REPORT OF THE COMMITTEE ON

ROADMAP FOR FISCAL CONSOLIDATION

Vijay L Kelkar - Chairman
Indira Rajaraman - Member
Sanjiv Misra - Member

SEPTEMBER 2012
COMMITTEE ON ROADMAP FOR 
FISCAL CONSOLIDATION

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2. The Committee wants to express our gratitude to all the Departments of the Ministry of Finance for their full support and cooperation. We also benefitted by the discussions with officials of Ministry of Petroleum & Natural Gas and Department of Fertilizers.

3. The Committee also wish to put on record our deep appreciation for Dr. Rajat Bhargava, Shri Ritwik Pandey of Ministry of Finance and Shri Arbind Modi of Planning Commission for their superb support.

( Dr. Vijay L. Kelkar )
Chairman

Date: 03.09.2012
FOREWORD

This Committee was mandated by the Finance Minister to give a report outlining a roadmap for fiscal consolidation in a medium term framework in pursuit of the FRBM Act and related targets. The Committee was expected to complete this task by the end of August.

The Committee met several times to deliberate these issues. During our discussions, the Secretary of each department of the Finance Ministry and the Chief Economic Advisor gave us the benefit of their valuable views. Similarly, the Ministry of Petroleum and Natural Gas and Department of Fertilizer give their inputs. The Budget Division and Economic Division of the Ministry of Finance assisted the Committee in all its deliberations. While all the data were provided by the Budget and Economic Divisions, we take responsibility for our analysis and projections.

The Committee was charged with the task of introducing mid-term corrections in the current fiscal year 2012-13 and to chart a medium term framework on this basis, for the remaining time horizon of the Thirteenth Finance Commission. These corrections have to be necessarily feasible from a political economy perspective so as to carry credibility.

Keeping both urgency and credibility as touchstones, we have proposed necessary policy actions which are within the realm of the feasibility. While proposing a frontal attack on inequitable subsidies, we have kept in mind the need for maintaining the sinews of growth as well as the social protection needs of disadvantaged sections of our society. By protecting public investment and reducing public borrowing, we would “crowd in” private investment and thus achieve higher growth and employment.

The Committee wishes to place on record its special thanks to the Budget Division and Economic Division of the Ministry of Finance. We hope that this report and subsequent public discussions will enable the Government to take the policy actions recommended in this report.

Vijay Kelkar, Chairman
Indira Rajaraman, Member
Sanjiv Misra, Member

September 03, 2012
1. Fiscal Consolidation

1.1. Why Fiscal Consolidation?

The Indian economy is presently poised on the edge of a fiscal precipice, making corrective measures aimed at speedy fiscal consolidation an imperative necessity if serious adverse consequences stemming from this situation are to be averted in an efficient and timely manner. A careful analysis of the trends in the current year, 2012-13, suggests a likely fiscal deficit of around 6.1 percent which is far higher than the budget estimate of 5.1 percent of GDP, if immediate mid-year corrective actions are not taken. Runaway fiscal deficits, leading to unsustainable levels of public debt, can cause diverse forms of macroeconomic imbalances varying with the means through which the deficit is financed. High fiscal deficits tend to heighten inflation, reduce room for monetary policy stimulus, increase the risk of external sector imbalances and dampen private investment, growth and employment. The current account deficit was already high at 4.2 percent of GDP in 2011-12 and could deteriorate further. Apart from this, the consequences of not quickly taking credible effective measures for correcting the current fiscal deficit is likely to be a sovereign credit downgrade and flight of foreign capital. This will invariably further weaken the rupee and negatively impact the capital markets and the banking sector. In addition, the situation leaves little head room for counter-cyclical policy measures in the event of another global crisis. The growing fiscal deficit also leaves limited monetary space for lowering interest rates to stimulate private investment and growth. In a country where millions of young, both skilled and unskilled, enter the labour force each year, a growth slowdown is inefficient, inequitable, and potentially politically destabilizing. It is the poor and the unemployed who will suffer the most in the event of sluggish growth and consequent political instability.

1.2. Fiscal Consolidation in India

After three years of deliberations, the Fiscal Responsibility and Budget Management Act (FRBMA) was enacted in 2003. The fiscal improvement from FY 2002-03 to 2007-08 saw a rise in foreign reserves providing unprecedented import cover and global confidence (Annex 1, Figure 1). This fiscal discipline fed into other economic variables in a positive manner. The aggregate disbursements of the central and state governments showed an increase in capital outlays from 11.87 percent in 2002-03 to 18.59 percent 2007-08 (as
percentage of aggregate disbursements). The lowering of the government’s fiscal deficit (GFD) was accompanied by a benign inflationary environment, lower real interest rates and significant increase in private sector investment. It must be mentioned of course, that global economic conditions were also favourable during this period (Annex 1, Figure 2).

The twin deficits hypothesis implies that, given a certain level of private savings, an increase in the government deficit will have to be balanced by either a reduction in private investment or an increase in the Current Account Deficit (CAD). The CAD then needs to be financed through external capital inflows, government external debt or drawdown of foreign exchange reserves. Government’s funding of the deficit through domestic sources tends to be inflationary. Even when the government does not explicitly use seigniorage, if the central bank has to auction government bonds and have adequate takers it needs to create enough liquidity. The RBI indicates that it has been doing so in recent years. This increase in liquidity can be inflationary.

Given this background, the recent increase in government deficits, the investment decline, the rigidity of inflation, the pronounced IIP decline and the widening of the CAD are all pointers to a deepening fiscal crisis.

1.3. The Do-Nothing Scenario

The rationale for a credible and effective fiscal consolidation in the current context is built on three main grounds: (a) we are in state of high fiscal stress, with a “do-nothing” approach likely to result in a Central Government fiscal deficit of 6.1 per cent of GDP in the current year 2012-13; this could result from a likely shortfall in gross tax revenues by around Rupees 60,000 crore and higher than budgeted expenditures on subsidies, by about Rupees 70,000 crore; (b) this fiscal stress is also compounding the problem of twin deficits, with the current account deficit at 4.2 per cent of GDP last year, and possibly at 4.3 per cent of GDP this year, at a time when the world market and capitals flows are exceedingly fragile and where financing of this magnitude is creating huge risks for macroeconomic and external stability; and (c) the gross borrowing requirement, already high, is likely to exceed last year’s level by a large margin (5.8 per cent of GDP versus 5.4 per cent of GDP last year), leading to crowding-out of private sector financing for investment. Foreign exchange reserves are

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1 “Reserve Bank credit to the Centre has been the dominant source of increase in reserve money since 2008-09. This is because government borrowing shot up significantly in the wake of the global financial crisis and necessitated active management of liquidity in the form of unwinding/de-sequestration of market stabilisation scheme (MSS) balances (in 2008-09 and 2009-10). Besides, there were large scale injections under liquidity adjustment facility (LAF) and open market operations (OMO) purchase auctions during times of liquidity duress in these three years.” (RBI, Annual Report 2010-2011)
falling, and the currency is especially vulnerable. The combination is reminiscent of the situation last seen in 1990-91.

1.4. The Financial Health of OMC’s

A worrying aspect related to the need for fiscal consolidation is the financial health of the Oil Marketing Companies (OMCs). While there appears to have been some correction in 2009-2010, possibly due to petrol price deregulation the situation remains grim. It could worsen with a rise in crude prices and a ballooning of the oil subsidy burden. If the OMCs are not adequately funded against their under recoveries there is a genuine risk that is analogous to the case of the state electricity boards, the high debt of the OMCs could lead them into financial crisis. This in turn, could not only cause an oil supply breakdown resulting in immense public hardship but also adversely impact the banking system from where such debt is sourced.

1.5. Conclusion

A clearer perspective emerges when the present domestic fiscal situation is viewed against the backdrop of comparative emerging economy parameters. Cross-country benchmarking suggests that India is clearly an outlier in terms of major fiscal indicators and currently has the least room for counter-cyclical fiscal policy response if conditions take a turn for the worse in global markets, second only to Egypt among 27 major emerging markets, measured in terms of inflation, real interest rates, exchange rates, current account deficits, cyclically adjusted budget balances and general government debt levels. The situation is all the more dangerous now, much more so than in the past, because we have a surge in young people looking for jobs. If the elasticity of employment to GDP growth is 0.4 then growth of about 7 per cent per annum would give us 2.8 per cent employment growth. With a labour force growth of 2.5 per cent, this would provide adequate employment opportunities. However, if growth slips to say six percent or below, and employment growth slows below 2.4 per cent, unemployment would rise.

We cannot overemphasize the need and urgency of fiscal consolidation. Growth is faltering and inflation seems to be embedded. The external payment situation is flashing red lights. The global economy is likely to be more turbulent, making financing of the large external payment deficits very challenging. Potentially, if no action is taken, we are likely to be in a worse situation than in 1991 for several reasons. Energy prices are at much more

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2 The Economist, 25th January, 2012
elevated levels while our import dependence is now even greater. The Indian economy now is much more open and global developments have greater impact than before. India’s “demographic bulge” demands higher growth to meet the rising aspirations of our young generation. In order words, our economy may be encountering a “perfect storm.”

There is yet another strategic consideration for us now. It is imperative that as a responsible nuclear power, India pursues a responsible fiscal policy. This will enable us to retain our strategic autonomy.

The process of fiscal consolidation will no doubt cause some short term pain which should be equitably shared. With determined policy action and astute political statesmanship, the pain of voluntary fiscal correction now will forestall the pain of externally enforced involuntary fiscal correction later.
2. Assessment of the base year

The budget for 2012-13 assumed a nominal growth rate of 14 per cent over the advance estimates of GDP of 2011-12. The Fiscal Deficit has been budgeted at 5.1 per cent of GDP the Revenue Deficit at 3.4 per cent of GDP. The Effective Revenue Deficit is budgeted at 1.8 per cent of GDP.

We have assessed the receipts and expenditure for 2012-13 afresh, given the current macroeconomic and fiscal situation assuming no corrective steps are taken. In our assessment the nominal GDP growth for the year would be at 13.5 per cent over the quick estimate of GDP for 2011-12, which is lower than the advance estimate.

The first and foremost impact of the slowdown in the economy is expected to be on tax collections. The budget has assumed an overall 19.5 per cent growth in tax collection in 2012-13 over the revised estimates (RE) for 2011-12. The actual tax collection in 2011-12 itself was Rupees 10,000 crore lower than the RE for 2011-12. Thus, to achieve the budget targets for 2012-13, a growth of 21 per cent is required over actual collections in 2011-12.

Based on the collection trends of the first four months and correcting for the effect of the indirect tax exemptions on petroleum products and the direct tax refunds for 2011-12, we have assessed that the tax to GDP ratio will fall from 10.6 per cent as budgeted for 2012-13, to 10.1 per cent in 2012-13. This shortfall is a combined effect of reduced corporate profits, slowdown in industrial output and lower growth in imports. In our assessment, the shortfall would have been even higher if the base and rate of Service Tax had not been increased. To some extent, the reforms in Service Tax have neutralized the shortfall in collections from other sources.

On the disinvestment side, it would be extremely difficult for the Government to move ahead with its disinvestment programme, given the subdued equity market conditions. In our assessment, a conservative estimate for disinvestment receipts, if no policy interventions are made, would stand at around Rupees 10,000 crore.

On the expenditure side, subsidies pose the greatest fiscal risk. Although petrol has been deregulated and price correction is taking place on a regular basis now, the under
recoveries of OMCs on diesel, LPG and kerosene, with no price revisions in the past 26 months, wide variation in international prices and weakening of the rupee, have reached unsustainable levels. Out of the budget estimate of Rupees 43,500 crore, the Government has already released Rupees 38,500 crore towards under recovery of OMCs of 2011-12. In our assessment, if no steps are taken, the additional burden for government for the first three quarters of the current year would amount to Rupees 51,500 crore, even if it is assumed that international prices soften a bit.

On fertilizer subsidy, there is an alarming distortion in usage pattern mainly caused due to asymmetry in the pricing formula for Urea and P&K fertilizers. On the P&K front, since the prices are decontrolled and subsidy is capped, domestic prices reflect international prices. However, the prices of urea which are administratively set, have been revised only once since 2002. This has caused severe under pricing and correspondingly excessive usage of urea. This will further exacerbate the adverse impact on soil quality and agricultural productivity over the medium and long term. Projecting from the current trend of fertilizer consumption, in our assessment there would be an additional requirement of fertilizer subsidy of Rupees 10,000 crore over and above the budgeted amount.

On food subsidy the Government has announced additional allocation of food grains during the course of 2012-13, which may result in additional cash outgo based on the offtake against these allocations. It is therefore expected that there might be an additional cash outgo of around Rupees 10,000 crore on account of food subsidy. Expenditure on the food subsidy will stand at Rupees 85,000 crore against the budgetary estimates of Rupees 75,000 crore. This projection is made without taking into account the impact of enacting a National Food Security Bill, with enhanced coverage and entitlements.

The food subsidy has increased substantially in recent years on account of widening gap between the central issue price of wheat and rice and the economic cost of delivering these foodgrains. Huge stocks and associated carrying costs with it have further increased the outgo on this count. To address the issue Government has to initiate measures to:

a) Reduce stocks held in the Central Pool;

b) Reduce the gap between the issue price and economic cost;

In the short run this reduction will only be possible through increases in Central Issue price of foodgrains and faster liquidation of stocks held in the Central Pool. The increase may
be targeted to shield poorer sections of the society by limiting the price increases to consumers above the poverty line (APL).

Overall, we feel that if no steps are taken, the subsidy expenditure would go up from 1.9 per cent of the budgeted levels to 2.6 per cent of the reassessed GDP.

The additional expenditure on subsidies will partially get neutralized by some savings on the plan expenditure side. Keeping in view that the budgeted level of Plan expenditure is 26 per cent higher than the previous year’s plan expenditure, there will in the normal course be a saving of around Rupees 20,000 crore in plan expenditure. This has been the usual pattern in past years, with exceptions such as 2008-09, when the plan expenditure was higher than budgeted due to the stimulus package that year to offset the global crisis, and 2010-11 when government received a large one-time non-tax receipt from 3G auctions.

Based on the above assessment of the GDP growth rate, the receipts and expenditure of Central Government, the fiscal deficit is assessed to reach 6.1 per cent of GDP in the current year if no proactive policy action is taken to prevent the fiscal slide. As explained in the previous chapter, this will have serious macroeconomic implications.

2.1. Policy Interventions

There is an urgent need to take immediate steps to minimize the resource shortfall and keep expenditures within control. In the next half of this chapter, we discuss the policy actions required and the impact on the fiscal situation if these actions are taken. On this basis, we construct a reform scenario.

2.1.1. Tax Measures

After reaching a high of 11.9 per cent in 2007-08, there has been a decline in the Tax-to-GDP ratio, to 10.1 per cent in 2011-12, by actuals for the year. This decline was caused in part due to the fiscal stimulus extended by Government through concessionary tax measures, and subsequently by the economic downturn. To achieve a sustainable fiscal consolidation it is essential to return to the highs of Tax-to-GDP ratio achieved in 2007-08. There is therefore need to initiate interventions for greater buoyancy in revenue mobilization. The Tax-to-GDP ratio for BE 2012-13 is estimated at 10.6 per cent. As discussed in the previous chapter, in a business as usual scenario, this ratio will dip to 10.1 due to shortfalls in collection. With the policy interventions, the shortfall can be limited and the tax GDP ratio for 2012-13 could end up at 10.3 per cent.
A comprehensive strategy should comprise a range of measures relating to tax policy and administration as indicated in Annex 4.

2.1.2. Disinvestment Receipts

In accelerating the disinvestment program, there are two policy concerns: (1) how to get the sale price right and (2) how to reduce risks for retail investors. Some instruments which could overcome these two concerns are summarised in Annex 5. These new instruments will take away the need for the government to fix prices as they will be market driven with government retaining the possibility of sharing upside when markets move up.\(^3\)

Equally, by creating the Exchange Traded Fund (ETF), a market related instrument, we will be reducing risks particularly of retail investors as they will be diversifying their portfolio with investments in more than one blue-chip public sector company. This will have two additional benefits, viz., (i) give retail investors better investment options than investing in gold and (ii) it will promote portfolio capital inflows. Both of these will have beneficial impact on the exchange rate and also on inflation.

In addition to these, an additional source is the disinvestment of minority government equity stakes in private entities, such as the holdings in SUUTI, HZL and BALCO. There is practically no economic or strategic rationale for holding on to these minority share holdings in such companies, which are essentially privately owned. Since divestment in these companies will meet a substantial part of the disinvestment target fixed for the current year, it is necessary that the Government take effective steps expeditiously to realize these receipts.

In our assessment, if these measures are adopted, the disinvestment target by the budget estimates, of Rupees 30,000 crore, can be achieved.

It is also the case that CPSEs are carrying large cash balances on their books. The first best principle is to expedite sound investment in key areas by these CPSEs. If the CPSEs are, however, unable to find good investment outlets during this fiscal year, then the Government, should, as majority owner, call for a special dividend on a “use it or lose it” principle.

2.1.3. Subsidies

Expenditure on subsidies is a major portion of Government expenditure and has witnessed major expansion in the recent past. Of the overall subsidies, the subsidies on Petroleum, Fertilizer and Food make up more than 90 per cent. It was planned in 2012-13 to

\(^{3}\)“Sell on Tap” approach for disinvestment on the line of the RBI, “Sell on Tap” of government debt is a special case of the “options model” described in the Annex 5.
contain subsidies within 2 per cent of the GDP. However, with the depreciating Rupee and oil prices in international market remaining sticky, subsidies are projected to rise to 2.6 per cent of GDP. After discussions with the Ministry of Petroleum and Natural Gas, and Department of Fertilizers, the following measures are suggested for reducing subsidies to 2 per cent in 2013-14 and 1.8 per cent in 2014-15.

**Petroleum Subsidy**

Subsidy on diesel has been a major contributor to fiscal slippage in recent years. The price of diesel has not been revised in the last 26 months and the under recovery has increased to Rs. 13.50 per litre. Although diesel prices have been deregulated in principle, prices are still being administered by the Government. At this stage, even if the diesel prices are not fully deregulated there is an urgent need for an immediate price increase. The price adjustment should be done in small successive steps and the Government should move to complete deregulation of diesel as early as possible.

Our policy objectives should at a minimum aim to eliminate half of the diesel per unit subsidy during this year itself by March 31, 2013, and the remaining half over the next fiscal year. Similarly, our policy goal should be to eliminate the LPG subsidy by 2014-15 by reducing it by 25 per cent this year, with the remaining 75 per cent reduction over the next 2 years. For kerosene, the objective should be to reduce the subsidy by one-third by 2014-15.

Our recommendation is to immediately increase the price of diesel by Rupees 4 per litre, of kerosene by Rupees 2 per litre and of LPG by Rupees 50 per cylinder. Smaller and more frequent price revisions should be taken as necessary subsequently to meet the goals specified in the previous paragraph, and left to the discretion to the OMCs, who should be duly empowered to make such revisions. This would reduce the projected under recovery by Rupees 20,000 crore for the next half year. We have analysed the price revisions in the last 20 years and we have observed that price increases of this level have never led to any serious resistance. Even recently, the retail prices of diesel and LPG were recalibrated by similar amounts in many states to reflect state levies. This change went almost unnoticed. Thus, the strategy that the government should adopt is to keep adjusting the price on a regular basis in incremental steps towards eventual deregulation of diesel and an affordable level of subsidy on LPG and kerosene. Regarding LPG, there is also a recommendation of the Committee on direct cash transfer of subsidy headed by Shri Nandan Nilekani to cap the number of subsidized cylinders. A quick decision on this recommendation should be taken and the reform taken forward.
**Fertilizer Subsidy**

The most urgent reform required on the fertilizer subsidy front is revision in the price of urea. This will not only reduce the subsidy burden but would also reduce the unsustainable imbalance in the current consumption pattern of fertilizer in the country. This is most necessary from the viewpoint of long term soil quality and agricultural productivity. The Department of Fertilizers propose to increase the MRP of Urea by 10 per cent during the first year, with any further increase being limited to any increase in the pooled gas price and in fixed cost. The price increase mechanism proposed is summarized below:

(i) Increases in the pool price of overall energy i.e. Natural Gas, FO/LSHS and Naphtha, may be considered for increasing the retail price under modified NPS-III policy.

(ii) To compensate for the increase in fixed cost, it is suggested that a benchmark portion of fixed cost can be linked to WPI for commodities and MRP to that extent can be increased every year, in addition to the increase in pooled gas price.

(iii) The Department of Fertilizers could be authorized to decide on the amount of the MRP increase every fiscal year.

We recommend that since considerable work has already been done on this proposal, it should be brought into effect immediately. In subsequent years, regular increases in urea prices should be carried out to close the wide gap between urea and P&K fertilizer to enable efficient use of fertilizers and better agricultural productivity.

**Food Subsidy**

On food subsidy, there is a need to increase the Central Issue Price (CIP). The Minimum Support Prices (MSP) are decided every year and it is advisable that every time the MSP is revised, the CIP should be revised in the same proportion as the MSP.

Progressive reduction in food subsidy also needs to be achieved through reduction in administrative cost associated with economic cost. It may be pertinent to mention here that various overheads comprise nearly one-third of the consumer subsidy requirement of FCI. It should be possible to effect reduction in food subsidy through more efficient foodgrain delivery operations in the medium term. Regarding subsidy on sugar, there is a need to remove the system of levy sugar, which is only about 10% of the total consumption of the sugar in the country, and to remove the existing controls on the flow of non-levy sugar.
Government also needs to initiate measures to direct the subsidies to the beneficiary. Even with reduced budgetary allocations it may be possible to leverage full benefits by proper targeting of subsidies. In this regard, a growing body of evidence suggests that the introduction of direct transfer of cash subsidies may be a more efficient way of reaching the beneficiaries.

The Committee is of the view that the Food Security Bill, which is on the anvil, may be appropriately phased taking into account the present difficult fiscal challenges.

In our assessment, the above steps can help contain total subsidy expenditure at 2.2 per cent of GDP in 2012-13.

2.1.4. Plan Expenditure
As observed earlier the plan expenditure is budgeted to increase by almost 26 per cent over the last year’s actual plan expenditure. It has also been stated that as per the current pace of expenditure, there would be some unintended savings in plan expenditure. However, with a view to keep the deficit at an acceptable level, there is a need to take proactive measures to keep the plan expenditure under a further check. In our assessment, through proper prioritization and efficient use of available resources, the saving under plan expenditure can be increased by another Rupees 20,000 crore. This can be easily done by reallocations across schemes. It is vital that these cuts are made without in any way affecting benefits to malnourished children and lactating and pregnant mothers, and employment generation which protect the most vulnerable segments of the Indian population. There is so much leakage in Plan schemes that by better design and targeting it should be easily possible to actually improve outcomes while at the same time cutting expenditure. But for this to be possible, the Planning Commission has to improve its monitoring systems, and keep a very careful watch on the downstream deployment of its expenditures.

It is also important to protect allocations for schemes that lead to creation of capital assets, either through direct expenditure or through grants to other implementing agencies.

2.2. Deficits
With these policy interventions, the Government will be able to close the current fiscal year with a fiscal deficit of 5.2 per cent of the GDP. The details of the assessment can be seen in the Annex 2 and 3. This level of correction is not only desirable to ensure the right environment for economic growth but is also achievable. The policy interventions are tough
and touch almost all sections of the society but we feel that such achievements cannot happen unless the burden is equitably shared.

\begin{tabular}{|l|c|c|c|}
\hline
\textbf{2012-13 Assessment} & \textbf{Budget} & \textbf{No Reform} & \textbf{Reform} \\
\hline
\textbf{Gross Tax Revenue} & 10.6 & 10.1 & 10.3 \\
\textbf{Net-Centre’s Tax Revenue} & 7.6 & 7.2 & 7.4 \\
\textbf{Non Tax Revenue} & 1.6 & 1.6 & 1.6 \\
\textbf{Total-Revenue Receipts} & 9.2 & 8.9 & 9.0 \\
\textbf{Non debt Capital Receipts} & 0.4 & 0.2 & 0.4 \\
\hline
\textbf{TOTAL- RECEIPTS} & 9.6 & 9.1 & 9.4 \\
\textbf{Non-Plan Expenditure} & 9.5 & 10.2 & 9.8 \\
\textit{On Revenue Account} & 8.5 & 9.3 & 8.9 \\
\textit{of which Subsidies} & 1.9 & 2.6 & 2.2 \\
\textit{On Capital Account} & 1.0 & 0.9 & 0.9 \\
\textbf{Plan Expenditure} & 5.1 & 5.0 & 4.8 \\
\textit{On Revenue Account} & 4.1 & 4.0 & 3.8 \\
\textit{On Capital Account} & 1.0 & 1.0 & 1.0 \\
\hline
\textbf{TOTAL EXPENDITURE} & \textbf{14.7} & \textbf{15.2} & \textbf{14.6} \\
\textit{On Revenue Account} & 12.7 & 13.3 & 12.7 \\
\textit{GiA for CapEx} & 1.6 & 1.6 & 1.6 \\
\textit{On Capital Account} & 2.0 & 1.9 & 1.9 \\
\hline
\textbf{Deficits} & & & \\
\textbf{Revenue Deficit} & 3.4 & 4.4 & 3.7 \\
\textbf{Effective Revenue Deficit} & 1.8 & 2.8 & 2.1 \\
\textbf{Fiscal Deficit} & 5.1 & 6.1 & 5.2 \\
\hline
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\subsection*{2.3. Social Impact}

The measures outlined will be undoubtedly expected to have significant short-term negative impact on incomes and spending of all households. At an important level, however, the consequences and pain would be even worse were these widely spread fiscal consolidation measures not be pursued – because a do-nothing approach would mean the risk of a much larger adjustment of incomes and spending forced by the markets, both domestic and international, with a spiraling fiscal deficit and its consequences for much slower growth, rising unemployment, and higher inflation. The fiscal consolidation measures are thus essential to protect the economy and all households from these worse impacts.

Some of the specific price adjustments proposed, as on fuel, would be, nevertheless, expected to have an immediate negative impact on all households and the poor by raising short-term inflation. However, past experience suggests that these short term inflation impacts would be relatively limited; furthermore, they would be expected to be followed by a lowering of overall headline inflation because of lower fiscal deficits and borrowing by the
Government. In time, such lower inflation, which matters especially for poorer households, would also be expected to be followed by an easing of tight money policies, helping all households. In addition, given the large food stocks available, and the ability to import essential commodities such as pulses and oilseeds, the Government should be much more pro-active this year in ensuring that food price inflation remains moderate, especially given a deficiency in rainfall. Such calamity related spending must have direct access to special funds and should be protected.

The Government should be encouraged, for example, to expand social protection needs specifically targeted to protect incomes of the poorest households. One of the ways this could be done this year is to ensure that the MGNREGA scheme, which has been effective in reaching below-poverty households, should not be fiscally constrained in 2012-13. It is possible that we should expect to see a demand-led rise in MGNREGA spending. In addition, because the farming sector has been affected by deficient rainfall, although good rainfall in August has helped to bridge the deficits, priority schemes by the states and the Centre for helping the farm sector to deal with the immediate needs for special assistance for replanting crops, diesel subsidies for water in severely rainfall deficient districts and areas, and access to seeds, fertilizer and credit should be protected and augmented. In addition, medium-term measures for drought-proofing agriculture particularly through watershed conservation should also be expedited and expanded.
3. **Fiscal Roadmap for the Medium Term**

In the medium term, the Government will have to further consolidate what will be achieved during 2012-13. The economic dividends of these policy interventions and reduced deficits will start becoming visible in the coming years. In our prescription, we have projected that Government will build upon the consolidation that it would achieve in 2012-13. Although no time horizon has been prescribed for the medium term roadmap that we have to prescribe, we have made our projections till 2014-15. From 2015-16, the Fourteenth Finance Commission will be prescribing some roadmap for Centre and States and that would form the basis for the fiscal policy of the Government.

In the base year of 2012-13, it is possible to achieve a Fiscal deficit target of 5.2 per cent with various policy initiatives, which involve limiting expenditure on subsidies, meeting the tax receipts and disinvestment targets set at the budgetary estimates stage and effecting savings in Plan expenditure by rationalizing expenditure. The committee examined various measures which are needed to be undertaken by Government for fiscal consolidation in the medium term. These measures include:

i. Raising the Tax-to-GDP ratio;
ii. Policy measures for pruning expenditure on subsidies and other items of expenditure;
iii. Rightsizing the size of Plan support; and
iv. Steps for increasing disinvestment proceeds.

### 3.1. **Gross Domestic Product**

While we have assessed that the nominal growth in the current year would be 13.5 per cent, in the coming years, the growth will pick up due to the improved fiscal performance, various other policy interventions of the Government and expected improvement in the international scenario. In our assessment, the nominal GDP for 2013-14 and 2014-15 would be 14.5 per cent and 15 per cent respectively.
3.2. Tax Revenues

The package of tax measures recommended in Annex 4, when carried out in 2012-13 would show result in 2013-14 and help reverse the tax-GDP slide. It is projected that the tax-GDP ratio would increase from 10.3% in 2012-13 to 11.1 percent in 2014-15.

3.3. Disinvestment Receipts

On the disinvestment front, in our assessment, Government should raise Rupees 30,000 crore in the next two years. In this regard, we would like to reiterate the Finance Commission’s recommendation that the current system of using disinvestment proceeds for meeting expenditure targeted towards creating capital assets should be continued.

Over the next 24-36 months, there is yet another policy instrument for raising resources for development and that is monetizing government’s unutilized and under-utilized land resources. These resources can finance infrastructure needs particularly in urban areas. Such a policy has been effectively utilized in many countries including USA, France, Canada, Australia and China. For monetizing land resources, the potential is considerable given the under-utilized prime lands of PSU’s, Port Trusts, Railways, etc. Towards this we recommend setting up of a group to work out the policy framework and institutional modalities.

These higher levels of disinvestment will be changing the composition of the balance sheet of the public sector enabling the replacement of capital assets with those that are more in line with emerging and new needs of the national economy.

3.4. Subsidies

In the previous chapter, we have recommended an immediate increase in Petroleum prices. This should be continued in the next year in such a way that the prices of diesel are fully deregulated by the start of 2014-15. The prices of kerosene and LPG also should be revised regularly to keep the subsidy levels at affordable levels. By the year 2014-15, the fiscal benefit of the price increase will consist of a first order reduction in expenditure on subsidies, and a second order effect from the enhanced profits of upstream oil marketing companies.

On fertilizer subsidies also, the effort should be to continuously revise the prices of Urea to ensure a healthy N-P-K mix in the usage of fertilizer.
With these measures, the subsidy levels can be limited to 1.7 per cent and 1.5 per cent of GDP in the years 2013-14 and 2014-15 respectively.

3.5. Rightsizing Plan expenditure

In the first year of the Twelfth Plan, an allocation of Rupees 5,21,025 crore has been made. This represents an increase of nearly 26 per cent over actual Plan expenditure of Rupees 4,13,513 crore for 2011-12. Such high growth in Plan outlay needs to be seen in the perspective of Plan allocation being increased by 34.2 per cent in 2008-09 on year on year basis vis-à-vis 2007-08. This was the enhanced base on which Plan allocations for subsequent years were based. The objective of growth in successive Plan was in pursuance of expansionary fiscal policies to spur growth in the economy.

To carry out fiscal consolidation it is required to correct this base in the Twelfth Plan. Actual utilization of Plan resources will be a more accurate base for estimating growth in the Plan allocation for the XII Plan. Accordingly, a growth of 15 per cent and 18 per cent in 2013-14 and 2014-15 respectively over the corrected base of 2012-13 is suggested. A higher growth is provided for in 2014-15 as the fund requirement for most projects envisaged in the Twelfth Plan may be highest in the middle of the Plan period.

Annex 6 presents the recommendations of the Nandan Nilekani and other Committees to harness IT to increase efficiency of public expenditure and improve outcomes.

3.6. Structural Roadmap: Supply Side Reforms

In addition to the fiscal consolidation, it is imperative that structural reforms to improve and accelerate growth are also undertaken. While this Committee does not go into the specifics of that, it is clear that the largest impacts will come from measures to accelerate infrastructure investment, in power, roads, railways and others. At the same time, reducing the regulatory and business climate impediments to private investment are essential, from pricing to taxation and access to land and other resources. In terms of other sectors, the manufacturing and exports sectors important for employment generation, especially in small-scale manufacturing. Proposals for financial sector deepening in domestic capital markets, banking and insurance are pending and should be expedited. Several initiatives are possible to improve agricultural sector productivity and finally more rapid progress on the national project on skill development will have a great impact on growth, employment and equity. Overall, these supply side measures are as important as supplements to the fiscal consolidation recommended in this report.
3.7. Fiscal Roadmap

If the measures indicated above are undertaken by Government, we recommend the following roadmap for the Central Government.

\[
\begin{array}{|c|c|c|c|c|}
\hline
\text{ } & \text{2012-13} & \text{2013-14} & \text{2014-15} \\
\text{ } & \text{Budget} & \text{No Reform} & \text{Reform} & \text{Projections} \\
\hline
\text{Gross Tax Revenue} & 10.6 & 10.1 & 10.3 & 10.6 \\
\text{Net-Centre’s Tax Revenue} & 7.6 & 7.2 & 7.4 & 7.6 \\
\text{Non Tax Revenue} & 1.6 & 1.6 & 1.6 & 1.4 \\
\text{Total-Revenue Receipts} & 9.2 & 8.9 & 9.0 & 9.0 \\
\text{Non debt Capital Receipts} & 0.4 & 0.2 & 0.4 & 0.3 \\
\text{TOTAL RECEIPTS} & 9.6 & 9.1 & 9.4 & 9.3 \\
\text{Non-Plan Expenditure} & 9.5 & 10.2 & 9.8 & 9.1 \\
\text{On Revenue Account} & 8.5 & 9.3 & 8.9 & 8.2 \\
\text{of which Subsidies} & 1.9 & 2.6 & 2.2 & 1.7 \\
\text{On Capital Account} & 1.0 & 0.9 & 0.9 & 0.9 \\
\text{Plan Expenditure} & 5.1 & 5.0 & 4.8 & 4.9 \\
\text{On Revenue Account} & 4.1 & 4.0 & 3.8 & 3.6 \\
\text{On Capital Account} & 1.0 & 1.0 & 1.0 & 1.3 \\
\text{TOTAL EXPENDITURE} & 14.7 & 15.2 & 14.6 & 13.9 \\
\text{On Revenue Account} & 12.7 & 13.3 & 12.7 & 11.7 \\
\text{GiA for CapEx} & 1.6 & 1.6 & 1.6 & 1.9 \\
\text{On Capital Account} & 2.0 & 1.9 & 1.9 & 2.2 \\
\text{Deficits} & & & & \\
\text{Revenue Deficit} & 3.4 & 4.4 & 3.7 & 2.8 \\
\text{Effective Revenue Deficit} & 1.8 & 2.8 & 2.1 & 0.9 \\
\text{Fiscal Deficit} & 5.1 & 6.1 & 5.2 & 4.6 \\
\text{Primary Deficit} & 1.9 & 2.9 & 2.0 & 1.4 \\
\text{Debt} & 45.5 & 46.7 & 46.1 & 44.9 \\
\hline
\end{array}
\]
Annex 1: Figures

Figure 1: Fiscal Deficits and the Balance of Payments as percentage of GDP (1980-81 to 2009-10)


Figure 2: Crowding out and its reverse

## Annex 2: Base Year Assessment (Rupees crore)

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### Annex 3: Base Year Assessment (per cent of GDP)

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Annex 4: Recommendations on Tax Measures

A. On Direct Taxes

1. The Direct Taxes Code Bill, 2010 which intends to revamp the law relating to direct taxes is likely to result in considerable unacceptable losses on a continuing basis. Given the low tax-GDP ratio and the existing fiscal crisis, there is absolutely no fiscal space for such large revenue loss. Therefore, the Direct Taxes Code Bill, 2010 should be comprehensively reviewed before it is enacted into law for implementation.

2. It is now well recognized that tax administration is tax policy. The tax administration needs to enhance its ability to effectively detect and penalize non-compliance and provide quality taxpayer services to promote voluntary compliance. Since 2004, the Income Tax Department has been electronically obtaining a large volume of information from third-parties through the Tax Information Network and Annual Information Returns. Further, the electronic reporting of information relating to tax payments and tax deduction at source (TDS) was also introduced to facilitate error free digitization of tax related information. These initiatives created a perception of enhanced ability of the ability of the Department to detect non-compliance resulting in improved compliance. Overtime, there is a growing perception that the tax administration is unable to harness the large volume of information collected by it since it lacks data mining skills. Further, the scope of AIR in terms of its coverage has remained frozen since it was first introduced in 2004. Taxpayers have found new methods and avenues for parking there undisclosed income to escape detection. Similarly, the Department is better equipped to detect non-compliance with the provisions of TDS, advance tax and self-assessment tax since the reporting system (both by third parties and self) is largely computerized. However, there are several gaps in the administrative procedure for collection and reporting of TDS thereby undermining the efficiency of the tax administration both in terms of enforcement and taxpayers' services. Accordingly, the following measures are recommended to improve efficiency of the tax administration:-

   a. Establish a data-warehousing and data-mining infrastructure within the tax administration and build capacity for undertaking data mining and taxpayer profiling. The tax administration should introduce one-year
intensive and mandatory induction training in data-mining for all direct recruit inspectors and Assistant Commissioners. The training could be organized in co-operation with large IT companies. The programme should gradually be extended to in-service Inspectors and Assistant and Deputy Commissioners.

b. Modernize the outdated and ineffective scrutiny and investigation processes by shifting from the current system of carrying out a post-mortem after two years to real-time verification of transactions reported under TDS, AIR and STRs sent by the Financial Intelligence Unit (FIU).

c. A large volume of data continues to be collected by the Central Information Branch. The problems associated with this method of collection are well-documented in the various reports on tax reforms by various expert committees in the past. This system should be fully-integrated with the AIR to facilitate cross-verification. The CIB should be assigned the responsibility of managing the composite data-base and undertaking verification.

d. The requirement of obtaining PAN is mandatory for taxpayers and those undertaking specific transactions. Therefore, a large number section of the population remained outside the scope of PAN. This has adversely affected the quality of information received and therefore, the efficacy of TIN. Accordingly, the law should be amended to provide quoting of PAN or the UID in all economic transactions including bank accounts, fixed deposits with banks, all financial transactions, all salary payments and all immoveable property transactions. This requirement should be mandatory irrespective of –
   i. the amount/level of transaction so as to prevent splitting of transaction; and
   ii. whether the person is liable to tax or not.

e. Undertake reconciliation of the ITR and TDS database for-
   i. expanding and deepening of the tax base; and
   ii. Identifying those deductors who have issued TDS certificates to deductees but have failed to report the deduction and also failed to remit the amount to the Central Government. Enforce collection of such unpaid amount.
f. Undertake data-mining of ITRs and TDS returns to-
   i. identify all deductors who have claimed to have deducted the tax but
      have failed to remit the same to the account of the Central
      Government. Enforce collection of such unpaid amount; and
   ii. identify all taxpayers who have failed to pay to self-assessment tax
      and enforce immediate collection;

g. Since there is no interest liability if the shortfall is less than 10 percent of
   the total liability, there is a tendency to defer payment of advance tax. This
   tendency is more pronounced when the cost of borrowing is high. In order
   to discourage taxpayers from deferring payment of advance tax, identify
   all cases where self-assessment tax has been paid or payable and take steps
   to prevent deferment of advance tax.

h. Amend the provisions of all tax laws to charge interest at rates which
   reflects the market rate of interest to the defaulters and a penalty for such
   default;

i. TDS administration should be re-engineered to optimize efficiency and
   minimize leakages. In this regard, a notification no S.O. 858 (E) dated 25th
   March, 2009 streamlining the compliance management of TDS was issued
   but later withdrawn since the tax administration was not prepared to
   implement. Since more than three years have elapsed, the notification
   should be re-issued;

j. The Income Tax Department should immediately set-up a separate
   Directorate of Risk Management for designing a robust risk management
   system which will improve the efficiency of the tax administration and
   enhance transparency;

k. Non-issue of refunds is a constant source of grievance for taxpayers. When
   tax administration issues refund, it inspires taxpayers’ confidence in the
   tax administration. Taxpayers err on the side of revenue and pay excess
   tax. This has a positive effect on compliance. Therefore, all pending
   refunds should be issued at the earliest. This will also improve liquidity of

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4 For example, the market rate of interest for defaulting companies is generally as high as 18 percent to 20
   percent. If we assume a penal component of 4 percent, the interest rate for default in payment of tax should be in
   the range of 22 percent to 24 percent.
taxpayers and reduce their dependence on market borrowings at a relatively high interest rate.

1. Another source of constant grievance relates to failure of the tax administration to carry out rectifications and appeal effect. The Department should create a national portal to enable taxpayers to file applications seeking rectifications and appeal effect. This will enable the management in the tax administration to monitor progress in the disposal of such applications.

m. A 360 degree profile of all taxpaying individuals and institutions should be created to help decrease tax evasion and tax fraud. This profile should also draw information from the AIR, TDS and other databases of the Income tax Department.

n. Online verification of PAN could be made mandatory for all high value transactions, in order to reduce black money transactions.

**B. On Indirect Taxes**

1. The Union Excise Duties (UED) and Service Tax (ST) must be reformed so as to be in a state of preparedness for smooth integration of these levies into the Goods and Services Tax. The standard rate of 12 percent should be progressively reduced to align with the GST rate of 8 percent proposed for the Central GST. This will send out positive signals regarding Government’s commitment to introduce GST.

2. The list of commodities subject to UED at a lower rate of 6 percent should be comprehensively reviewed to restrict it to merit goods. The rate of tax in the case of all other goods should be increased to the standard rate. Similarly, list of all commodities liable to tax at rates lower than 6 percent should also be reviewed to restrict it to merit goods.

3. The negative list of services introduced in the Union Budget, 2012 should be reviewed for further pruning. For example, there is no case for exempting non-profit organizations from the Service Tax levy. Similarly, exempting infrastructure projects from the levy implies that the tax on inputs is embedded into the cost of the infrastructure resulting in higher project cost. Further, even where exemption from UED and ST is justified, as a general rule, the supplier of goods and services should have the option to opt into the system.
4. The exemption granted to railways for transportation of goods and passengers (of higher class) is valid upto 30.09.2012. This exemption should not be extended beyond this date.

5. CBEC should put in place a robust information system to increase the deterrence level and the cost of evasion. Since both Union Excise Duties and Service Tax are VAT-type, the information system should provide for a mechanism for cross-verification of all claims for input-tax credit. At present, such a mechanism does not exist. As a result, the ability of the Excise Department to detect fraudulent claims is severely undermined. Under the Kerala VAT regime the dealer must electronically provide invoice-wise details of all sales to, and purchases from, registered dealers. This enables the Department to cross-verify every claim for input tax credit and identify mismatches for further investigation. A similar model for verification of TDS already exists in the Income Tax Department. Therefore, **CBEC should also develop a similar model for comprehensive cross-verification of claims for input tax credit.** This will significantly improve the economics of non-compliance in favour of the tax administration. Further, this should be implemented immediately and need to wait till the introduction of the GST.

6. Effort should be made to expedite the implementation of the Goods and Services Tax as recommended by the Thirteenth Finance Commission (TFC). This will enhance output, exports and tax revenues. Even though the roll-out of GST from 1st April, 2013 does not appear to be feasible, the passage of the pending Constitutional Amendment relating to introduction of GST in the Winter Session of the Parliament would send out very strong signal to trade and industry about Government’s serious intent to move forward on this issue.
Annex 5: Disinvestment of stake in PSU’s by GOI

The Securities and Exchange Board of India (SEBI) has created a new mechanism called ‘Offer for sale (OFS) that would inter-alia facilitate divestment of government stake in public sector undertakings by using the secondary market mechanism of stock exchanges. This facility has been available since February 2012.

**Offer for sale (OFS) model**
The first issue of stake sale by GOI in ONGC was held in March 2012 as per the above mechanism. There have been several suggestions from market participants to make the process attractive and simple for investors, eliminate situations arising out of price volatility and further deepen the mechanism to facilitate divestment of stake sale by GOI and promoters. Taking into account several suggestions/feedback from market participants, SEBI issued modified guidelines in the month of July 2012. The modifications, inter-alia has facilitated participation by institutions by providing them an option of paying 25% of the order value at the order entry level instead of 100% of the order value as upfront margins. Also the settlement cycle was reduced from T + 2 to T +1, thereby shortening the period for which the investors are out of funds. Post these revisions, no divestment by GOI has happened through the use of OFS till now.

OFS, in a way facilitates institutional investors and is generally open for a day. The divestment plans are significantly larger in size. To achieve significant stake sales over one day time horizon for one security at a time pose serious challenges. Also, concentrating huge volume sales on a single day may have the risk of being affected by sudden fluctuation in prices. GOI through RBI raises debt funds through on-tap mechanism. Borrowing that idea, it is proposed that an on-tap model as described below as ‘Call option ‘model may be considered.

**Call option model**
Under this option, the GOI may offer for sale, simultaneously, multiple securities over a period of time until the divestment targets are achieved. Investors desirous of purchasing these securities may pay a small premium on the date of such decision through the online system that may be provided by the Stock exchanges. For example, say for a stock valued at Rs.350, GOI may provide an option to the investors to buy a share at say Rs.350, or Rs.360 or Rs.370, over a time horizon, say three months. An investor prefers the option of buying the
stock at Rs.350 within the time period by paying a premium of Rs.1 on that day. This premium amount shall be collected from the investor and passed on to GOI on the next day. If the investor does not want to exercise this option, the premium is forfeited. This process can be repeated regularly (say each week).

The salient features of this proposal are: –

1. Provides an opportunity to sell regularly as against a large stake sale on a single day. This is to address the issue of wide fluctuation in market prices arising out of additional flow of liquidity in to the market and to avoid market price volatility, if any.
2. Provides investors an opportunity to buy an option which can be exercised upon favorable market conditions. This is to address the concern of investors that prices fall after the issue is successfully completed.
3. Provides both the GOI and investors to realize at multiple price points as per the prevailing market conditions. This is to address the issue of “a single day” liquidity requirements faced by investors, single price based on that day’s market conditions which may change over the period of time and freedom to exercise at varying prices based on their assessment of market conditions.
4. Provides GOI an opportunity to decide on a price range within which it intends to divest its holdings through a transparent process of the online stock exchange mechanism. This is to address several issues – a. how a single price was determined b. how the quantum of sale was determined at a single price and on only a given day c. if the price was less than what it could have actually fetched etc.

**ETF model**

One of the purposes of divestment could be to broad base the shareholders and encourage retail investors to participate. GOI may also like to sell all the stocks that it holds instead of a select few. One of the proposals in this regard is creation of an “Exchange Traded Fund” comprising of all the listed securities of CPSUs held by GOI. It is learnt that there are around 50 such securities. ETFs offer a number of advantages to the retail investors. The following are some of the benefits:

1. ETFs provide the benefit of diversification to retail investors who cannot afford to use their meager resources to acquire and hold a diversified portfolio
2. Low cost access to market through passive investment strategy leading to low charges. Since an ETF is listed on an Exchange, costs of distribution are much lower and the reach is wider. These savings in cost are passed on to the investors in the form of lower costs. Further, the structure helps reduce collection, disbursement and other processing charges.

3. ETFs are highly flexible and can be used as a tool for gaining instant exposure to the equity markets,

GOI, through an AMC can create an ETF based on the basket of securities held by them. The securities held by GOI include a few which are not regularly traded or whose financial performance is not very good. Instead of using all the securities to create a basket, initially, GOI may like to consider the option of creating a basket with securities having a good financial track record. This route may be attractive for retail investors and may be made available through multiple tranches reducing the risk of fluctuation of prices and also the impact cost for GOI.
Annex 6: Role of Technology in Managing Expenditure

1. The Budget Speech of 2008-09 stated that “There is a need for effective monitoring, evaluation and accounting system for the funds that are disbursed by the Central Government to State Governments, district level agencies and other implementing agencies as Plan Expenditure.” As a result, the Central Plan Scheme Monitoring System (CPSMS) has been set up by the CGA. Going forward, the Report of the Technology Advisory Group for Unique Projects report provides a blueprint for setting up an Expenditure Information Network (EIN), which is designed to track Government Expenditure in real-time from the Ministry of Finance to the last mile. The EIN will lead to efficient utilization of funds, since funds can be allocated just-in-time when the expenditure is incurred, rather than well in advance of the actual spending. The design of the EIN makes it possible to operate across multiple levels of Government, across various types of Government bodies, and provides real-time end-to-end visibility, transparency and full accountability for all expenditure.

2. Aadhaar can be accepted as proof of identity (POI) and proof of address (POA) for banking, financial services, LPG, and various other Government services at the Central, State, and Local Government levels. The linkage of Aadhaar for service delivery will help ensure the transfer of Government benefits to the intended beneficiaries, while curbing expenditure on fakes, duplicates, and ghosts.

3. All Electronic Benefit Transfer (EBT) payments can be made electronically into the bank accounts of the beneficiaries. This will curb leakage and siphoning of money intended for beneficiaries. Efficiency of payments in social safety net programs (MGNREGS, SSP, JSY, IAY, payments to Asha workers and Anganwadi workers, etc.) will ensure that these programs deliver the intended policy goals. A detailed blueprint for implementation is provided in the Report of the Task Force on an Aadhaar-enabled unified Payments Infrastructure.5

4. The Report of the Task Force on direct transfer of subsidy for LPG, Kerosene, and Fertilizers6 has recommended the movement of subsidized goods at market prices, and making Direct Transfer of Subsidy (DTS) payments into bank accounts of the beneficiaries. This will also help reduce the expenditure on subsidies.

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5 http://finmin.nic.in/reports/Report_Task_Force_Aadhaar_PaymentInfra.pdf
6 http://finmin.nic.in/reports/Interim_report_Task_Force_DTS.pdf
5. The Report of the Task Force on an IT Strategy for PDS and an implementable solution for the direct transfer of subsidy for food and kerosene\(^7\) has provided a flexible architecture for modernizing PDS operations by setting up a Public Distribution System Network (PDSN). In light of the Food Security Bill, it is essential to reform the procurement and distribution of foodgrains through the use of IT, so that pilferage of foodgrains can be curbed, which further reduces expenditure.

6. The Committee on Public Procurement has made recommendations on the usage of electronic portals for public procurement. In the context of the Public Procurement Bill, the appropriate use of technology can ensure competitive, transparent, and fair bidding by vendors, leading to judicious usage of Government funds.

**Government debt**

The creation of the National Treasury Management Agency (NTMA) will help streamline the process of Government borrowing. The combination of fully electronic tax collections processed by the Tax Information Network (TIN) for direct taxes and Goods and Services Network (GSTN) for indirect taxes, and real-time information on Government spending collected through the Expenditure Information Network provides a unified view of Government finances. This information can be leveraged by the NTMA in order to borrow funds on a just-in-time basis, which can significantly reduce the interest payments for Government debt. The architecture for the NTMA is described in the Report of the Technology Advisory Group for Unique Projects.

**Electronic Payments**

The movement towards electronic payments for all Government transactions, and a general reduction in the usage of cash in the economy will help transition from the informal economy to the formal economy. This will help curb corruption, increase transparency and accountability. An efficient and ubiquitous large and small value electronic payment system throughout the country will make it possible for Government to accurately predict and collect revenues on the one hand, while managing expenditure efficiently on the other hand.

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\(^7\) [http://finmin.nic.in/reports/IT_Strategy_PDS.pdf](http://finmin.nic.in/reports/IT_Strategy_PDS.pdf)