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PREFACE

The Fiscal Responsibility and Budget Management (FRBM) Act, 2003 was enacted with a view to provide a legislative framework for reduction of deficit, and thereby debt, of the Government to sustainable levels over a medium term so as to ensure inter-generational equity in fiscal management and long term macro-economic stability.

The Fiscal Responsibility and Budget Management (FRBM) Act, 2003 and the Fiscal Responsibility and Budget Management Rules, 2004 made under Section 8 of the Act have come into force with effect from 5th July, 2004. In line with the changed Macroeconomic circumstances after the global financial crisis, the FRBM Act was amended in 2012 and again in 2015. Subsequently the FRBM Rules were also amended.

Under Section 7 of the Act, no deviation is permissible in meeting the obligations cast on the Central Government under the Act, without the approval of Parliament. In the event of a deviation, the Finance Minister should make a Statement in both the Houses of Parliament explaining the circumstances that have led to such a deviation; explaining whether such deviation is substantial and relates to actual or potential budgetary outcomes; and detailing the remedial measures the Government proposes to take.

There has been a fundamental shift in the fiscal relations between the Centre and the States with the enhanced devolution of 42 percent of the divisible pool of taxes to the States, following the Fourteenth Finance Commission recommendations. While this has reinforced Government's efforts in strengthening co-operative federalism, the share of tax resources of the Centre has come down. The Centre's efforts are on enhancing its resources through non-tax revenues and non-debt capital receipts apart from increasing the tax to GDP ratio, so as to continue to play a meaningful role in the national developmental agenda and to promote growth with equity.

The Indian economy continues to consolidate gains achieved in reversal to the growth path and achieving a comparatively stable macroeconomic environment. In 2016-17, the fiscal performance of the government has been better than estimated on all parameters. This has reinforced the belief in the fiscal policy strategy adopted by the government, which entailed fiscal consolidation along with corrections on revenue-capital imbalance. Government successfully managed to contain itself within the lower fiscal deficit as percentage of GDP. In the bargain, the FRBM targets on revenue/effective revenue deficit which appeared insurmountable till recently, now appears to be within the striking range.

This document contains the three Policy Statements viz. Macro-Economic Framework Statement, Medium Term Fiscal Policy Statement and the Fiscal Policy Strategy Statement. The Statements give an assessment of the growth prospects of the economy; three years rolling targets for prescribed fiscal indicators along with underlying assumptions and strategies of the Government for the ensuing financial year relating to taxation, expenditure, market borrowings and other liabilities, lending and investments etc. The format of presentation in MTFP Statement has been slightly altered, keeping in view the budgetary reforms relating to Plan and Non-Plan merger. The policy statements along with grounds for deviation from the obligations cast on the Central Government (under Section 7 of the Act) are therefore laid before both the Houses of Parliament in compliance with statutory requirements.

MACRO-ECONOMIC FRAMEWORK STATEMENT 2017-18

Overview of the Economy

The macro-economic stability of the Indian economy improved in the first half of the current year, weathering global headwinds. Economic growth remained robust, current account balance improved despite continuing sluggishness in global demand, fiscal trends remained attuned to the consolidation plans and inflation remained broadly within the corridor. Economic growth was supported by good monsoon rains and better crop production, and, the expansion in Government expenditure due to payouts on account of the Seventh Pay Commission.

Various new initiatives were undertaken in this year as part of the economic reforms of the Government which include: the passage of Goods and Service Tax bill, the merger of railway budget with the general budget to allow for holistic planning and budgeting of transport infrastructure, advancing of the budget cycle by close-to-a-month, passage of the Insolvency and Bankruptcy Code 2016, formalization of the Monetary Policy Committee and instituting inflation targeting, changes in FDI policy regime with putting a large number of sectors on automatic route for FDI. Further initiatives include: launching new National Mineral Exploration Policy to accelerate the exploration activity through enhanced participation of the private sector, promoting rapid adoption of digital payments by measures like creating a Unified Payment Interface (UPI) and launching of BHIM (Bharat Interface for Money), start of Pradhan Mantri Ujjwala Yojana to provide free LPG connections to women from BPL households, launch of Start-up India programme to promote entrepreneurship among Scheduled Caste/ Schedule Tribe and Women and approval of National Intellectual Property Rights Policy for laying down the future roadmap for intellectual property in India.

Other sectoral initiatives include measures to revive the construction sector, measures for employment generation and promotion of exports in textile and apparel industry. Government took an initiative in November 2016 to withdraw the legal tender character of all existing Rs 500 and Rs 1000 currency notes in circulation to, *inter alia*, clean up the system and to tackle the menace of black money. This measure could have short-term costs, but has the potential to improve medium-to-long term growth prospects. Apart from the above, the measures that were taken by the Government in the previous years to boost manufacturing, employment generation, ease of doing business and transparency, including Make-in-India, Skill India, direct benefit transfer and measures for financial inclusion, were also taken forward in the current year.

An important macro-economic challenge faced by the Indian economy relates to the declining trend in the investment and saving rates, as seen from the latest available data. Along with an upward push to growth, durable improvement in the balance sheet of firms and banks is important to reverse this trend. Nonetheless, medium-term macro outlook remains bright against the background of green shoots in the global economy, positive farm expectations that can improve rural incomes, stable prices and continuing improvement in indicators of external vulnerability. The increasing formalization of the economy, nudged by policy, can improve medium-term potential growth.

GDP growth

As per the First Advanced Estimates released by the Central Statistics Office, the economy is estimated to grow at 7.1 per cent in 2016-17, as compared to the growth of 7.6 per cent achieved in 2015-16. The growth in agriculture, industry and services is estimated at 4.1 per cent, 5.2 per cent and 8.8 per cent in 2016-17 as opposed to 1.2 per cent, 7.4 per cent and 8.9 per cent respectively in 2015-16. Growth rate of industry sector declined in 2016-17 mainly on account of contraction in mining & quarrying and moderation of growth in manufacturing sector. It was the services sector, led by public administration, defence and other services that resulted in the overall GVA growth rate of 7.0 per cent in 2016-17.From the demand angle, the expansion in government final consumption expenditure has been the major driver of growth. The growth in fixed investment at constant prices declined from 3.9 per cent in 2015-16 to (-) 0.2 per cent in 2016-17. The exports of goods and services are estimated to grow by 2.2 per cent whereas the imports are projected to decline by 3.8 per cent in 2016- 17.

Agriculture

As per the Fourth Advance Estimates (AE), the production of foodgrains during 2015-16 is placed at 252.2 million tonnes, vis-a-vis 252.0 million tonnes in 2014-15 (final estimates). The production of rice is estimated at 104.3 million tonnes, pulses at 16.5 million tonnes, oilseeds at 25.3 million tonnes, sugarcane at 352.2 million tonnes and cotton at 30.1

million bales of 170 kg each in 2015-16 (as per 4th AE). As per the 1st AE released by Ministry of Agriculture and Farmers Welfare on 22nd September 2016, production of Kharif foodgrains during 2016-17 is estimated at 135.0 million tonnes compared to 124.1 million tonnes in 2015-16. During the South West Monsoon Season (June-September) of 2016, the country received 3 per cent lower rainfall than the long period average (LPA).

The flow of agricultural credit has increased from ₹8,45,328.2 crore in 2014-15 to ₹ 8,77,527.1 crore in 2015-16. The agriculture credit flow target was fixed at ₹ 9,00,000 crore for 2016-17, against which ₹ 7,55,995.2 crore (provisional) was achieved upto 30th September, 2016.

Prices

Inflation remained under control for the third successive financial year. The average Consumer Price Index (CPI) inflation declined from 5.9 per cent in 2014-15 to 4.9 per cent in 2015-16. In the current financial year till December, CPI inflation averaged 4.8 per cent and eased to 3.4 per cent in December 2016 backed by sharp fall in food prices. Food inflation based on consumer food price index (CFPI) declined to 4.9 per cent in 2015-16 from 6.4 per cent in 2014-15. It averaged 5.1 per cent in the current financial year till December and dropped to 1.4 per cent in December 2016 following sharp correction in pulses and vegetables prices. The CPI-based core inflation (excluding food and fuel group) has remained sticky so far during this fiscal year and averaged 4.8 per cent as compared to 4.6 per cent in 2015-16.

The average inflation based on Wholesale Price Index (WPI) declined to (-) 2.5 per cent in 2015-16 from 2.0 per cent in 2014-15. The downward trend, however, has reversed during the current financial year partly due to the impact of rise in global commodity prices. WPI inflation averaged 2.9 per cent in the current financial year till December 2016 and stood at 3.4 per cent in December 2016.

Astute food management and price monitoring by the Government helped to contain inflation, especially food inflation. A number of measures have been taken by the Government to control inflation and restore price stability. The steps taken, *inter alia*, include, (i) increased allocation of Rs. 900 crore for Price Stabilization Fund in the budget 2016-17 to check volatility of prices of essential commodities, in particular of pulses; (ii) creation of buffer stock of pulses through domestic procurement and imports; (iii) announcement of higher Minimum Support Prices so as to incentivize production; (iv) issuance of advisory to States/UTs to take strict action against hoarding and black marketing under the Essential Commodities Act 1955 and the Prevention of Black-marketing and Maintenance of Supplies of Essential Commodities Act, 1980; (v) imposition of 20 per cent duty on export of sugar; (vi) imposition of minimum export price (MEP) of US$ 360 per tonne on potato; and (vii) reduction in import duty on potatoes, wheat and palm oil.

Apart from the above, the Government, in consultation with RBI fixed an inflation target of 4 per cent with tolerance level of +/- 2 per cent for the period beginning from 5th August, 2016 to 31st March, 2021.

Industry and Services

The performance of the industrial sectors based on the Index of Industrial Production (IIP) comprising mining, manufacturing and electricity reveals a modest growth of 0.4 per cent during April-November 2016-17 as compared to 3.8 per cent during the same period of 2015-16. As per the sectoral classification, the production of manufacturing sector declined by 0.3 per cent during April-November 2016-17. The electricity and mining sectors registered growth rates of 5.0 per cent and 0.3 per cent respectively during April-November 2016-17. Among the use-based categories, basic goods, intermediate goods and consumer durable goods have attained positive growth while capital goods and consumer non-durable goods sectors witnessed contraction during April-November 2016-17.

The eight core infrastructure supportive industries, viz. coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity that have a total weight of nearly 38 per cent in the IIP registered a cumulative growth of 4.9 per cent during April-November, 2016-17 as compared to 2.5 per cent during April-November, 2015-16. The production of refinery products, fertilizers, steel, electricity and cement increased substantially, while the production of crude oil, natural gas declined during April-November, 2016-17. Coal production attained lower growth during the same period.

Monetary Management and Financial intermediation

The Government amended the Reserve Bank of India Act1934 in the current financial year. The amended Act provides for inflation target to be set by the Government, in consultation with the Reserve Bank of India, once in every five years and further provides for a statutory basis for constitution of an empowered Monetary Policy Committee (MPC). As per the revised monetary policy framework, the Government has fixed the inflation target of 4 per cent with tolerance level of +/- 2 per cent for the period beginning from 5th August

2016 to 31st March 2021. The Government accordingly notified the constitution of the MPC on 29th September 2016. As per the constitution of the MPC, three members from the RBI including the RBI Governor, one Deputy Governor of RBI and one officer of the RBI would be the ex-officio members of the Committee and another three members would be appointed by the Government. So far the MPC has already held two meetings.

The Reserve Bank of India (RBI) also refined its monetary policy framework in April 2016 with the objective of meeting short-term liquidity needs through regular facilities, frictional and seasonal mismatches through fine-tuning operations and more durable liquidity by modulating net foreign assets and net domestic assets in its balance sheet. The MPC so far has gone by the script. The policy rate was reduced by 25 basis points to 6.25 per cent in its first meeting held on October 4, 2016. The MPC, in its latest meeting held on December 7, 2016, while maintaining accommodative policy stance did not change the policy rate. Hence the reverse repo rate under the Liquidity Adjustment Facility (LAF) remains 5.75 per cent, and the Marginal Standing Facility (MSF) rate is 6.75 per cent.

Liquidity conditions were generally tight during Q1 of 2016-17, however it eased significantly in Q2 and Q3 of the FY. This easing of liquidity condition was reflected in money market as well. Weighted average call money rate (WACR) was, on an average, treading below the repo rate in Q2 and Q3 of the FY.

Performance of banking sector

The performance of the banking sector, public sector banks (PSBs) in particular, continued to remain subdued in the current financial year. The asset quality of banks deteriorated further. The gross non-performing assets (GNPA) ratio of scheduled commercial banks (SCBs) increased to 9.1 per cent from 7.8 per cent between March and September 2016. The Tier-I leverage ratio of the SCBs increased marginally between March and September 2016. Profit after tax (PAT) contracted on year-on-year basis in the first half of 2016-17 due to higher growth in risk provisions, loan write-off and decline in net interest income.

Non- food credit (NFC) outstanding grew at sub-10 per cent for all the months except for September 2016. Credit growth in industrial sector remained persistently below 1 per cent level in all the months during the current fiscal. In fact, credit to industrial sector contracted in the months of August, October and November 2016. However, bank credit lending to agriculture and allied activities and personal loans segments continues to be the major contributor to overall NFC growth.

External Sector

The value of India's merchandise exports (customs basis) declined by 15.5 per cent to US $262.3 billion in 2015-16 mainly due to slowdown in the value of global trade owing to the decline in global commodity prices and weak demand. In 2016-17 (April-December), exports increased marginally by 0.7 per cent (US$ 198.8 billion vis-à-vis US$ 197.3 billion in the corresponding period of the previous year). Imports had declined by 15.0 per cent in 2015-16. Imports at US$ 275.4 billion in 2016-17 (April-December) showed a decline of 7.4 per cent from the US$ 297.4 billion in the corresponding period of the previous year. Imports of petroleum, oil and lubricants (POL) declined by 10.8 per cent in 2016-17 (April-December) to US$ 60.9 billion from US$ 68.3 billion in the corresponding period of the previous year, mainly due to the decline in international crude oil prices. Non-POL imports for 2016-17 (April-December) declined by 6.4 per cent to US$ 214.4 billion from US$ 229.1 billion in the corresponding period of the previous year. Trade deficit decreased to US$ 76.5 billion during 2016-17 (April- December), from US$ 100.1 billion in the corresponding period of the previous year.

Based on the Balance of Payments (BoP) data available for the first six months of 2016-17, the trade deficit on BoP basis declined to US$ 49.5 billion in April-September 2016 from US$ 71.3 billion in April-September 2015. Net invisibles receipts were lower at US$ 45.7 billion in 2016-17 (April-September) as compared to US$ 56.7 billion in 2015-16 (April-September) mainly due to relatively higher growth of services import (16 per cent) compared to the services export growth of 4.0 per cent and moderation in net private transfers. During 2016-17 (April-September), net FDI inflows of US$ 21.3 billion showed an increase of 28.8 per cent over April-September 2015, while net portfolio inflows were positive at US$ 8.2 billion in 2016-17 (April-September) as against net outflows of US$ 3.5 billion in the corresponding period of the previous year. Current account deficit (CAD) was at US$ 3.7 billion (0.3 per cent of GDP) in April-September 2016 as compared to US$ 14.7 billion (1.5 per cent of GDP) in April-September 2015. On BoP basis, there was net accretion to India's foreign exchange reserves by US$ 15.5 billion in 2016-17 (April-September), while it increased by US$ 11.8 billion including valuation changes. This resulted in increase in the stock of foreign exchange reserves, which stood at US$ 372.0 billion at end September, 2016. The stock of foreign exchange reserves was US$ 359.2 billion as on January 6, 2016.

In 2016-17 (April-December), the average monthly exchange rate of rupee (RBI's reference rate) was ₹66.47 per US dollar in April 2016 and ₹67.90 per US dollar in December 2016. On month-on-month basis, the rupee depreciated by 1.3 per cent from ₹67.02 per US dollar in March 2016 to ₹67.90 per US dollar in December 2016.

At end-September 2016, India's external debt stock stood at US$ 484.3 billion, recording a decline of US$ 0.8 billion (0.2 per cent) over the level at end-March 2016. The maturity pattern of India's external debt indicates dominance of long term borrowings. At end-September 2016, the long term external debt accounted for 83.2 per cent of India's total external debt, while the remaining portion (16.8 per cent) was short-term external debt. The ratio of short-term external debt to foreign exchange reserves stood at 21.8 per cent at end-September vis-à-vis 23.1 per cent at end-March 2016.

Central Government Finances

In 2015-16, the pro-active policy decisions of the Government with firm commitment to fiscal consolidation provided on opportunity to achieve the fiscal deficit target of 3.9 per cent of GDP set for the year. In 2016-17, fiscal deficit and revenue deficit were budgeted at ₹ 5,33,904 crore (3.5 per cent of GDP) and ₹3,54,015crore (2.3 per cent of GDP) respectively. As per budget estimates (BE) for 2016-17, the 'effective revenue deficit', which represents the imbalance in revenue account after netting the grants used for creation of capital assets was estimated at ₹1,87,175 crore i.e. 1.2 per cent of GDP.

The BE 2016-17 envisaged a tax to GDP ratio of 10.8 per cent and total expenditure to GDP ratio of 13.1 per cent. The envisaged growth for gross tax revenue was 11.7 per cent over Revised Estimates (RE) 2015-16. The total expenditure in BE 2016-17 was estimated to increase by 10.8 per cent over RE 2015-16.

As per the data on Union Government Finances released by Controller General of Accounts for April-November 2016, the gross tax revenue increased by 21.5 per cent in comparison to the corresponding period of the previous year and was at 57.2 per cent of BE 2016-17. The non-tax revenue registered an increase of 1.0 per cent during April- November 2016, over the corresponding period of the previous year. At the end of November 2016, the non-debt capital receipts stood at 48.5 per cent of the BE 2016-17.

Major subsidies increased by 5.0 per cent during April-November 2016, as compared to April-November 2015 due to an increase in food subsidy by ₹21,831 crore, as compared to the corresponding period in 2015-16. Conversely, there was a decrease in fertilizer subsidy by ₹6,547 crore and petroleum subsidy by ₹ 5,887 crore.

Fiscal deficit at 85.8 per cent of BE in the year 2016-17 (April-November) was lower than the five- year average of 89.2 per cent, as well as the corresponding figure of 87.0 per cent in the previous year. The revenue deficit for April-November 2016 is 98.4 per cent of BE and is higher than the five year moving average of 96.4 per cent, as well as the corresponding figure of 87.5 per cent in the previous year. The Revised Estimates place fiscal and revenue deficits at 3.5 per cent of GDP and 2.0 per cent of GDP respectively in 2016-17.

Prospects

The prospects for Indian economy for the year 2017-18 need to be assessed in the light of emerging global and domestic developments. Indications are that global economic growth is gradually picking up. This augers well for Indian exports which are highly responsive to the dynamics of global economic activity. On the other hand, the increasing global prices of oil and other key commodities may exercise an upward pressure on the value of imports. Uncertainty on account of significant external political developments, global interest rate behaviour and capital flows pose potential downsides. Domestic demand is expected to get a boost from accommodative monetary policy and the unleashing of domestic trade and consumption as the economy gets remonetised to the required levels. On balance, and, in line with the projections for strengthening of India's growth by multi-lateral institutions, the nominal growth of the economy is expected to be 11.75 per cent in the financial year 2017-18.

Annex 1

MACROECONOMIC FRAMEWORK STATEMENT
(ECONOMIC PERFORMANCE AT A GLANCE)

Sl.	Item	Absolute value April-December		Percentage change April-December	
		2015-16	2016-17	2015-16	2016-17
Real Sector					
1	GDP at market prices (₹ thousand crore) @				
	a) at current prices	13576	15193	8.7	11.9
	b) at 2011-12 prices	11350	12155	7.6	7.1
2	Index of Industrial Production (2004-05=100)*	177.5	178.2	3.8	0.4
3	Wholesale Price Index (2004-05=100)	177.3	182.3	-3.0	2.9
4	Consumer Price Index: Combined (2012=100)	124.2	130.2	4.8	4.8
5	Money Supply (M3) (₹ thousand crore)	11305	12045	7.2	3.7
6	Imports at current prices **				
	a) In ₹ Crore	1926025	1848099	-9.9	-4.0
	b) In US $ million	297411	275356	-15.4	-7.4
7	Exports at current prices **				
	a) In ₹ Crore	1278004	1333914	-12.4	4.4
	b) In US $ million	197334	198808	-17.8	0.7
8	Trade Deficit (US$ million) **	-100077	-76548	-10.4	-23.5
9	Foreign Exchange Reserves (upto 30thDec.)				
	a) In ₹ crore	2313540	2448280	14.0	5.8
	b) In US $ million	350381	360297	9.3	2.8
10	Current Account Balance (US$ million)##	-14691	-3749		
	Government Finances (₹ Crore)#				
1.	Revenue receipts	638056	796123	17.8	24.8
2.	Tax revenue (Net)	464864	621172	12.5	33.6
3.	Non-tax revenue	173192	174951	34.9	1.0
4.	Capital receipts (5+6+7)	504251	490558	-5.3	-2.7
5.	Recovery of loans	7875	9033	9.8	14.7
6.	Other receipts	12853	23529	5689.6	83.1
7.	Borrowings and other liabilities	483523	457996	-7.9	-5.3
8.	Total receipts (1+4)	1142307	1286681	6.3	12.6
9.	Non-Plan expenditure	844289	922492	8.2	9.3
10.	Revenue Account	783154	865103	8.6	10.5
	of which:				
11.	Interest payments	252599	266678	8.6	5.6
12.	Capital Account	61135	57389	3.1	-6.1
13.	Plan expenditure	298018	364189	1.5	22.2
	of which:				
14.	Revenue Account	200230	279231	-13.5	39.5
15.	Capital Account	97788	84958	57.4	-13.1
16.	Total expenditure (9+13)	1142307	1286681	6.3	12.6
17.	Revenue expenditure (10+14)	983384	1144334	3.2	16.4
18.	Capital expenditure (12+15)	158923	142347	30.8	-10.4
19.	Revenue deficit (17-1)	345328	348211	-16.0	0.8
20.	Fiscal deficit {16-(1+5+6)}	483523	457996	-7.9	-5.3
21.	Primary deficit (20-11)	230924	191318	-21.0	-17.2

@: GDP is from April to March and 2015-16 is provisional estimate and 2016-17 is the first advance estimate.
**: April-November*
***: On Customs basis (April-December).*
#: April-November and figures as reported by Controller General of Accounts, Department of Expenditure, and Ministry of Finance.
##: April - September.