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MESSAGE FROM THE DIRECTOR

Dear Aspirant,

This book is dedicated to YOU, the untiring civil service aspirant who has the drive and commitment to persevere towards clearing this exam which is considered as one of the toughest exams in the world.

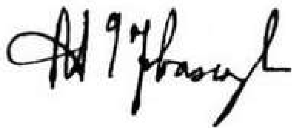
We congratulate you on choosing this book for **"Economy"**. Our attempt here is to simplify important concepts without losing the key points. Hence, we hope you will find this book useful in your civil services journey.

About this book

This book is a distillation of the expertise of the faculty at Officers IAS academy, explained in simple and easy to understand language. What you get to study in this book has been painstakingly collated by our faculty through their years of teaching and mentoring thousands of aspirants.

A strong zeal from you to clear this exam combined with our coaching and textbook will, I am sure help you scale great heights.

I wish you the very best in the most important endeavour of your life.



R. A. Israel Jebasingh

(IAS, 2004 Batch All India Rank 59)

Director of Officers IAS Academy

HOW TO USE THIS BOOK?

Hello Aspirant!

There is a subtle difference between putting in effort and putting in the right & focussed effort. That difference could mean whether you get into the civil services or not!

Aspirants know that the first step to become a Civil Servant is to crack the Preliminary Exam (Prelims) conducted by the UPSC. At first glance, any UPSC Prelims question paper might give the impression that many of the questions asked were 'random', 'remote', 'unexpected', 'out of syllabus', 'from obscure areas' etc.,

But, upon careful consideration one can see that there are some hidden patterns present in the way how some of them were framed. We in the R&D of Officers IAS Academy, understand this.

Our R&D team consists of about 25 members, all of whom have appeared in multiple UPSC Mains & Interviews. This team of veterans spent a year, meticulously combing through the question papers of the past 26 years of UPSC preliminary exams to identify patterns, repetitions & outliers.

The team carefully isolated all such patterns, high-value topics from every subject and has prepared a 'hitlist'. Based on these insights we have prepared books, which we rightfully call as 'Prelims Harvest' books.

Please note: We do not advocate the use of these books as 'Standard' sources. However, instead of reading endless number of books for the UPSC preparation, aspirants can focus on the standard books (NCERTs, etc.,) for the foundational knowledge and then devout the rest of their time in studying the Officers IAS Academy's Prelims Harvest books.

So, please use the Prelims Harvest Books in conjunction with the primary sources (NCERTs, etc.,) and get the best value for your time invested in your UPSC preparation.

Thank you!

R&D Team,
Officers IAS Academy, Chennai.

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NATIONAL INCOME

Methods of GDP Estimation

3 Methods

- GDP is the **final value of the goods and services produced within the geographic boundaries of a country** during a specified period of time, normally a year.
- GDP growth rate is an important indicator of the economic performance of a country.
- It can be **measured by three methods,** namely,
    1. **Output Method:** This measures the monetary or market value of all the goods and services produced within the borders of the country.
    2. **Expenditure Method:** This measures the total expenditure incurred by all entities on goods and services within the domestic boundaries of a country.
        a. **GDP (as per expenditure method) = C + I + G + (X-M)** C: Consumption expenditure, I: Investment expenditure, G: Government spending and (X-M): Exports minus imports, that is, net exports.
    3. **Income Method:** It measures the total income earned by the factors of production, that is, labour and capital within the domestic boundaries of a country.

In India, GDP is measured as **market prices** and the **base year** for computation is **2011-12.**

Key Terms Related to National Income

Personal Income

- Personal Income is the **total income received by the individuals of a country from all sources before payment of direct taxes in a year.**
- Out of **National Income (NI)**, which is earned by the firms and government enterprises, a part of the profit is not distributed among the factors of production. This is called **Undistributed Profits (UP)**. This is deducted from NI to arrive at PI, since UP does not accrue to the households.
- Similarly, **Corporate Tax**, which is imposed on the earnings made by the firms, will also have to be deducted from the NI, since it does not accrue to the households.
- Households receive interest payments from private firms or the government on past loans advanced by them. And households may have to pay interest to the firms and the government. This is deducted from NI.

- The households receive **transfer payments** from government and firms (pensions, scholarships, prizes, for example) which have to be added to calculate the Personal Income of the households.
  - Thus, **Personal income (PI) = NI – Undistributed profits – Net interest payments made by households – Corporate tax + Transfer payments to households from the government and firms.**

Gross National Product

- Gross National Product (GNP) is the **total value of all finished goods and services produced by a country's citizens in a given financial year, irrespective of their location.**
- GNP also measures the output generated by a country's businesses located domestically or abroad.
- It can be defined as a piece of economic statistic that comprises Gross Domestic Product (GDP), and income earned by the residents from investments made overseas.
- Basically, GNP signifies how a country's people contribute to its economy. It considers citizenship, regardless of the location of the ownership.
- GNP does not count any income earned in India by foreign residents or businesses, and excludes products manufactured in the country by foreign companies.

GNP = GDP + Net factor income from abroad

Transfer Payments

- Transfer payments are payments by the government in the form of **pensions, unemployment allowances, Social Security Payments, student grants, etc**.
- Transfer payment **doesn't involve a return of any productive service from the beneficiaries to the government.**
- These are government expenditures. But they are **not included in the national income.** Because they are paid without adding anything to the production process.

Incremental Capital Output Ratio

- Incremental Capital Output Ratio (ICOR) is the **additional capital required to increase one unit of output.**
- This ratio is used to **measure the efficiency of an industrial unit or country** as an economic unit.
- For example, if the 10% additional capital is required to push the overall output by a percent, the ICOR will be 10. The **lesser the ICOR, the more efficient the organization.**
- Despite being a high saving economy, capital formation may not result in significant increase in output due to high capital-output ratio.

Tax Buoyancy

- There is a strong connection between the government's tax revenue earnings and economic growth.
- Tax buoyancy explains this relationship. It is the **ratio between the changes in government's tax revenue growth and the changes in GDP.**
- It refers to the responsiveness of tax revenue growth to changes in GDP.

GDP at constant-price

- **GDP at constant-price** is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year, expressed in base-year prices. It is also known as **Real GDP.**
- Unlike **nominal GDP (GDP at current-price),** real GDP accounts for changes in price levels and provides a more accurate figure of economic growth.

Stock & Flow

- **Variables** used in economic analysis are classified as **stock and flow.** Both stock and flow variables may increase or decrease with time.
- Stock refers to a quantity of a commodity **measured at a point of time**. In macroeconomics, **money supply, inventory, unemployment level, foreign exchange reserves, capital, etc** are examples of stock variables.
- Flows are defined with **reference to a specific period (length of time),** e.g., hours, days, weeks, months or years. It has a time dimension.
- For eg: **National Income** is a flow. It describes and measures the flow of goods and services which become available to a country during a year. Similarly, all other economic variables which have a time dimension, i.e., whose magnitude can be measured over a period of time are called flow variables.
- Thus **Depreciation, Imports, change in inventories, exports, consumption, production, investment, etc** are examples of flow variables.

Gross Value Added

- Gross value added (GVA) is defined as the **value of output less the value of intermediate consumption.**
- It is used to measure the output or contribution of a particular sector.
- At the macro level, from a national accounting perspective, it is the sum of a country's GDP and net of subsidies and taxes in the economy.
- A **sector-wise breakdown is provided by the GVA.** It helps policymakers to decide which sectors need incentives/ stimulus or vice versa.
- While GVA gives a picture of the state of economic activity from the producers' side or supply side, the GDP gives the picture from the consumers' side or demand perspective.

Factor Cost vs. Market Price

- The factor cost refers to the **cost of production that is incurred by a firm when producing goods and services.**
- Examples of such production costs include the cost of renting machines, purchasing machinery and land, paying salaries and wages, cost of obtaining capital, and the profit margins that are added by the entrepreneur.
- The factor cost **does not include the taxes** that are paid to the government. However, **subsidies received are included** in the factor cost as subsidies are direct inputs into the production.
- Taxes charged by the government will be added onto the factor price while subsidies provided will be reduced from the factor price to arrive at the **market price.**

GDP at Factor Cost = GDP at Market Price - Indirect Taxes + Subsidies

New Method of GDP Estimation

Context

- In **2015**, the government adopted a **new method for the calculation of the GDP** of the country.

Changes made:

- Under the new method, Indian GDP is calculated at **Market Price, rather than Factor Cost.**
- Here GDP @ Market Prices is calculated using **GVA @ Basic Prices.** For arriving at the GVA at Basic Prices, **production taxes, such as property tax, are added and subsidies are subtracted from GVA at factor cost.**
- The new method also marked a shift to the **new base year 2011-12** from 2004-05.
- The new GDP method incorporates more comprehensive data than the old one. Earlier, data from the **Annual Survey of Industries (ASI),** was used to gauge activity in the manufacturing sector. Now, annual accounts of companies filed with the **Ministry of Corporate Affairs — MCA21** — have been used.
    - MCA21 is an e-Governance initiative of the **Ministry of Corporate Affairs (MCA).**
    - It included the data of all the companies registered with the ministry of corporate affairs, and each company was given a unique 21-digit code, hence MCA-21.
    - Also, the new database is much more comprehensive covering financial institutions and regulatory bodies' like- SEBI, PFRDA, and IRDA.

Trends in Indian Economy

(From 'Indian Economy – A Review' document published by the Ministry of Finance in 2024)
Key Figures

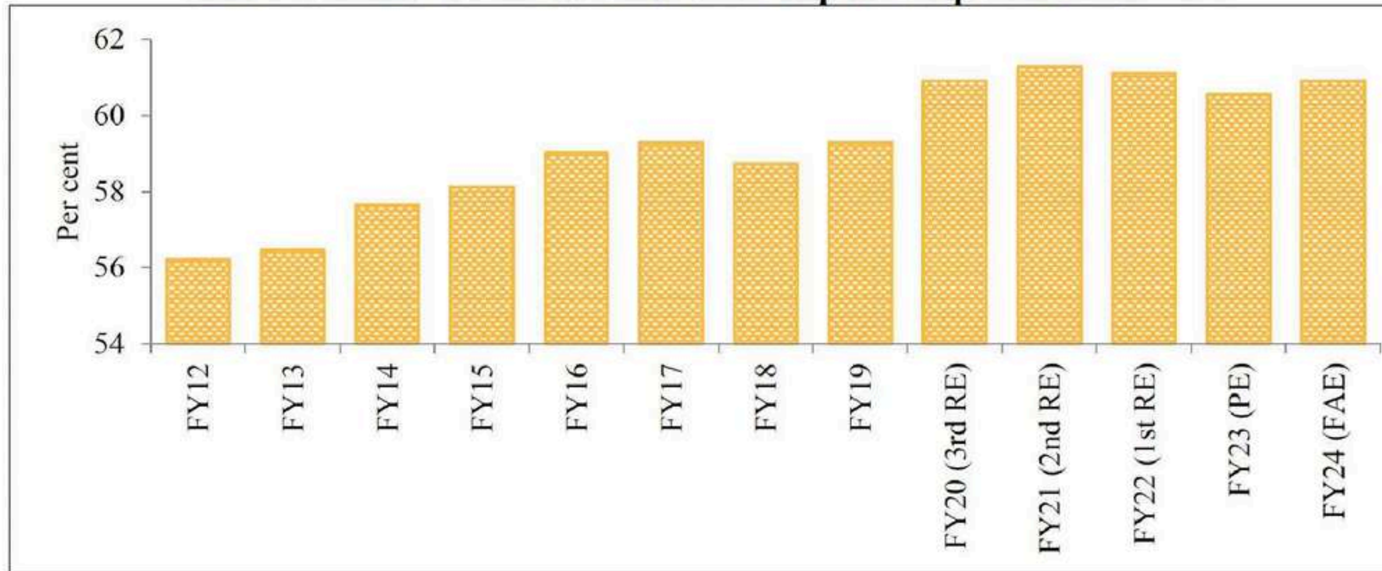


Chart 1: Share of Private Final Consumption Expenditure in GDP
Per cent
62
60
58
56
54
FY12
FY13
FY14
FY15
FY16
FY17
FY18
FY19
FY20 (3rd RE)
FY21 (2nd RE)
FY22 (1st RE)
FY23 (PE)
FY24 (FAE)

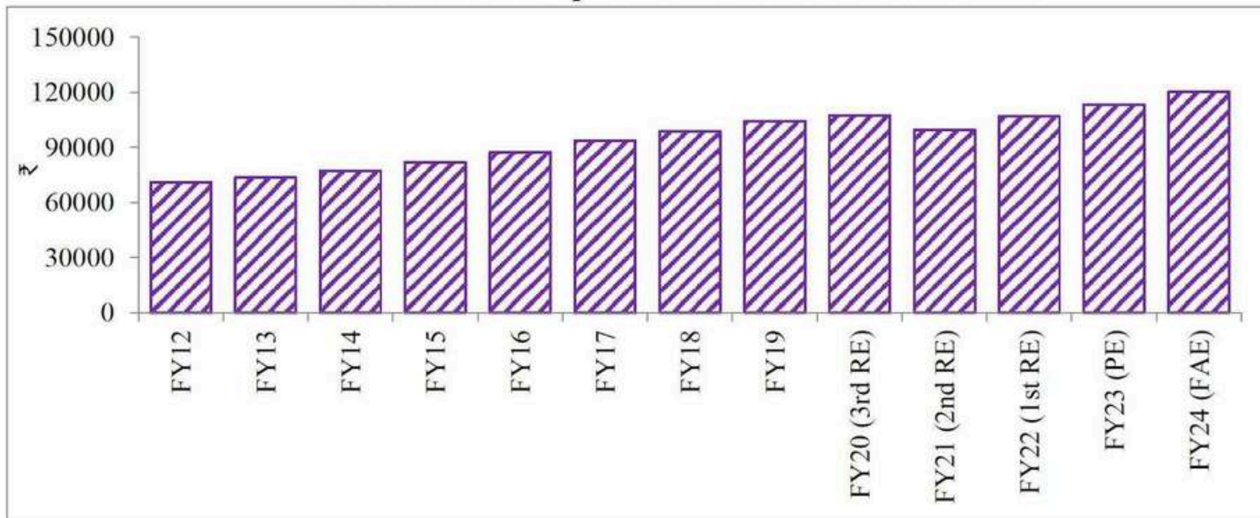


Chart 2: Per Capita Real Gross National Income
₹
150000
120000
90000
60000
30000
0
FY12
FY13
FY14
FY15
FY16
FY17
FY18
FY19
FY20 (3rd RE)
FY21 (2nd RE)
FY22 (1st RE)
FY23 (PE)
FY24 (FAE)

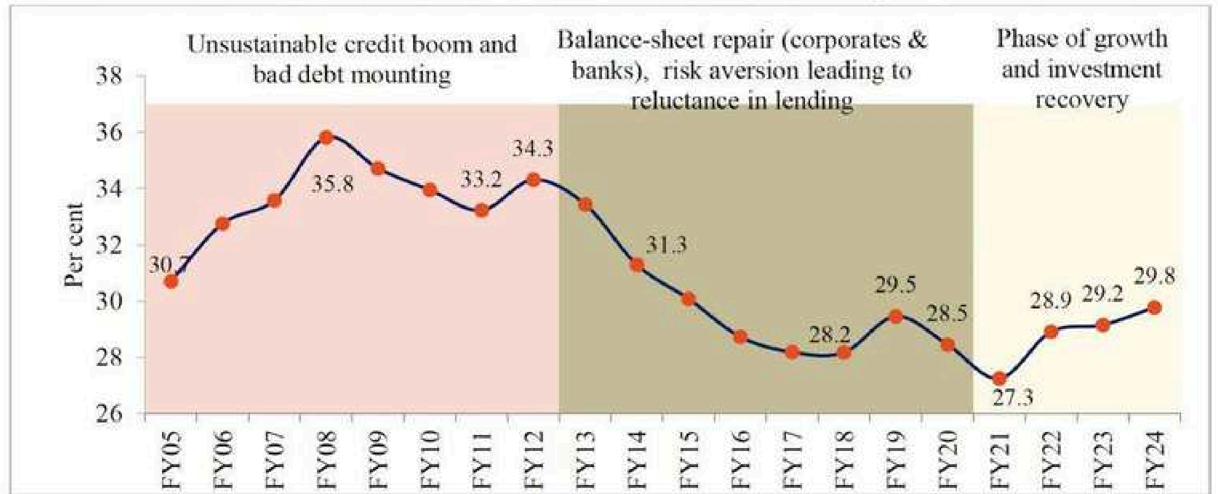


Chart 3-Trends in Investment rate over the years
Unsustainable credit boom and bad debt mounting
Balance-sheet repair (corporates & banks), risk aversion leading to reluctance in lending
Phase of growth and investment recovery
Per cent
30.7
35.8
33.2
34.3
31.3
28.2
29.5
28.5
27.3
28.9
29.2
29.8
FY05
FY06
FY07
FY08
FY09
FY10
FY11
FY12
FY13
FY14
FY15
FY16
FY17
FY18
FY19
FY20
FY21
FY22
FY23
FY24
Note: Investment Rate is the ratio of Nominal GFCF over Nominal GDP

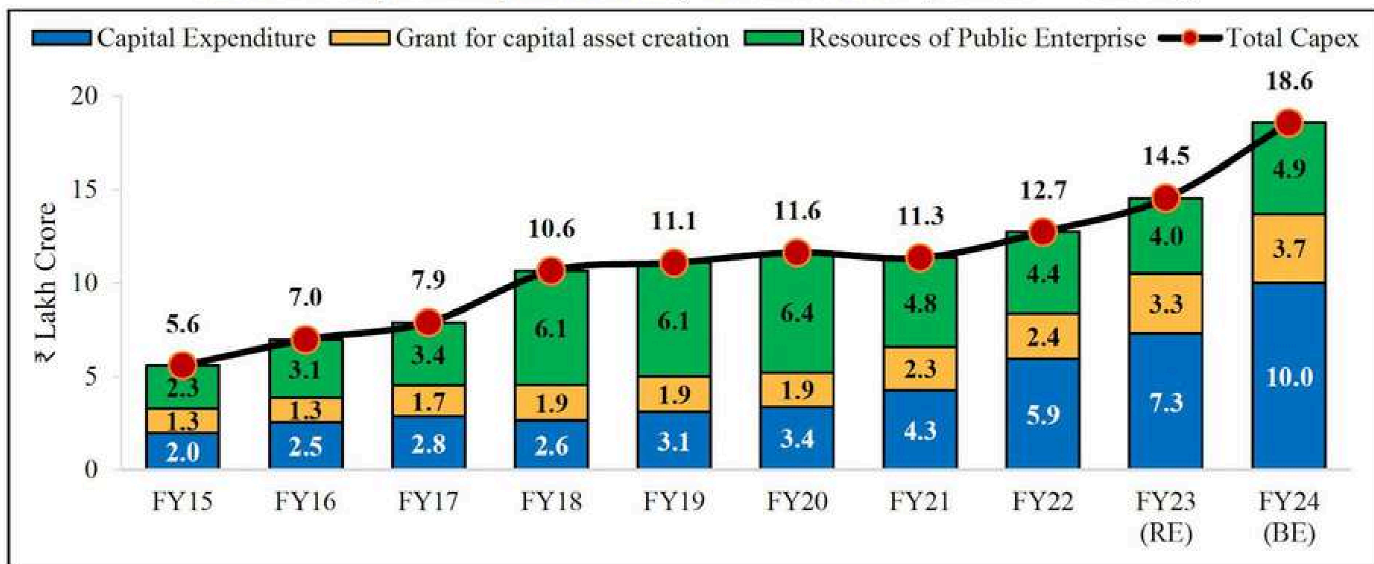


Chart 5: Capital Expenditure by Public Sector (Centre + CPSEs)
Capital Expenditure
Grant for capital asset creation
Resources of Public Enterprise
Total Capex
₹ Lakh Crore
FY15 5.6: 2.0, 1.3, 2.3
FY16 7.0: 2.5, 1.3, 3.1
FY17 7.9: 2.8, 1.7, 3.4
FY18 10.6: 2.6, 1.9, 6.1
FY19 11.1: 3.1, 1.9, 6.1
FY20 11.6: 3.4, 1.9, 6.4
FY21 11.3: 4.3, 2.3, 4.8
FY22 12.7: 5.9, 2.4, 4.4
FY23 (RE) 14.5: 7.3, 3.3, 4.0
FY24 (BE) 18.6: 10.0, 3.7, 4.9

Chart 13: Declining Gross Non-Performing Assets of SCBs (as % of Gross Advances)

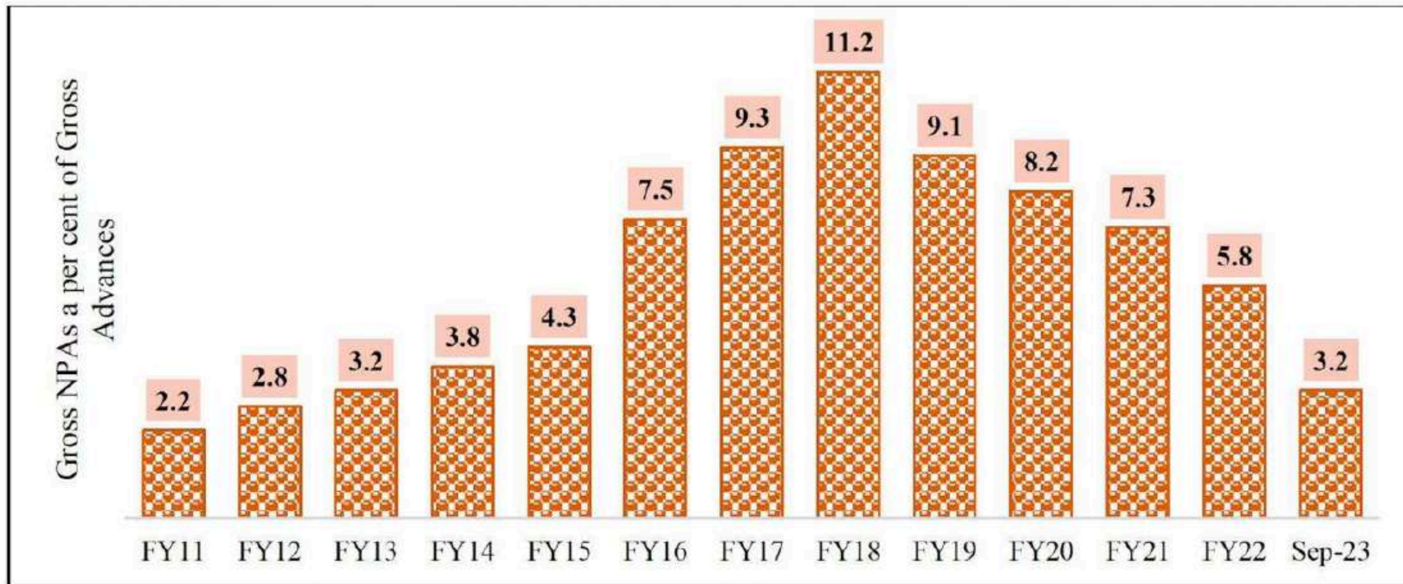


Chart 15: Macro-vulnerability Index[48] and Retail Inflation (per cent)

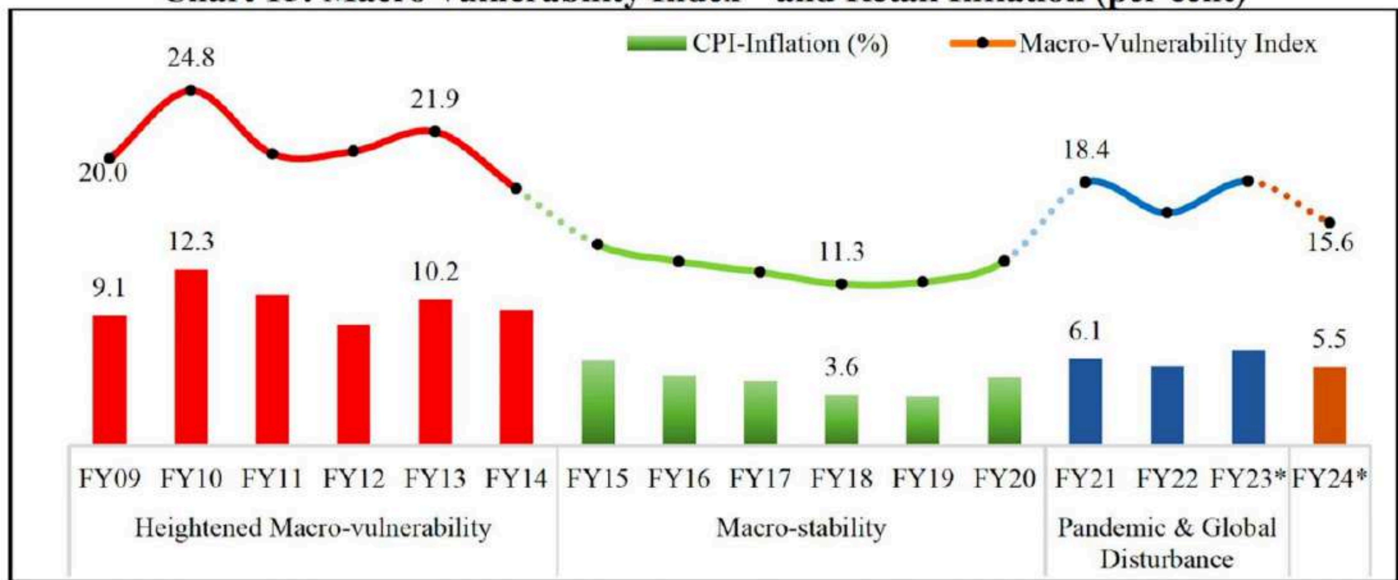


Chart 17: Female Labour Force Participation Rate (rural+urban), usual status, 15 years and above

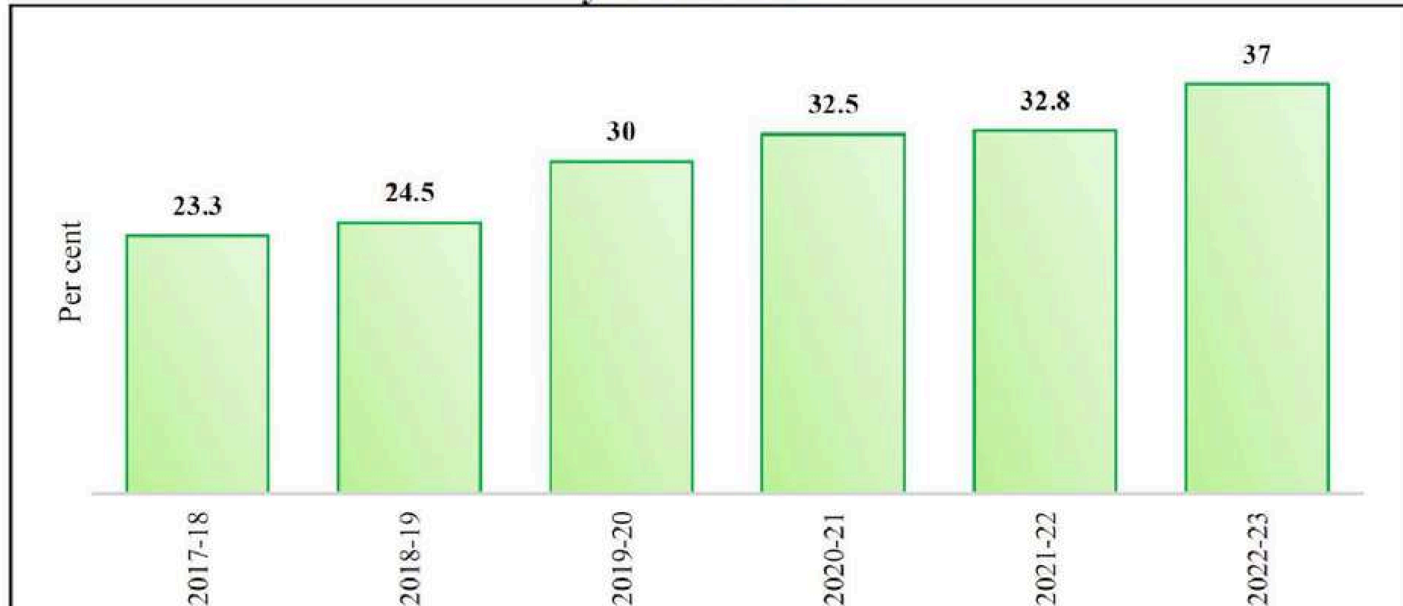
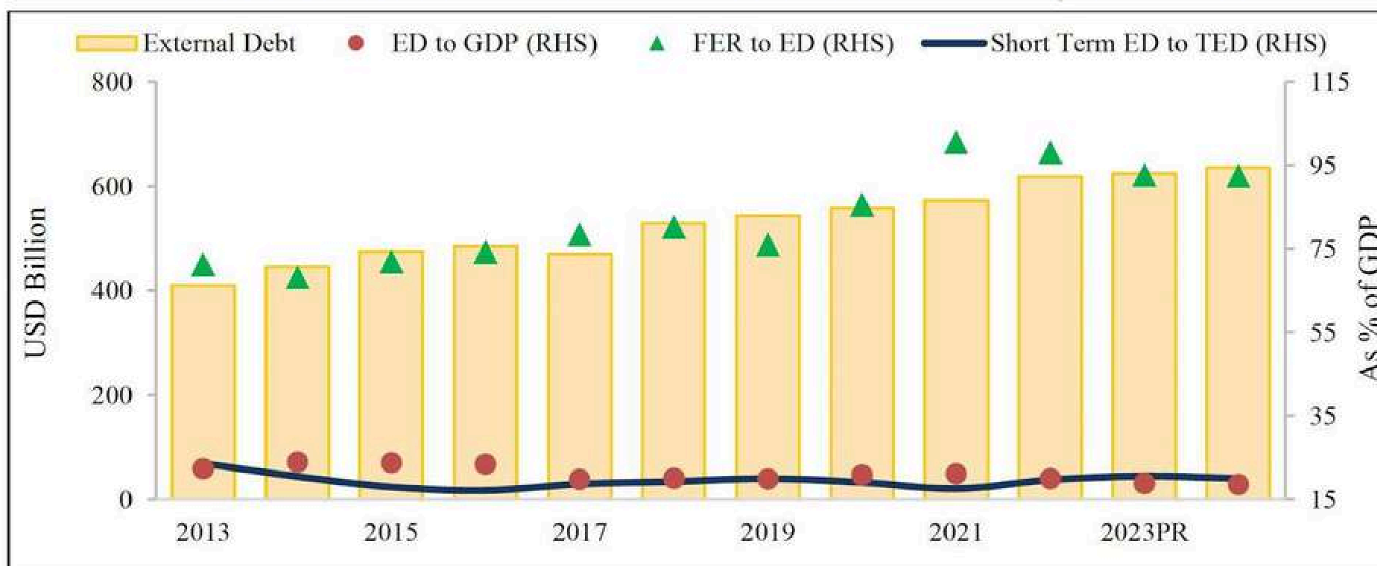


Chart 18: India's External Debt Position and Vulnerability Indicators



Source: RBI; Note: PR - Partially Revised, P - Provisional; ED – external debt, FER – foreign exchange reserves, TED – total external debt

HUMAN DEVELOPMENT

Human Development Report

About the report

- The Human Development Report (HDR) is an annual report published by the **United Nations Development Programme (UNDP).**
  - *As the United Nations lead agency on international development, UNDP works in 170 countries and territories to eradicate poverty and reduce inequality.*
  - *UNDP's work is concentrated in **three focus areas**: sustainable development, democratic governance and peace building, and climate and disaster resilience.*
- The first HDR was launched in 1990 by the Pakistani economist **Mahbub ul Haq** and Indian Nobel laureate **Amartya Sen**. Since then reports have been released most years, and have explored different themes through the human development approach, which places people at the center of the development process.
- As part of the report, the UNDP releases the **Human Development Index.**

About Human Development Index (HDI)

- HDI is a statistical tool used to measure a country's overall achievement in its social and economic dimensions.
- Calculation of the index combines four major indicators:
  - **life expectancy for health,**
  - **expected years of schooling,**
  - **mean years of schooling for education and**
  - **Gross National Income per capita for standard of living.**
- The HDI is the **geometric mean** of normalized indices for each of these indicators.

Multidimensional Poverty Index

About

- **NITI Aayog** releases the Multidimensional Poverty Index (MPI) which seeks to **measure poverty across its multiple dimensions** and in effect **complements existing poverty statistics based on per capita consumption expenditure.**
- It has **three equally weighted dimensions – health, education, and standard of living** – which in turn are represented by **12 indicators** such as nutrition, child and adolescent mortality, antenatal care, years of schooling,

school attendance, cooking fuel, sanitation, drinking water, electricity, housing, assets, and bank accounts.

- The index is calculated by first **setting the deprivation cut-offs for each indicator**, i.e., the level of achievement considered normatively sufficient for an individual to be considered not deprived in an indicator.
- For example, the individual has completed at least six years of schooling. Such a cut off would be applied to determine whether the individual is deprived in each indicator. Weights are added to each indicator and a composite metric is then used to calculate the index.

Types of Unemployment

Types

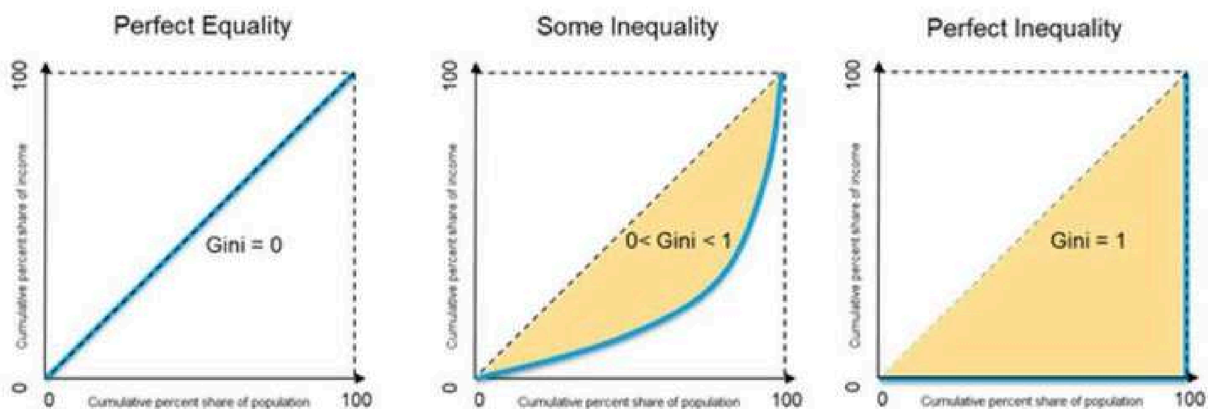
- **Cyclical Unemployment** exists during the downturn phase of the trade cycle in the economy. In a business cycle during the period of recession and depression, income and output fall leading to widespread unemployment. It is caused by a deficiency of effective demand.
- **Frictional Unemployment** (Temporary Unemployment) arises due to imbalance between supply of labour and demand for labour. This is because of immobility of labour, lack of necessary skills, break down of machinery, shortage of raw materials etc. The persons who lose jobs and in search of jobs are also included under frictional unemployment.
- **Disguised unemployment** exists where part of the labor force is either left without work or is working in a redundant manner where worker productivity is essentially zero i.e., marginal productivity of the workers is zero.
- **Structural unemployment** is due to drastic change in the structure of the society. For example: rise in demand for mobile phones has adversely affected the demand for cameras, tape recorders etc. So this kind of unemployment results from massive and deep rooted changes in economic structure.
- **Voluntary unemployment** is defined as a situation when workers choose not to work at the current equilibrium wage rate. For one reason or another, workers may elect not to participate in the labour market.

Gini Coefficient

Definition

- The Gini index is a **measure of the distribution of income across income percentiles in a population.**

- A country in which every resident has the same income would have a **Gini coefficient of 0.** A country in which one resident earned all the income, while everyone else earned nothing, would have a **Gini coefficient of 1.**
- **Gini should not be mistaken for an absolute measurement of income or wealth**. A high-income country and a low-income one can have the same Gini coefficient, as long as incomes are distributed similarly within each country.
- The Gini index is often represented graphically through the **Lorenz curve**, which shows income (or wealth) distribution by plotting the population percentile by income on the horizontal axis and cumulative income on the vertical axis.



PUBLIC FINANCE AND TAXATION

Components of the Budget

Capital Account of Budget

- Capital account consists of **Capital expenditure** and **capital receipts**. All those receipts of the government which **create liability or reduce financial assets** are termed as **capital receipts.**
- Capital expenditures are expenditures of the government which result in **creation of physical or financial assets or reduction in financial liabilities.**
- **Recovery of loans** by the central government reduces the asset of the central government and hence it is part of capital receipts.
- **Investment in shares of PSU** increases the assets and it is part of capital expenditures.

Revenue Account of Budget

- The revenue budget consists of **revenue receipts** of the government (revenues from tax and other sources), and its **expenditure.**
- Revenue receipts include the proceeds from **taxes and other duties** levied by the Centre; the **interest and dividend** it receives on its investments; Grants in Aid contributions; **Proceeds from cess** and the fees and charges the government receives for its services.
- **Revenue expenditure** is the payment incurred for the **normal day-to-day running** of government departments and various services that it offers to its citizens.
- **All grants given to state governments and other parties** are also treated as revenue expenditure even though some of the grants may be for creation of assets.

Types of Taxes

Direct Tax

- A direct tax is a type of tax that you **pay directly to the authority that imposes the tax**. For example, the government imposes income tax, and you pay it directly to the government. Direct taxes cannot be transferred to any other person or entity.

Examples of Direct Taxes

- **Income Tax:** This tax is imposed on the income earned during a financial year. The income tax payable is calculated based on the income tax slabs of the IT department.

- **Securities Transaction Tax:** Each trade made on the stock exchange carries a small tax known as the securities transaction tax or STT.
- **Capital Gains Tax:** Each time you earn capital gains, you will need to pay capital gains tax. Capital gains can be earned from investments or the sale of a property. Based on the capital gains earned and the duration of the investment, you will have to pay either LTCG (Long-Term Capital Gains) tax or STCG (Short-Term Capital Gains) tax.
- **Minimum Alternate Tax:** Companies can reduce their tax liability through various provisions of the Income-Tax Act, such as exemptions, deductions, depreciation, etc. There have been instances of some companies even managing to show **nil taxable income** despite making substantial profits and paying out dividends, thanks to the various tax concessions and incentives. The tax provision known as **Minimum Alternate Tax (MAT)** was created to bring these **'zero-tax paying companies' within the ambit of income tax** and make them pay a **minimum amount in tax** to the government.

Indirect Tax

- Indirect Tax is referred to as a tax charged on a person who purchases the goods and services and it is **paid indirectly to the government.** It is **levied on all persons equally** whether rich or poor.
- The **burden of tax can be easily shifted to another person.** Therefore, the **incidence and impact of indirect taxes falls on different persons.**
- There are several types of Indirect Taxes, such as:
    - **Excise Duty:** Payable by the manufacturer who shifts the tax burden to retailers and wholesalers.
    - **Sales Tax:** Paid by a shopkeeper or retailer, who then shifts the tax burden to customers by charging sales tax on goods and services.
    - **Custom Duty:** Import duties levied on goods from outside the country, ultimately paid for by consumers and retailers.
    - **Entertainment Tax:** Liability is on the cinema theatre owners, who transfer the burden to cinema goers.
    - **Service Tax:** Charged on services like telephone bill, insurance premium such as food bill in a restaurant etc. along with the price.

Merits of Indirect Taxes

1. Wider Coverage:

- All the consumers, whether they are rich or poor, have to pay indirect taxes. For this reason, it is said that indirect taxes can cover more people than direct taxes.

2. Equitable:

- The indirect tax satisfies the canon of equity when **higher tax is imposed on luxuries** used by rich people.

3. Checks harmful consumption:

- The Government imposes indirect taxes on those commodities which are harmful to health e.g. tobacco, liquor etc. They are known as **sin taxes.**

Demerits of Indirect Taxes

1. Higher Cost of Collection:

- The cost of collection of indirect taxes is higher than the direct taxes. The Government has to spend huge money to collect indirect taxes.

2. Inelastic:

- Indirect taxes are less elastic compared to direct taxes as indirect taxes are generally proportional.

3. Regressive:

- Indirect taxes are sometimes unjust and regressive in nature since **both rich and poor persons have to pay the same amount** as taxes irrespective of their income level.

4. Uncertainty:

- The rise in indirect taxes increases the price and reduces the demand for goods. Therefore, the Government is uncertain about the expected revenue collection.

Goods and Service Tax

About GST

- Goods and Service Tax (GST) is an indirect tax levied on the supply of goods and services. This law has replaced many indirect tax laws that previously existed in India.
- The Goods and Service Tax Act was passed in the Parliament on 29th March 2017. The Act came into effect on 1st July 2017.
- GST in India is a **comprehensive, multi- stage, destination-based tax** that is **levied on every value addition.**
- Under the GST regime, the tax will be **levied at the final point of sale.** Hence, it is a **one-point tax without cascading effect.**
- In case of **intra-state sales**, Central GST and State GST will be charged. **Inter-state** sales will be chargeable to Integrated GST.

Input Tax Credit

- **Input Tax Credit or ITC** is the tax that a business pays on a purchase and that it can use to reduce its tax liability when it makes a sale. In other words, businesses can reduce their tax liability by claiming credit to the extent of GST paid on purchases.

Composition Scheme

- The Composition scheme is an easy, low procedure and compliance friendly tax scheme for small and medium enterprises.
- The objective of the composition scheme is to **bring simplicity and to reduce the compliance cost** for the small taxpayers.
- However, a Composition scheme firm is not allowed to avail input tax credit of GST.
- In 2019, the Composition scheme was extended for small service providers (turnover up to **Rs 50 lakh**). Till then, it was applicable only to manufacturers whose taxable business turnover is up to **Rs 1.5 crore.**
- **Businesses with inter-State supplies, manufacturers of ice cream, pan masala and tobacco, and e-commerce players** cannot opt for the composition scheme.

Reverse charge mechanism

- Generally, the supplier of goods or services is liable to pay GST. However, in specified cases like imports and other notified supplies, the **liability may be cast on the recipient under the reverse charge mechanism.**
- Reverse Charge means the liability to pay tax is on the **recipient** of supply of **goods or services** instead of the supplier of such goods or services in respect of notified categories of supply.
- Thus Reverse Charge is applicable
    - When GST Council Notifies Specific Goods and Services For Reverse Charge Levy
    - Wherever a **registered person procures supplies from an unregistered supplier,** he needs to pay GST on a reverse charge basis.

Exempted goods under GST

Food:

- Cereals, edible fruits and vegetables (not frozen or processed), edible roots and tubers, fish and meat (not packaged or processed), tender coconut, jaggery, tea leaves (not processed), coffee beans (not roasted), seeds, ginger, turmeric, betel leaves, papad, flour, curd, lassi, buttermilk, milk, and aquatic feeds, and supplements.

Raw materials:

- Raw silk, silk waste, wool (not processed), khadi fabric, cotton used for khadi yarn, raw jute fiber, firewood, charcoal, and handloom fabrics.

Tools/Instruments:

- Hearing aids, hand tools (such as spades and shovels), tools used for agricultural purposes, handmade musical instruments, and aids and implements used by physically challenged people.

Miscellaneous:

- Books, maps, newspapers, journals, non-judicial stamps, postal items, live animals (except horses), beehives, human blood, semen, bangles, chalk sticks, contraceptives, earthen pots, props used in pooja (including idols, bindi, kumkum), kites, organic manure, and vaccines.

Types of Taxation

Types

- A **progressive tax** is a tax where the average tax rate, or the total amount of tax paid as a percentage of income, **increases as the taxpayer's income increases.** A tax may be progressive if people with higher incomes pay a higher tax rate (e.g. the **personal income** tax).
- A **regressive tax** is the opposite, where the average tax rate, or amount of tax paid as a percentage of income, **decreases as income increases. Indirect taxes** are generally considered as regressive taxes as they can bear a heavy burden on people with lower incomes who end up paying the same amount of tax as those who make a higher income.
- A **proportional tax** lies between a progressive and regressive tax. In a proportional taxation system, everyone pays the same tax rate, regardless of income.

FRBM Act

About

- Fiscal Responsibility and Budget Management (FRBM) Act was enacted in 2003 which set targets for the government to reduce fiscal deficits. It was mandated that both states and the centre would cut the fiscal deficit to 3% by 2008-09. The targets were put off several times.
- In 2016, the government set up a committee under **NK Singh** to review the FRBM Act.
- The committee recommended that the central government should bring down the **fiscal deficit to 3% of the GDP by 2020, cut it to 2.8% in 2020-21 and 2.5% by 2023.**
- The committee also recommended that **states should keep their fiscal deficit under 3% of their respective gross state domestic product (GSDP).**
- It also allows an **escape clause** under the FRBM Act that provides for a deviation from the estimated fiscal deficit on some exception cases such as:
  - Overriding considerations of national security, acts of war, and calamities of national proportion and collapse of agriculture severely affecting farm output and incomes

- Far-reaching structural reforms in the economy with unanticipated fiscal implications
- A sharp decline in real output growth of at least 3 percentage points below the average for the previous four quarters.

- The deviation from the stipulated fiscal deficit target **must not exceed 0.5 percentage points** in a year.
- Escape clauses provide flexibility to governments to overshoot fiscal deficit targets in times of need, enabling them to respond to economic shocks.
- It also suggested that India should **adopt a debt-to-GDP ratio as a new anchor of fiscal policy along with the fiscal deficit** and **gradually bring it down to 60 per cent — comprising 40 per cent for the Centre and 20 per cent for the states.**
- ***Note:*** India's debt ratio is projected to be 84% of its GDP by the end of 2022.

FRBM Requirements

- Along with the budget, three policy statements are mandated to be submitted under the Fiscal Responsibility and Budget Management Act, 2003. These are :
    - The **Medium-term Fiscal Policy Statement** sets a three-year rolling target for specific fiscal indicators and examines whether revenue expenditure can be financed through revenue receipts on a sustainable basis and how productively capital receipts including market borrowings are being utilised.
    - The **Fiscal Policy Strategy Statement** sets the priorities of the government in the fiscal area, examining current policies and justifying any deviation in important fiscal measures.
    - The **Macroeconomic Framework Statement** assesses the prospects of the economy with respect to the GDP growth rate, fiscal balance of the central government and external balance.

Finance Commission

About

- The Finance Commission is a **constitutional body** set up under **Article 280** of the Constitution.
- Under Article 280, the **President of India** is required to constitute a Finance Commission at an interval of five years or earlier.

What are the qualifications for Members?

- The Finance Commission has a chairman and four members appointed by the **President**.

- The **Chairman** of the Commission is selected from among persons who have had **experience in public affairs**, and the **four other members** are selected from among persons who--
    - are, or have been, or are qualified to be appointed as Judges of a High Court; or
    - have special knowledge of the finances and accounts of Government; or
    - have had wide experience in financial matters and in administration; or
    - have special knowledge of economics

What are the functions of the Finance Commission?

- It is the duty of the Commission to make recommendations to the President as to—
    - the distribution of tax proceeds between the Union and the States and the share of each state.
    - the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India;
    - 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;
    - 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;
    - any other matter referred to the Commission by the **President** in the interests of sound finance.

15th Finance Commission

About

- The 15th Finance Commission (Chair: **Mr. N. K. Singh**) was required to submit two reports. The first report, consisting of recommendations for the financial year 2020-21, was tabled in Parliament in 2020. The final report with recommendations for the 2021-26 period was tabled in Parliament on February 1, 2021.

Key recommendations in the report for 2021-26 include:

Share of states in central taxes

- The **share of states in the central taxes for the 2021-26 period is recommended to be 41%,** same as that for 2020-21. This is less than the 42% share recommended by the 14th Finance Commission for 2015-20 period.
- The adjustment of 1% is to provide for the newly formed union territories of Jammu and Kashmir, and Ladakh from the resources of the centre.

Criteria for devolution

1 : Criteria for devolution

Criteria	14th FC 2015-20	15th FC 2020-21	15th FC 2021-26
Income Distance	50.0	45.0	45.0
Area	15.0	15.0	15.0
Population (1971)	17.5	-	-
Population (2011)#	10.0	15.0	15.0
Demographic Performance	-	12.5	12.5
Forest Cover	7.5	-	-
Forest and Ecology	-	10.0	10.0
Tax and fiscal efforts*	-	2.5	2.5
Total	**100**	**100**	**100**

- **Income distance:** It is the distance of a state's income from the state with the highest income. Income of a state has been computed as average per capita GSDP during the three-year period between 2016-17 and 2018-19. A state with lower per capita income will have a higher share to maintain equity among states.
- **Demographic performance:** The Commission used **2011 population data** for its recommendations. The demographic performance criterion has been used to **reward efforts made by states in controlling their population.** States with a lower fertility ratio will be scored higher on this criterion.
- **Forest and ecology:** This criterion has been arrived at by calculating the share of the dense forest of each state in the total dense forest of all the states.

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