporation*

[17] Power Finance Corporation Ltd., "Report on Performance of Power Utilities 2020-21" (2022).



These deficits in the power sector will inevitably grow over the next two or three decades on account of the necessary and inevitable transition to renewable energy. On the one hand, high paying customers will switch to solar and other renewable power with net metering system. On the other hand, the utilities will still have to service agriculture and low-end customers whose tariffs will not recover the cost of supply. At the same time, the utilities will have to maintain the base load stations for all customers to meet the night time needs of consumers who switched over to solar power. The utilities will also have to honour the Power Purchase Agreements (PPAs) with Independent Power Producers (IPPs) and generation companies (GENCOs) as their power plants are installed at enormous capital cost. This additional burden of energy transition has to be borne either by the consumers through tariffs, or by the exchequer through taxes. Consumers are already heavily subsidised, and there is a limit beyond which taxes cannot be raised. High taxes will not only be politically painful, but there is a relationship between GDP per capita and tax-GDP ratio of a nation. India's tax-GDP ratio is about 18-19%[18] for the Union and States put together, and raising that ratio significantly is not a realistic proposition because of poverty and relatively poor delivery of services. These challenges of energy transition will have to be faced by all countries. For India, the pre-existing crises in power sector finances and public finances will make it twice as hard. It requires a detailed study to estimate the resource needs for energy transition. Some global studies

[18] The tax-to-GDP ratio includes non-tax revenue receipts of the States. The Actuals for the years preceding the Covid pandemic are: 18.49% (FY 2017-18); 18.52% (2018-19); 17.14% (2019-20).

indicate that the global cost of $15 Trillion may be the additional cost of energy transition, and it is reasonable to assume India will probably have to spend about 6-7% of it, or $1 Trillion, or about Rs. 80 lakh crores over 20 or 30 years.

iv. Perils of Non-recovery of Costs

Increasingly, there is a tendency on the part of political parties and elected governments to offer free power, water and other services and commodities. What started as free, unmetered power to farmers has spread to other services like water. In Punjab, with free power up to a consumption of 300 units per month, it is reported that 84% of households are covered by free power.[19] In an already stressed sector like electricity, free power is further deepening the financial crisis, with losses and debt burden mounting. But the loss to society is greater than the financial loss to the utilities. Free power, water or other services weakens consumer voice and accountability. Overtime, the quality of services will decline on account of inadequate resources to maintain the system properly, and the loss of consumer voice and accountability. This leads to a downward spiral and a vicious cycle of inadequate resources, weak consumer voice and accountability, decline in quality of services, erosion of assets over time and eventual collapse of the service.

Increasingly many paying customers are creating innovative projects like gated communities with all amenities, and they are isolating themselves from the rest of society and polity. The net result is increasing decay of public systems and infrastructure, greater class division and ghettoisation, and potential rise in crime, violence and disorder, further depressing growth, and deepening the fiscal crisis.

VIII. Union's Structural Deficit

The foregoing data and analysis clearly show that there is an urgent and vital need to improve the health of public finances in states. The problem is not limited to states. The Union finances have been managed more prudently by successive governments since

[19] "300 unit free power scheme launched in Punjab, 60 lakh to benefit", The Tribune, 03 July 2022.

1991. The current government has been particularly conscious of the need for fiscal prudence, and has done a highly creditable job in the face of grave difficulties. However, the Union has a structural revenue deficit. As the table shows, after transfers to states (including for centrally sponsored schemes, and capital investment support), interest payments, of salaries and pensions, the Union is saddled with a structural deficit of Rs. 5.61 lakh crores (see Table 5).

The Union has no control over this expenditure. Sudden cessation of centrally sponsored schemes, MGNREGA etc will create havoc. Even though a part of transfers to states are for capital expenditure, the fact of the matter is the Union has a revenue deficit of Rs. 9.9 lakh crores[20] even after accounting for this capital spend. In any case, the Union too is starved of resources for investment for future growth. Therefore concerted efforts are needed to address revenue deficits both at the State and the Union level. It is realistic that all states can meet a zero revenue deficit target within 1-3 years; but the Union may need up to five years to restructure its finances and meet a revenue deficit target of zero even as the transfers to states are not affected significantly. In the long run however, with the NPS firmly in place, the Union will be well placed to manage the public finances provided no future government reverts to OPS. Such a switch will spell a disaster to future public finances and growth prospects of the country, and will severely undermine India's credibility in the world, and seriously dampen investments and erode our credit-worthiness.

[20] Union Budget Documents 2022-23, Budget Division, Ministry of Finance, Government of India.

	Table 5: Resources of the Union Government (Rs. Crores)				
	Heads	**2019-20**	**2020-21**	**2021-22 RE**	**2022-23 BE**
A	Gross Tax Revenue of the Union Government	2010059	2027104	2516059	2757820
B	Transfer of Resources to States and UTs with Legislatures	1145488	1320053	1603355	1611782
	Devolution of States share in Taxes	650678	594997	744785	816650
	Finance Commission Grants	123710	184063	211065	192108
	**Other Transfers including Centrally Sponsored Schemes*	371100	540993	647505	603024
C	Salaries and Pensions (including Defense)	431504	661032	700868	766395.4
D	Interest Payments	612070	679868	813791	940651
E	**Net Resources available with the Union Government (A-B-C-D)**	**-179003**	**-633849**	**-601955**	**-561008.4**
F	Revenue Deficit	666545	1449599	1088352	990241
G	*Revenue Deficit as a percentage of GDP*	*3.3*	*7.3*	*4.7*	*3.8*

RE: Revised Estimates; **BE:** Budget Estimates; **GDP:** Gross Domestic Product

Note: *Other Transfers* include all transfers except Devolution of States' share in Taxes, and Finance Commission Grants

Sources: *Budget at a Glance, Union Budget Documents 2019-20, 2020-21, 2021-22, 2022-23.*

IX. A Case Study: Telangana, Andhra Pradesh, Tamil Nadu & Odisha

An analysis of public finances of select states reveals that even states which have great advantage because of high industrialisation, high per capita income and big cities as engines of rapid growth can incur huge revenue deficits if they are lax about the health of public finances. Similarly, even the states with low per capita income and no advantage of big cities can manage their finances well and show healthy revenue surpluses. What is more, political stability, electoral viability and healthy public finances can go together. The two Tables (6 & 7) show the comparison between Telangana State, Andhra Pradesh, Tamil Nadu and Odisha

Telangana had the highest surplus resources of about Rs. 1,18,000 crores between 2014-15 and 2019-20 as recorded by the Fourteenth Finance Commission.[21] However, fiscal profligacy in the form of ISWs, significant increase in wages of government employees, and vast expenditure on unviable capital projects have created fiscal stress. The state, which should have a healthy revenue surplus, recorded a revenue deficit of over Rs. 22,000 crores by 2020-21.[22] .

Table 6: Revenue Balance over the Years – TS, AP, TN & OD				
Years	**Telangana**	**Andhra Pradesh**	**Tamil Nadu**	**Odisha**
2014-15	370.00	-24193.26	-6408	5862
2015-16	240.00	-7301.87	-11985	10136
2016-17	1,390.00	-17193.72	-12964	9259
2017-18	3,459.40	-16151.68	-21594	13367
2018-19	4,337.10	-13898.60	-23459	14190
2019-20	-6,254.06	-26440.52	-35909	2430
2020-21	-22,298.02	-35540.46	-62326	9076

TS: Telangana; **AP:** Andhra Pradesh; **TN:** Tamil Nadu; **OD:** Odisha

Note: Revenue Deficit (-), Revenue Surplus (+)

Sources:
1. Revenue Deficits from 2014-15 to 2019-20 – Handbook of Statistics on Indian States 2021-22, Reserve Bank of India
2. Revenue Deficits for 2020-21 –
AP & TS: State Budget Documents, 2022-23
TN & OD: PRS State Budget Analyses, 2022-23

Andhra Pradesh, which had suffered on account of loss of revenue from a big metropolis (Hyderabad) with the division of the state, started with a huge revenue deficit. Because the state increased wages substantially and opted for multiple ISW programmes at high cost, the revenue deficit has mounted substantially despite significant support of the

[21] Fourteenth Finance Commission, "Fourteenth FC Report", Chapter 11, pg. 149 (2014).
[22] Telangana Budget in Brief 2022-23, Finance Department, Government of Telangana, pg. 4.

Union government in view of division of the state and loss of revenues. The power sector losses are relatively high because of ISW in the form of free power.

Tamil Nadu is a relatively prosperous state with a high degree of urbanisation and industrialisation, a big metropolis as a growth engine and high per capita income. Despite that, fiscal profligacy in the form of ISWs and relatively low revenue mobilisation meant that revenue deficits are very high. Even more striking, Tamil Nadu, which has a relatively small agricultural economy, is incurring huge annual losses of power distribution companies, and the DISCOMs are weighed down by a mountain of debt. When you compare these states with Odisha, the contrast cannot be more glaring. Odisha is relatively a less developed state with low per capita income and low urbanisation. And yet, Odisha has consistently generated healthy revenue surpluses, and the power utilities are well-managed and outstanding debt of DISCOMs is very low (see Table 7).

Table 7: Per capita Income & Losses of Distribution Utilities – TS, AP, TN & OD

Parameter	Telangana	Andhra Pradesh	Tamil Nadu	Odisha
Population (Crores)	3.85	5.39	7.78	4.63
Per Capita Net State Domestic Product (Rs.)	2,37,632	1,70,215	2,25,106	1,09,730
Annual Losses of DISCOMs (Rs. Crore)	6,686	7,350	17,970	928
Outstanding Debt of DISCOMs (Rs. Crore)	31,032	34,288	1,45,322	778

TS: Telangana; **AP:** Andhra Pradesh; **TN:** Tamil Nadu; **OD:** Odisha

Source:
1. Population – Projections 2020, State -wise Aadhar Saturation by UIDAI, accessed at-
https://uidai.gov.in/images/state-wise-aadhaar-saturation.pdf
2. Per Capita Net State Domestic Product – Table 1.11A, Per Capita Net State Domestic Product at Current Prices (2011-12 Series) as on 02.08.2021, Statistical Appendix, Economic Survey 2021-22.

Sound Fiscal policies and good health of public finances are not necessarily politically costly. The governing party in Odisha has been politically stable and popular, consistently winning elections since 2000. The Odisha story illustrates that balancing ISWs with growth, and fiscal prudence with political viability is eminently feasible.

X. Requirements of a Viable Framework

What then is a realistic framework for promoting fiscal health in a politically viable manner?

First, we should identify the minimum requirements of an effective model that will achieve the desired objective. A set of these requirements is listed here for wide public debate and careful consideration.

1. The model should be acceptable across the society and the political spectrum.
2. It should enable the Union and states to work in harmony with a common purpose, not at cross purposes.
3. The indicators identified should be measurable, reasonable, and widely understood and accepted.
4. The goals set should be realistic and achievable in a reasonable timeframe with reasonable restraint and prudence.
5. The norms should be applied uniformly for all states in a non-partisan manner.
6. The norms should apply to the Union as well in an impartial and transparent manner, giving due allowance to the structural deficit imposed on the Union.
7. The sovereignty of elected legislatures and governments should be respected, and there should be enough flexibility of political choices and resource deployment without micro-management from outside.
8. The perverse and paradoxical short-term incentive to revert to NPS should be eliminated.
9. There should be reasonable safeguards to ensure that revenue expenditure is not misclassified as capital expenditure, and the capital deployed meets reasonable standards of cost-benefit analysis without external micro-management.

XI. Outlines of a Politically Viable Framework

Based on the above requirements, the following could be the key features of a viable framework for ensuring fiscal prudence in the Union and States.

1. Along with the existing norms of FRBM Act, viz: Fiscal Deficit (FD) and Debt-GSDP ratio, Revenue Deficit targets should be reinstated for both the Union and the states (in the Finance Act 2018, the Revenue Deficit target was deleted from the Union government's FRBM framework).[23] An adherence to zero revenue deficit would be the only politically viable, practically feasible, and widely acceptable norm to ensure fiscal health of the Union and states. In respect of states, a maximum period of three years may be allowed to reach the target, subject to the condition that revenue deficit should show a steady and significant decline annually during this period. The states that already have no revenue deficits should be required to show steady increase in revenue surpluses during the period.

2. The Union has a structural deficit on account of huge transfers to states which cannot be reduced. At present the Union's Revenue Deficit as per 2022-23 BE is Rs. 9.9 lakh crores, or 3.8% GDP.[24] The Union may be given a period of five years, or a maximum of seven years if needed as per expert analysis, to meet the zero revenue deficit target. Corresponding amendments may be made in FRBM Act.

3. Articles 293(3) and 293(4) of the Constitution provide the legal mechanism for the Union to monitor and impose fiscal discipline on States (see Annexure 4). Under Article 293(3), the Union's consent is needed for a State to borrow funds, and under Article 293(4), the Union may impose conditions for granting consent to states to borrow. States should be required to meet and maintain zero revenue

[23] Fiscal Responsibility and Budget Management (Amendment) Acts, 2018, Part XV, s. 212.
[24] Union Budget Documents 2022-23, Budget Division, Ministry of Finance, Government of India.

deficit targets and later revenue surplus targets under 293(4) as a condition for consent to borrow.

4. There should be an independent, credible institution to exercise the functions under Article 293, subject to any law or laws made by parliament. Given the political sensitivity of the issue in a robust federal democracy, and the fierce political competition and intense polarization in the country, if the Union bureaucracy under direct political control exercises these functions, it will not carry conviction.

   It will be best to insulate monitoring and decisions from the appearance of partisan politics, and entrust them to a professionally competent, independent, credible authority. One relatively easy and widely acceptable approach would be to entrust it to the Finance Commission (FC) established under Article 280 (see Annexure 5). The FC has the competence, credibility and expertise, and has gained wide acceptance across the political spectrum over the decades. The FC needs to be made a permanent body like the Election Commission of India (ECI). Now it is an ad hoc body constituted every five years. The appropriate amendment may be carried out, and Parliament may make a law entrusting the monitoring of the fiscal health of the Union and States and exercising the functions under Article 293(4) to the FC.

   Alternatively a Fiscal Council may be constituted as per the recommendations of the FRBM Review Committee headed by Shri NK Singh. In either case, the FC or Fiscal Council should specifically be entrusted with the task of exercising the functions of Article 293 as explained above. The Permanent Finance Commission or the Fiscal Council should be empowered to monitor the fiscal health of both the Union and states, and the grant of consent for state borrowings should be subject to zero revenue deficit / revenue surpluses, and such other conditions as may be imposed under Article 293 (4).

5. Special grants are now being provided to states to meet the Revenue Deficit. Such grants create a perverse incentive for states to overspend on revenue items and depend on GoI grants without any consequences. Therefore the Revenue Deficit grants to all states including special category states should be phased out with the end of the 15th Finance Commission period. Zero Revenue Deficit norm and future revenue surplus norms should be applicable to all states equally on a permanent basis.

6. In the UK, the Office for Budget Responsibility (OBR) was created in 2010, and given statutory status as a non-departmental public body under the Budget Responsibility and National Audit Act 2011[25]. The OBR is a central part of the UK's fiscal framework, with a main duty to examine and report on the sustainability of the public finances. Its primary role is to carry out independent and authoritative analysis of the UK's public finances. Its core functions include forecasts of the economy and public finances, evaluation of the Government's performance against its fiscal targets, scrutiny of government's policy costings, assessment of the long-term sustainability of the public finances, and welfare spending analysis. OBR does not take any position on the policies or welfare programmes proposed, and does not make any policy recommendations. Its role is limited to independent and authoritative analysis, forecasts and costing. Similarly, the USA created the Congressional Budget Office (CBO) in 1974 as a nonpartisan body to produce independent analysis of budgetary and economic issues to support the Congressional budget process.

   Independent, accurate and credible analysis, forecasts and costings of programmes are vital for a viable framework for fiscal prudence. Therefore an equivalent of Office for Budget Responsibility should be created in the Office of Comptroller and Auditor General (C&AG), or the permanent Finance Commission or the

[25] Office for Budget Responsibility, "Office for Budget Responsibility and HM Treasury: framework document" (2019).

proposed Fiscal Council with similar functions as the OBR in the UK. Article 150 can be applied for this purpose.

The Parliament may empower and strengthen the OBR by law to make it mandatory to subject all public finances and major expenditure proposals and welfare programmes to OBR's analysis, costing and forecasts. Such a process will inform the governments and legislatures of the Union and states of the long-term implications of their policy proposals and the sustainability of public finances. A healthy public debate based on verified facts and analysis will also promote public awareness and strengthen the framework for long-term health of public finances.

7. In respect of NPS, if any government wishes to opt out of it, the public finances of the state should be subjected to rigorous scrutiny and analysis, and such an option should be discouraged under FRBM Act provisions and the conditions that may be imposed under Article 293(4). In any case, the perverse incentive of transferring the accumulated contribution pension fund and the corresponding portion of AUM pertaining to the state should be retained with AUM, and only the yields and income generated should be transferred annually to the state. Appropriate provisions should be made in FRBM Act and other statutes relevant to long-term health of public finances.

8. Once the zero-revenue deficit norm is implemented fairly and uniformly, fiscal profligacy will give way to fiscal prudence. However governments sometimes do take up unviable large vanity projects, investment in which cannot be justified by any meaningful cost-benefit analysis. The iron law of economics is that wants always outstrip resources, and there are always trade-offs in deployment of resources. If a private individual spends lavishly for unproductive purposes, their family alone suffers. If a private enterprise does not exercise prudence and sound judgement in expenditure and investments, the market will punish the company, and they will lose market share or become insolvent. But the government enjoys a

monopoly in its functions, and there is no competition. Government bankrupts the whole society and undermines the future of the succeeding generations by fiscal profligacy. And the government has coercive power to silence the people if there are no safeguards and checks and balances. There are increasing instances of governments incurring huge, unsustainable debts for unviable projects. The fact that such lavish expenditure is incurred under capital account does not promote the health of the public finances if the benefits are paltry, public finances are strained, debt burden is unsustainable, and the returns on investment are paltry or negative. Therefore there should be cost-benefit analysis of very large public works proposed by governments by the OBR-like organisation proposed above; the authority to monitor fiscal health and accord approval for borrowing under Article 293 should have the power to withhold consent for such loans if the cost benefit analysis shows that it will adversely affect the long-term health of public finances.

i. Minimalist Framework

The above framework is minimalist in nature focusing on eliminating revenue deficits, subjecting public finances to independent analysis and costing while respecting the sovereignty and powers and functions of elected government and legislatures. Such an approach will eliminate the clash between ISW and economic growth, and will harmonise both. There is a need to address the immediate concerns and needs of the poor, even as we protect the long-term health of public finances and promote growth, prosperity and opportunity for all while ensuring intergenerational equity. Such a framework is likely to build a consensus across the political spectrum and between the Union and states.

XII. Conclusion

The most important faultline emerging in our electoral politics in recent times is between long-term growth and ISW. In such polarised elections in a poor country ISW will win hands down most of the time. World over, even in rich countries, voters prefer ISW. The recent reversal of course in several states reverting to OPS from the fiscally sound NPS is

a danger signal to public finances. Fiscal profligacy in the form of ISW and OPS pose the greatest and most proximate danger to India's growth prospects. The great challenge of democracy is reconciling short term political profit with long-term public good. There is increasing temptation to risk the future of youth for temporary political gains. We need to build a fresh consensus on long-term fiscal health if we are to enjoy long-term, sustained high growth and prosperity. If we allow elections to be a clash of ISW vs. growth, the prospects of high growth over the next two or three decades will vanish. India would have squandered a priceless opportunity to grow the economy rapidly, end poverty and give opportunity for all in a generation. We need to build an acceptable framework to balance ISW with growth. This paper is a modest attempt to analyse the relevant issues, raise awareness, promote healthy debate on our public finances, and help build a consensus.

i. Growth vs. Redistribution

Those who are not familiar with the compounding effect of high growth rates may genuinely believe that high growth rate is not important. Similarly, those who are compassionate by nature and are ideologically inclined to believe that the government's main purpose is redistribution of wealth, and therefore, also believe that ISWs are more important than investments for the future. These genuine concerns should be addressed transparently and logically.

As Poonam Gupta and Arvind Panagriya pointed out, the difference between sustained 7% growth rate versus 8% growth rate over ten years for an economy of India's size would mean a difference in GDP of $600 billion or about Rs. 50,00,000 crores of GDP lost per year after 10 years. Our tax-to-GDP ratio is about 18-19%[26]. Loss of Rs. 50 lakh crores GDP means that the Union and states lose over Rs. 9 lakh crores revenue every year, which could have been deployed for more ISW promoting welfare, and better infrastructure to promote further higher growth and employment. Even during the next 10

[26] Supra 18.

years, a loss of 1% annual growth means the revenues lost to governments will be of the order of Rs. 50,000 crores in the first year, and Rs. 2,88,000 crores at the end of five years.

ii. Poor suffer when core functions are neglected

The other issue of redistribution's impact on poverty should be carefully analysed. Focus only on redistribution leaving few resources for investment for the future, and for competent delivery of government's core services and functions has two devastating consequences to the lives of the poor. If there is no investment to promote future growth, poverty will be perpetuated, and employment and incomes will not rise. There is a strong case for focusing on labour-intensive growth and strategies for promoting employment and formalisation of the large unorganised, informal workforce. But there is no rational or realistic case to argue against robust economic growth in order to eliminate poverty.

The other danger of redistribution and ISW is depriving resources for core functions of government. Good quality roads, water supply, sewerage, storm water drainage, school education, and healthcare are critical for the poor who lead precarious lives. Failure of these basic services for want of resources will disproportionately affect the lives of the poor adversely. Even more important, if governments fail to improve rule of law and if rights of all citizens irrespective of wealth and power are not protected, then the poor will suffer the most. When rule of law fails, might becomes right and society will descend into new feudalism or jungle raj with armed marauders controlling the streets. When public order collapses, rights are not enforced equitably, crimes are not punished swiftly and surely, and disputes are not settled speedily and fairly, the poor will be the worst sufferers. Already, in our jails, over 70% are undertrial prisoners[27] who, because of poverty, could not afford a lawyer or post bail. Most of the convicts in criminal cases are the poor, and the wealthy escape conviction by strong legal representation and other tactics in a dysfunctional system.

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[27] Atul Thakur and Rema Nagarajan, *"Undertrials comprise 75% of India's prison population, most in a decade"*, The Times of India, 14 Feb 2022.

By any stretch of imagination, neglect of healthy public finances and exclusive focus on ISW at the cost of government's core functions and capital investments to promote future growth, the poor are the worst sufferers. In addition, by foregoing future revenues because of stunted growth with primary focus on ISW today, future ISW needs are neglected for want of resources.

iii. Can public finances be restored to health?

One question we have to address is, can public finances be restored to sound health with the minimal measures proposed in this paper. There is every reason to be optimistic. India is a developing country with a fast growing economy. With 7% growth and inflation of 4-6%, the nominal growth will be 12% per annum. This will increase government revenues by about 12% per annum. If the NPS commitment is not diluted, and ISWs are frozen at current level, or their growth in expenditure terms is kept at a moderate level well below the nominal growth rate, over a relatively short period of three to five years the share of committed expenditure and ISWs in revenues will fall significantly. Revenue deficits will soon disappear.

Table 8 shows the significant increase of revenues of the Union government since 1998-99. While the revenues of Government of India (GoI) stood at Rs. 2,54,369 crores in 1998-99, by 2022-23, the revenue estimates shot up by 11 times to Rs. 27,57,820 crores.

Similarly, the erstwhile state of Andhra Pradesh (comprising present day AP and Telangana) had a revenue of Rs. 20,361 crores in 1998-99; the combined revenue estimates of Andhra Pradesh and Telangana in 2022-23 are Rs. 3,84,254 crores, a 19 fold increase.

Table 8: Growth in Government Revenues – Union and erstwhile Andhra Pradesh						
Years	**Union Government**		**Andhra Pradesh**		**Telangana**	
	Total Expenditure (Rs. Crores)	**Revenue Receipts (Rs. Crores)**	**Total Expenditure (Rs. Crores)**	**Revenue Receipts (Rs. Crores)**	**Total Expenditure (Rs. Crores)**	**Revenue Receipts (Rs. Crores)**
1998-99	372250	254369	20361	14260	Not Applicable	Not Applicable
2022-23	3944909	2757820	256256	191225	256858	193029

Sources:
1. 1998-99 figures – C&AG Archives
2. 2022-23 figures – respective State Budget documents for 2022-23, Union Budget 2022-23

If reasonable steps are taken to freeze ISW or allow moderate growth in expenditure below nominal growth rate, the compounding effect of nominal growth rate in a growing economy will quickly restore health of public finances.

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EPILOGUE

LOW-HANGING FRUIT

This paper makes a case for a balanced, politically viable framework to reconcile ISW with long-term growth. However, experience world over shows that fiscal prudence is a painful medicine to swallow.

In a robust democracy people need to see and experience quick and positive results from governmental action. Otherwise the political capital of a government may soon evaporate with fiscal discipline. It is therefore prudent to identify and efficiently execute tangible programmes that will benefit the people, especially the poorer sections, in a visible and measurable manner. And the programmes should be relatively low-cost, the benefits should be real and substantial, and the net outcome should help reduce poverty, improve productivity and stimulate growth and employment.

Improvements in delivery of school education and healthcare are two critical and obvious goals that merit serious consideration. In the case of school education, a sound policy is already in place and public expenditure is significant. Our school education outcomes are abysmal. However by its very nature education outcomes take years of effort and coordination. No new resources are required; it only calls for restructuring expenditure to deploy resources more efficiently. And the Union and states need to work in concert along with millions of teachers, parents, administrators and management. Therefore significant positive results are unlikely in a short span of time.

Healthcare is underfunded with the combined public expenditure of the Union and states at a paltry one percent (1%) of GDP.[28] While health outcomes are unsatisfactory, the public health sector is providing services valued at Rs 4 for every rupee spent. At a relatively low incremental annual expenditure of about Rs.15,000 crores/year, a viable universal programme of family doctors can be launched. Involvement of willing private

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[28] Ministry of Health and Family Welfare, "National Health Accounts Estimates for India 2016-17", pg. 5-6,10,11 (2019).

practitioners, making available a pool of doctors in a small town for every one lakh population, competition among providers and choice to the patients, payment of compensation to the doctors on the basis of the number outpatient visits, free diagnostics, free drugs and proper maintenance of medical records can be integrated in the model. The programme can be rolled out in a phased manner. It can be universal in scope, though only about 70% may utilize the free, public-funded services. Or it can be limited to the poor and middle classes.

The benefits of such a programme are immense. Every citizen will have access to proper scientific care at the first point of contact. Patients can choose the doctor, and there will be competition among doctors, thus enhancing quality of services and ensuring accountability. About 54 million people are estimated to be descending into poverty every year in India on account of lack of access to healthcare, or unaffordable cost of care and lost income.[29] As AB-PMJAY already provides free hospital care, the free outpatient care can be fully integrated as end-to-end service to patients. Much of the descent into poverty and morbidity in India are for want of proper primary care, and early diagnosis and management of growing non-infections, chronic diseases. Therefore a properly designed and efficiently executed family physician programme will enjoy wide popular support.

A functioning, accessible, efficient primary care system will reduce poverty and enhance productivity, thus stimulating the economy. With proper steps, vast employment can be generated in the health sector.

A family physician-led primary care system will garner massive public support, and will give the government the political space needed to pursue long-term growth and poverty eradication. Therefore a proposal for a low-cost, high-impact, family physician-led primary care system with public-private partnership is presented as a companion paper with this proposed framework for fiscal prudence.

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[29] Sakthivel Selvaraj, et al., *"Quantifying the financial burden of households' out-of-pocket payments on medicines in India: a repeated cross sectional analysis of National Sample Survey data 1994-2014", BMJ Open 2018, pg. 5.*

ANNEXURES

Annexure 1: Health of Select Public Sector Banks, FY14-FY22 (Gross & Net Non Performing Assets, in %)

Health of Select Public Sector Banks, FY14-FY22 (Gross & Net Non Performing Assets, in %)																		
	2013-14		2014-15		2015-16		2016-17		2017-18		2018-19		2019-20		2020-21		2021-22	
Banks	**Gross NPAs**	**Net NPAs**	**Gross NPAs**	**Net NPAs**	**Gross NPAs**	**Net NPAs**	**Gross NPAs**	**Net NPAs**	**Gross NPAs**	**Net NPAs**	**Gross NPAs**	**Net NPAs**	**Gross NPAs**	**Net NPAs**	**Gross NPAs**	**Net NPAs**	**Gross NPAs**	**Net NPAs**
State Bank of India	4.95	2.57	4.25	2.12	6.5	3.81	6.9	3.71	10.91	5.73	7.53	3.01	6.15	2.23	4.98	1.5	3.97	1.02
Punjab National Bank	5.25	2.85	6.55	4.06	12.9	8.61	12.53	7.81	18.38	11.24	15.5	6.56	14.21	5.78	14.12	5.73	11.78	4.8
Bank of Baroda	2.94	1.52	3.72	1.89	9.99	5.06	10.46	4.72	12.26	5.49	9.61	3.33	9.4	3.13	8.87	3.09	6.61	1.72
Canara Bank	2.49	1.98	3.89	2.65	9.4	6.42	9.63	6.33	11.84	7.48	8.83	5.37	8.21	4.22	8.93	3.82	7.51	2.65
Union Bank of India	4.1	2.3	4.96	2.71	8.7	5.25	11.17	6.57	15.73	8.42	14.98	6.85	14.15	5.49	13.74	4.64	11.11	3.68

NPA: Non Performing Asset

Note:
1. Gross NPAs = (Gross NPA/Gross Advances)*100
2. Net NPAs = (Net NPA/Advances)*100

Sources:
1. State Bank of India Annual Reports, accessed at https://sbi.co.in/web/corporate-governance/annual-report
2. Punjab National Bank Annual Reports, accessed at https://www.pnbindia.in/annual-reports.html
3. Bank of Baroda Annual Reports, accessed at https://www.bankofbaroda.in/shareholders-corner/financial-reports
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Annexure 2: Burden of Committed Expenditure on States Resources for Select States (2020-21, Actuals)

Burden of Committed Expenditure on States Resources for Select States (2020-21 Actuals)					
States	**Committed Expenditure (in Rs Crores)**	**States' Own Revenues (in Rs Crores)**	**States' Revenue Receipts (in Rs Crores)**	**Committed Expenditure as % of States' Own Revenues**	**Committed Expenditure as % of States' Revenue Receipts**
Maharashtra	168848	180255	269468	93.67%	62.66%
Gujarat	75453	80759	128156	93.43%	58.88%
Tamil Nadu	120985	116575	174076	103.78%	69.50%
Odisha	41276	53776	104387	76.76%	39.54%
Kerala	67646	54988	103383	123.02%	65.43%
Andhra Pradesh	78070	60823	117136	128.36%	66.65%
Rajasthan	99260	73936	134308	134.25%	73.90%
Chhattisgarh	34398	30026	63176	114.56%	54.45%
West Bengal	111835	65485	148394	170.78%	75.36%
Punjab	57402	34205	69048	167.82%	83.13%
Telangana	55548	72752	100914	76.35%	55.04%
Karnataka	72706	104947	156716	69.28%	46.39%

Data from this table has been used to generate Figures 1 and 2.

Sources:

1. Figures for All States (except Odisha & Andhra Pradesh) – PRS Analyses of State Budgets 2022-23

2. Own Revenues and Revenue Receipts for Odisha and Andhra Pradesh – PRS Analyses of State Budgets 2022-23

3. Committed Expenditures for –

a. Odisha - Report No. 2 of 2022 – State Finances, Government of Odisha by C&AG, pp. 34.

b. Andhra Pradesh – Report No. 1 of 2022 - State Finance Audit Report for the year ended 31 March 2021, Government of Andhra Pradesh by C&AG, pp. 37.

Annexure 3: Andhra Pradesh: Projections of Key Fiscal Indicators upon Reverting to OPS

Andhra Pradesh: Projections of Key Fiscal Indicators upon Reverting to OPS					
Indicator	**2022**	**2030**	**2040**	**2050**	**2100**
Pension as % of Revenue Receipts	11.00	16.00	19.50	28.60	38.90
Debt-to-GSDP Ratio	38.00	53.00	77.00	107.00	211.00
Fiscal Deficit	3.00	4.80	6.10	8.10	10.70
Salary and Pensions as % of States' Own Revenues	74.10	97.70	110.60	129.20	NA

NA: Not Available

Data from this table has been used to generate Figure 3(a-d).

Source: *Government of Andhra Pradesh communication dated 28/08/2022*

Annexure 4: Articles 292 and 293 of the Constitution of India

PART XII
FINANCE, PROPERTY, CONTRACTS AND SUITS

CHAPTER II -- BORROWING

Article 292. Borrowing by the Government of India.
The executive power of the Union extends to borrowing upon the security of the Consolidated Fund of India within such limits, if any, as may from time to time be fixed by Parliament by law and to the giving of guarantees within such limits, if any, as may be so fixed.

Article 293. Borrowing by States.
(1) Subject to the provisions of this article, the executive power of a State extends to borrowing within the territory of India upon the security of the Consolidated Fund of the State within such limits, if any, as may from time to time be fixed by the Legislature of such State by law and to the giving of guarantees within such limits, if any, as may be so fixed. (2) The Government of India may, subject to such conditions as may be laid down by or under any law made by Parliament, make loans to any State or, so long as any limits fixed under article 292 are not exceeded, give guarantees in respect of loans raised by any State, and any sums required for the purpose of making such loans shall be charged on the Consolidated Fund of India. (3) A State may not without the consent of the Government of India raise any loan if there is still outstanding any part of a loan which has been made to the State by the Government of India or by its predecessor Government, or in respect of which a guarantee has been given by the Government of India or by its predecessor Government. (4) A consent under clause (3) may be granted subject to such conditions, if any, as the Government of India may think fit to impose.

Source: *Constitution of India, accessed at http://constitutionofindia.etal.in/*

Annexure 5: Article 280 of the Constitution of India

PART XII

FINANCE, PROPERTY, CONTRACTS AND SUITS

CHAPTER 1 -- FINANCE

General

Article 280. Finance Commission.
(1) The President shall, within two years from the commencement of this Constitution and thereafter at the expiration of every fifth year or at such earlier time as the President considers necessary, by order constitute a Finance Commission which shall consist of a Chairman and four other members to be appointed by the President. (2) Parliament may by law determine the qualifications which shall be requisite for appointment as members of the Commission and the manner in which they shall be selected. (3) It shall be the duty of the Commission to make recommendations to the President as to- (a) the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them under this Chapter and the allocation between the States of the respective shares of such proceeds; (b) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India; (bb) the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats in the State on the basis of the recommendations made by the Finance Commission of the State; (c) the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State; (d) any other matter referred to the Commission by the President in the interests of sound finance. (4) The Commission shall determine their procedure and shall have such powers in the performance of their functions as Parliament may by law confer on them.

Source: *Constitution of India, accessed at http://constitutionofindia.etal.in/*

Annexure 6: Constitutional Provisions pertaining to the Comptroller and Auditor-General of India

PART V
THE UNION

CHAPTER V -- COMPTROLLER AND AUDITOR -GENERAL OF INDIA

Article 148. Comptroller and Auditor-General of India.
(1) There shall be a Comptroller and Auditor-General of India who shall be appointed by the President by warrant under his hand and seal and shall only be removed from office in like manner and on the like grounds as a Judge of the Supreme Court. (2) Every person appointed to be the Comptroller and Auditor-General of India shall, before he enters upon his office, make and subscribe before the President, or some person appointed in that behalf by him, an oath or affirmation according to the form set out for the purpose in the Third Schedule. (3) The salary and other conditions of service of the Comptroller and Auditor-General shall be such as may be determined by Parliament by law and, until they are so determined, shall be as specified in the Second Schedule: Provided that neither the salary of a Comptroller and Auditor-General nor his rights in respect of leave of absence, pension or age of retirement shall be varied to his disadvantage after his appointment. (4) The Comptroller and Auditor-General shall not be eligible for further office either under the Government of India or under the Government of any State after he has ceased to hold his office. (5) Subject to the provisions of this Constitution and of any law made by Parliament, the conditions of service of persons serving in the Indian Audit and Accounts Department and the administrative powers of the Comptroller and Auditor-General shall be such as may be prescribed by rules made by the President after consultation with the Comptroller and Auditor-General. (6) The administrative expenses of the office of the Comptroller and Auditor-General, including all salaries, allowances and pensions payable to or in respect of persons serving in that office, shall be charged upon the Consolidated Fund of India.

Article 149. Duties and Powers of the Comptroller and Auditor-General.
The Comptroller and Auditor-General shall perform such duties and exercise such powers in relation to the accounts of the Union and of the States and of any other authority or body as may be prescribed by or under any law made by Parliament and, until provision in that behalf is so made, shall perform such duties and exercise such powers in relation to the accounts of the Union and of the States as were conferred on or exercisable by the Auditor-General of India immediately before the commencement of this Constitution in relation to the accounts of the Dominion of India and of the Provinces respectively.

Article 150. Form of accounts of the Union and of the States.
The accounts of the Union and of the States shall be kept in such form as the President may, on the advice of the Comptroller and Auditor-General of India, prescribe.

151. Audit reports.
(1) The reports of the Comptroller and AuditorGeneral of India relating to the accounts of the Union shall be submitted to the President, who shall cause them to be laid before each House of Parliament. (2) The reports of the Comptroller and Auditor-General of India relating to the accounts of a State shall be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State.

Source: *Constitution of India, accessed at http://constitutionofindia.etal.in/*

Annexure 7: Calculation of Tax-to-GDP Ratio

Annexure 7a: Tax-to-GDP Ratio (excluding Non-Tax Revenues)						
Heads (in crores)	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22 (RE)**	**2022-23 (BE)**
Union Taxes (Gross Tax Revenue)	1919009	2080465	2010059	2027104	2516059	2757820
States' Own Taxes	1130459.57	1214844.85	1223992.75	1241117.22	1594665.00	NA
Total Tax Revenue	3049468.57	3295309.85	3234051.75	3268221.22	4110724.00	NA
Gross GDP at current prices	17059327.00	18930268.00	20619410.00	21052474.00	23664637.00	NA
Tax to GDP (in %)	**17.88**	**17.41**	**15.68**	**15.52**	**17.37**	**NA**

Annexure 7b: Tax-to-GDP Ratio (including Non-Tax Revenues)						
Heads (in crores)	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22 (RE)**	**2022-23 (BE)**
a. Union Gross Tax Revenue	1919009.00	2080465.00	2010059.00	2027104.00	2516059.00	2757820.00
b. Non Tax Revenue of the Union	192745.00	235704.00	327157.00	207633.00	313791.00	269651.00
Total Revenue of States	2321241.33	2620353.15	2670137.67	2790983.56	3454539.65	NA
Transfers from the Union	1085130.00	1195394.00	1145487.00	1320053.00	1603356.00	NA
c. States' Revenue (tax and non-tax) excluding Transfers from the Union	1236111.33	1424959.15	1524650.67	1470930.56	1851183.65	NA
Tax-to-GDP (including tax and non-tax revenues of the Union and States)	19.62	19.76	18.73	17.60	19.78	NA
Tax-to-GDP (including tax revenue of the Union, and tax and non-tax revenues of States)	18.49	18.52	17.14	16.62	18.45	NA
Sources: *Union Government Budgets; e-STATES Database provided by RBI*						

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