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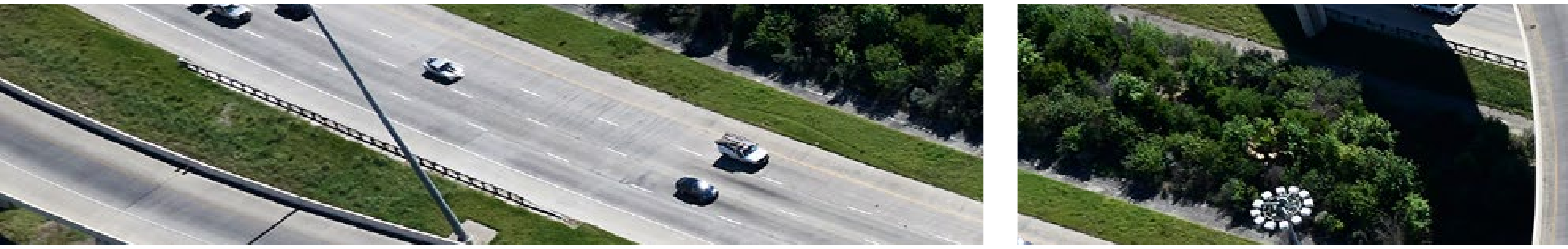


Editorial

> **Cutting budget deficits can never be just an exercise in economics.**
>
> George Osborne

Dear readers,

I am pleased to share the 15th edition of the Public Finance Newsletter with you. As the quotation above suggests, the budget-making exercise is a complex process and has a wide-ranging impact on society's behaviour. Therefore, it merits sufficient pre-, during and post-public discourses. This post-budget special edition of our newsletter focuses on analysing India's Interim Budget for FY 2019-20, presented in the Parliament on 1 February 2019.

In particular, the 'Spotlight' section presents an analysis of various components of the budget, including revenue, expenditure, deficit and debt indicators, and the trends during the last few years. The authors have presented their opinion on the quality and sustainability of the themes underlying fiscal projections and have suggested how these can be implemented better. The 'Potpourri' section highlights the Child Budget component of ministries and departments for 2019.

'Round the corner' provides news updates on government finances and policies across the world and key publications in the public financial management domain during recent months, along with reference links. The 'Our work' section showcases our recent project, Consultancy for Data for Policy Action in the Government of Rajasthan.

I would like to thank you all for your overwhelming support of and response to this newsletter. Your contributions have helped to make it an effective medium for sharing information.

To share your experiences in the public sector and governance space with us, please write to me at ranen.banerjee@pwc.com or to our editorial team.

You may also read this newsletter on the go by downloading the PwC 365™ app on your iOS and Android devices. The app is available on iTunes and Google Play. For more about PwC 365™, please visit http://www.pwc.in/publications/pwc-365-app.html

Happy reading!

Sincerely,

Ranen Banerjee
Partner, Leader - Public Finance and Economics

PwC India

Spotlight

Interim Budget 2019: Beyond budget highlights

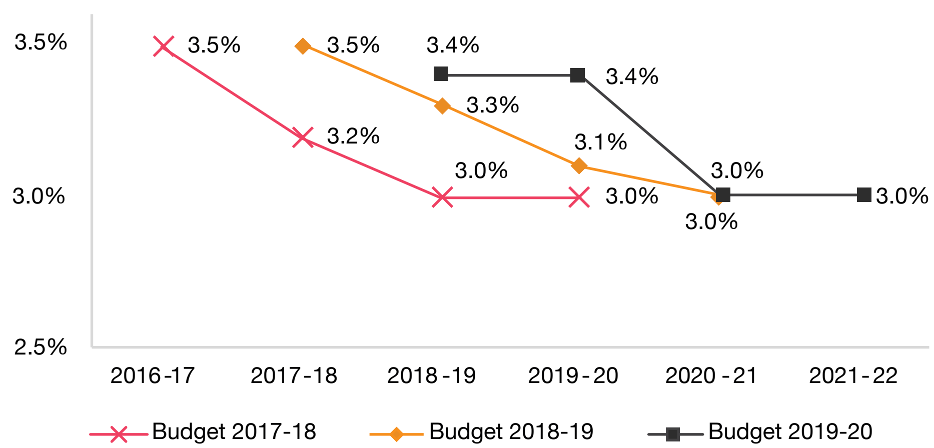
As the General Elections in India are due to be held in the first quarter of FY 2019-20, the Union Government presented an Interim Budget this year on 1 February 2019. This article provides an analysis of various components of the Interim Budget, including revenue, expenditure, deficit and debt indicators, and their trend over the past few years. The authors have provided their opinions on the quality and sustainability of the themes underlying fiscal projections and have given suggestions on how these can be improved.

The 'balance' of the budget

In recent years, there has been an increased focus on fiscal consolidation and transparency in fiscal management in India, with fiscal rules imposing medium-term numerical targets on budgetary deficits to ensure sustainability of public finances in accordance with the Fiscal Responsibility and Budget Management Act, 2003 (and amendments thereof).

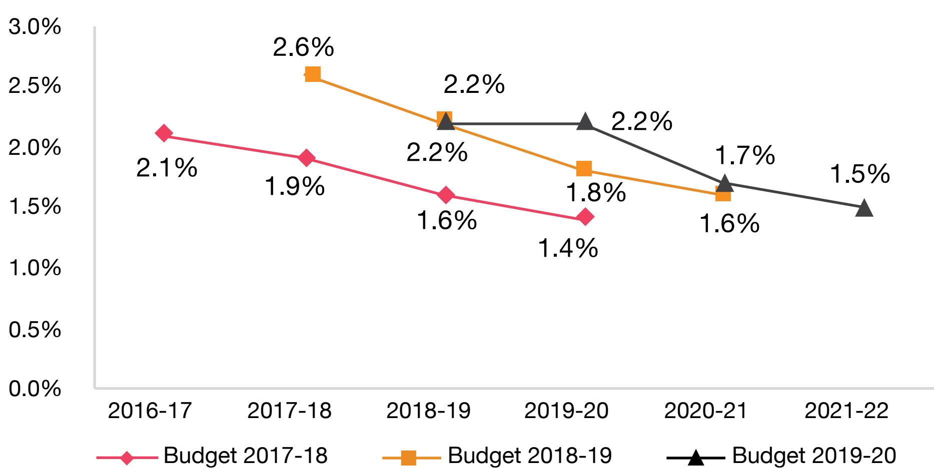
Figures 1 and 2 present the revised estimate (RE), budget estimate (BE) and projections (for the next two years) of fiscal deficit[1] and revenue deficit[2] targets in the last three budgets.

Figure 1: Target set on fiscal deficit as percentage of GDP since FY 2016-17



Source: Medium Term Fiscal Policy (MTFP) Statement, Union Budgets 2017-18 to 2019-20

Figure 2: Target set on revenue deficit as percentage of GDP since FY 2016-17



Source: MTFP Statement, Union Budgets 2017-18 to 2019-20

The two figures highlight a consistent upward revision of fiscal and revenue deficit targets over subsequent budgets. The fiscal deficit for the RE in 2018-19 was projected at 3.4%, which is 0.1 percentage point higher than the BE in 2018-19, while the RE for the revenue deficit is estimated to be the same as in the BE in 2018-19. The reasons cited by the Government in the Medium-term Fiscal Policy (MTFP) Statement for increase in fiscal deficit include (a) the transitional impact of the Goods and Service Tax (GST) and (b) distress in the agricultural sector. The GST was a major structural reform undertaken by the Government in July 2017 and is likely to have a lingering effect on the exchequer. Moreover, the Centre needs to compensate states for any gap in revenues from a 14% growth over previous years beginning 2015-16. Furthermore, farmers' distress has been a growing concern in the country in recent times due to a shortage in rainfall in 2014-15 and a drought in 2015-16,[3] as well as dipping agricultural prices. These factors have led to an additional burden on the treasury.

The Government has also reported a primary deficit[4] in its MTFP statement, which is estimated at 0.2% of India's GDP for 2018-19 (RE) and 2019-20 (BE), while the projection for the next two years is 0%.

1 Fiscal deficit is the amount (as a percentage of GDP) of the excess of Total Expenditure over Revenue Receipts and Non-debt Capital Receipts, i.e. it indicates the borrowing requirements of the Government.

2 Revenue deficit is the amount (as a percentage of GDP) of excess of Revenue Expenditure over Revenue Receipts.

3 http://unicef.in/PressReleases/428/When-Coping-Crumples; "Drought situation in the country", Ministry of Agriculture and Farmers Welfare Rajya Sabha, Starred Question No-64, Answered On-29.04.2016

4 Primary Deficit is fiscal deficit less interest payments on previous debt liabilities.

A noteworthy development in this year's Interim Budget is the elimination of the revenue deficit and effective revenue deficit[5] as FRBM Act parameters. Targeting of revenue deficit has been abandoned and is reported as a reference indicator in the MTFP Statement. The reason for this is that a revenue deficit creates a bias towards capital expenditure, which adversely affects maintenance of capital assets (since this is accounted for under revenue expenditure). There may be some grounds to consider this as a valid argument, since effective operation and maintenance (O&M) of already developed capital assets is as crucial as their creation. Furthermore, there is also a debatable classification of expenditure in the budget, i.e. Grants-in-Aid provided by the Central Government to the states can be used for creation of assets (capital expenditure), but is classified as Revenue Expenditure. Expenditure incurred on creation of human resources is treated similarly. Therefore, it is logical to mainly target fiscal deficit, while statistics on revenue deficit may continue to be reported. The quality of fiscal deficit-related data may however need to be analysed more closely to understand the extent to which fiscal deficit numbers are being used for investments instead of meeting non-productive committed expenditure obligations.

Furthermore, the Government has amended the FRBM Act vide Finance Act 2018 to include a medium-term ceiling for public debt (60% of GDP for General Government Debt,[6] of which 40% of GDP is for Central Government Debt[7] by 31 March 2025). It is encouraging to note declining trend in Central Government's debt, the reasons for which are cited as: (1) to have an additional margin or scope for expansion of debt in the event of an emergency, (2) to avoid distortive taxation needed to service the debt and (3) to prevent crowding out of private investment.

Regarding its composition, external debt constitutes a very small percentage of the Government's total liabilities (less than 3%), and has been declining in recent years. Most external loans are availed from multilateral donor agencies, mainly on concessional terms, and the remaining from bilateral sources. The Central Government does not borrow directly from international capital markets. This implies that the debt portfolio has a low currency risk, limited impact on balance of payments, and is safeguarded from the volatility of international capital markets.[8]

The 'outturn' of the Interim Budget

According to the internationally accepted methodology for assessing public financial management practices (Public Expenditure and Financial Accountability Framework, 2016), budget outturn (i.e. difference between actual estimates and budget estimates as a percentage of budget estimates for a particular year) of + or - 5% is given the best rating, i.e. 'A' (taking into consideration outliers such as large expenditure required during drought). As can be seen in Table 1, there has been significant variation in total receipts (in particular, non-tax revenue receipts). This was mainly due to a relatively higher growth in dividends and profits, compared to expenditure.

Table 1: Budget outturn in the last five years (percentage)

	2014-15	2015-16	2016-17	2017-18	2018-19*
Revenue					
Total receipts	-11.64	-0.17	1.66	0.38	14.02
I. Revenue receipts	-7.42	4.68	-0.20	-5.31	20.24
Tax revenue	-7.54	2.55	4.48	1.26	19.17
Non-tax revenue	-6.89	13.52	-15.51	-33.25	27.16
II. Capital receipts	-19.94	-8.88	6.13	14.34	1.38
Expenditure					
Total expenditure	-7.31	0.75	-0.14	-0.22	0.00
I. Revenue expenditure	-6.45	0.11	-2.34	2.28	-0.05
II. Capital expenditure	-13.27	4.80	15.22	-15.06	5.39

*Compared against revised estimates (RE)
Source: Union Budget Documents, 2015-16 to 2019-20

5 Effective Revenue Deficit is the difference between Revenue Deficit and grants for creation of capital assets (in order to ascertain the actual deficit in the revenue account after adjusting for expenditure of capital nature).

6 "General Government Debt for this purpose has been defined as the sum total of the debt of Central Government and the State Government", MTFP Statement.

7 The Central Government debt is defined to include the total outstanding liabilities of the Central Government on the security of the Consolidated Fund of India, including external debt valued at current exchange rates, the total outstanding liabilities in the public account of India and such financial liabilities of anybody corporate or other entity owned or controlled by the Central Government, which the Government is to repay or service from the annual financial statement, reduced by the cash balance available at the end of that date (Source: MTFP Statement, 2019-20).

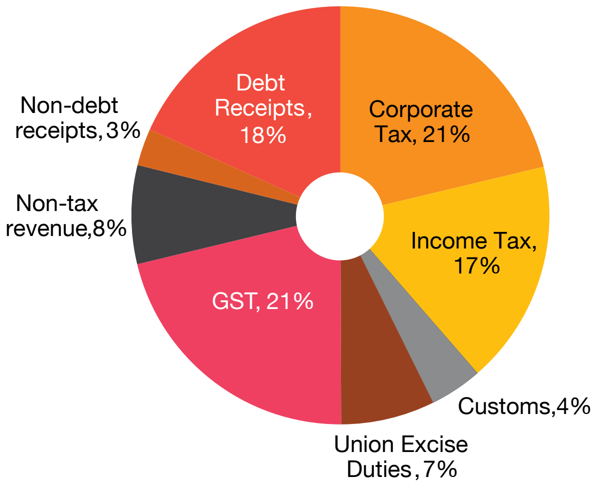
8 Status paper on Government Debt, December 2018

Where will the funds come from?

As evident from Figure 3, tax revenue is the largest revenue source for the Government, comprising 71% of its total budgeted revenue. Non-tax revenue (NTR), comprising 8% of total government receipts, has been included as a fiscal indicator in the MTFP statement since 2019-20.

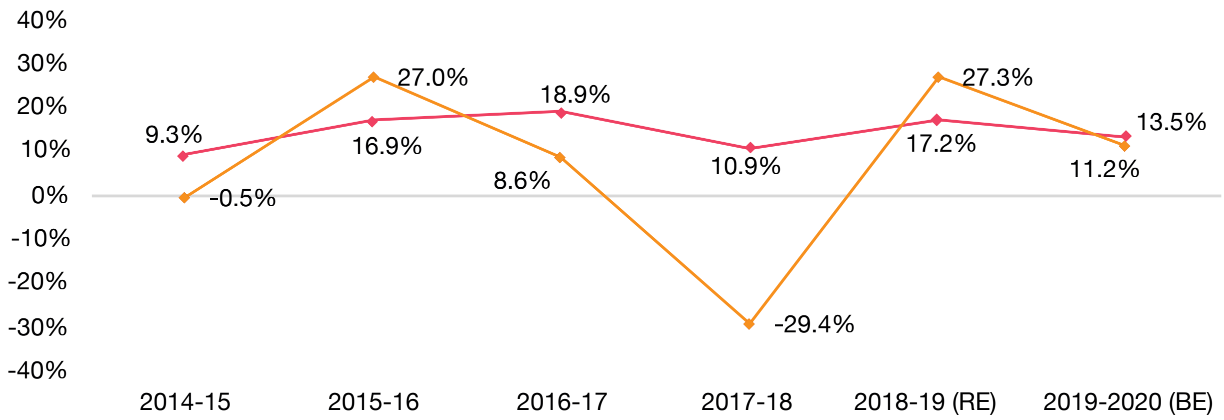
Since the last five years, the growth trend of tax revenues has been stable overall, with a dip in 2017-18, at an average of 14.4% over the period. NTR has witnessed a volatile growth with sharp year-on-year (YoY) fluctuations (ranging from -29.4% to 27.3%). This is due to the high variability and lack of a trend in non-tax revenues, again due to the 'lumpy' nature of large one-off transactions such as the spectrum sales of telecom services or strategic disinvestments leading to a one-time inflow of revenue.

Figure 3: Composition of budget receipts (Gross) 2019-20



Source: Union Budget Document, 2019-20

Figure 4: Growth in tax and non-tax revenue



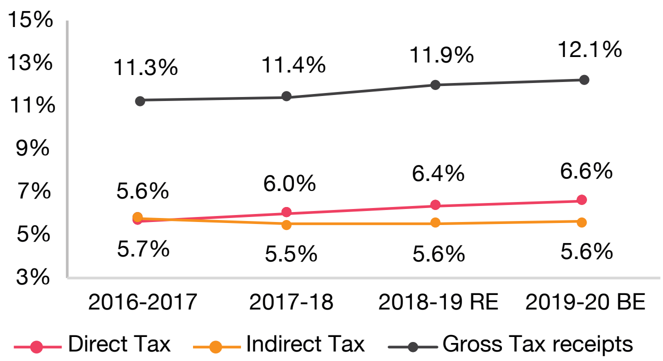
Source: Union Budget Documents, 2016-17 to 2019-20

Tax revenue

Income Tax (IT)

Gross tax revenue collections for 2019-20 have been budgeted at INR 25 trillion, of which direct taxes are expected to constitute 6.6%. For 2019-20, while there is no change in IT rates and slabs, a full tax rebate has been proposed for individuals earning an income of up to INR 0.5 million. Furthermore, the standard deduction for salaried employees has been raised from INR 40,000 to INR 50,000. On the investment front, tax policy-related changes include an increase in the threshold for deduction of tax on interest from bank or post office deposits from INR 10,000 to INR 40,000 and extension of exemption for long-term capital gains arising from sale of residential houses to purchase of two residential houses (with certain limitations).

Figure 5: Tax receipts as a percentage of GDP



Source: Union Budget Documents, 2018-19 to 2019-20

The estimated annual growth of IT collection in the Interim Budget for 2019-20 is similar to the average annual growth rate seen from 2015-16 to 2018-19. The number of new IT filers had increased by 9.95 million in 2017-18 (a 26% increase over the preceding fiscal). The number of new returns filed after demonetisation increased by 8.55 million and 10.7 million in 2016-17 and 2017-18, respectively.[9] Considering the possibility of implementation of technology-enabled tax assessments and a return-processing system in the upcoming fiscal year, the efficiency of tax collections is expected to get a boost. Therefore, the Government's projection seems reasonable on this front.

9 Source: Demonetisation and its impact on Tax collection and Formalisation of the Economy (PIB, 30 August 2018)

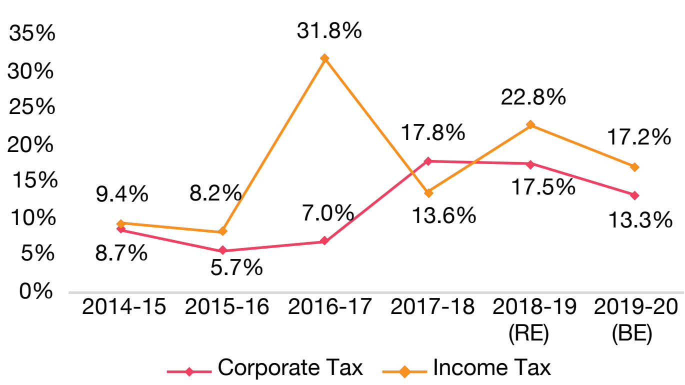
Corporate tax

The key proposals for corporate tax include the enhanced threshold for tax deducted at source (TDS) on rental payments from INR 0.18 million to INR 0.24 million, and an increase in the earlier mandated period for holding unsold inventory from one year to two years for tax on notional rental income.

Projected deceleration in the growth rate of corporate tax and income tax may be due to normalisation of various measures adopted by the Government to increase tax compliance and curb black money. However, there is an overall rise in growth levels of tax collection due to increased tax compliance and expansion of tax base resulting from demonetisation and implementation of other amnesty schemes.

Several insolvency proceedings have been initiated after the implementation of the new Insolvency and Bankruptcy Code 2016. It is expected that recovery of bad debt by commercial banks will increase from 2019-20 onwards, and lead to a rise in lending to business entities, resulting in increased investment made by them. This is expected to have a positive impact on corporate tax filing in 2019-20. In addition, considering the projected GDP growth rate to be marginally above 7% in the next two years, and the sensitivity of corporate tax and income tax to the GDP growth rate, the estimated corporate tax collection appears reasonable. However, a drastic reduction in the GDP growth rate or an increase in inflation due to factors such as a rise in oil prices or uncertainty in the geopolitical scenario may have an adverse effect on the turnover of corporate entities, resulting in less than the projected corporate tax collection.

Figure 6: YoY growth in Direct Taxes

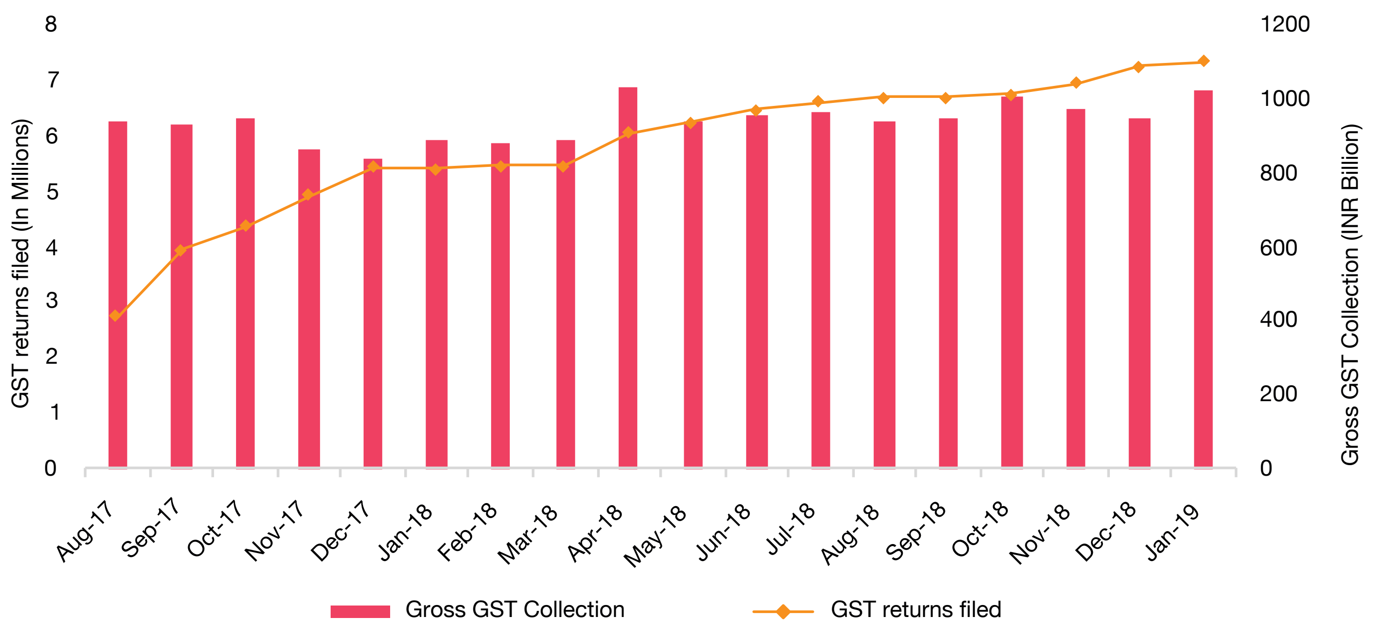


Source: Union Budget Documents, 2016-17 to 2019-20

Goods and Service Tax:

The year 2018-19 was the first complete year of implementation of the GST, the largest tax reform in India. The GST, having subsumed a plethora of taxes that made the tax system overly complex and led to cascading of taxes, has significantly helped to simplify the indirect tax structure and improve ease of doing business in the country. However, in view of the wide implications of the reform, it is likely that the economy will face transitional challenges due to its implementation.

Figure 7: GST collection and GST returns filed from August 2017 - January 2019



Source: Press Information Bureau (Ministry of Finance), GoI

Monthly collection of GST from August 2017 to December 2018 displays a significant volatility along with a marginally positive trend. The estimate of GST collection for 2018-19 has been revised downward by INR 1 trillion. As detailed in the previous section, the Government stated, in its MTFP statement, that accrual of full benefit of the GST is likely to take some more time and the transitional impact is expected to continue through 2019-20. However, in view of the steady increase in the number of GST returns filed and a movement towards a more formalised economy, collections are expected to rise and stabilise over the course of 2019-20.

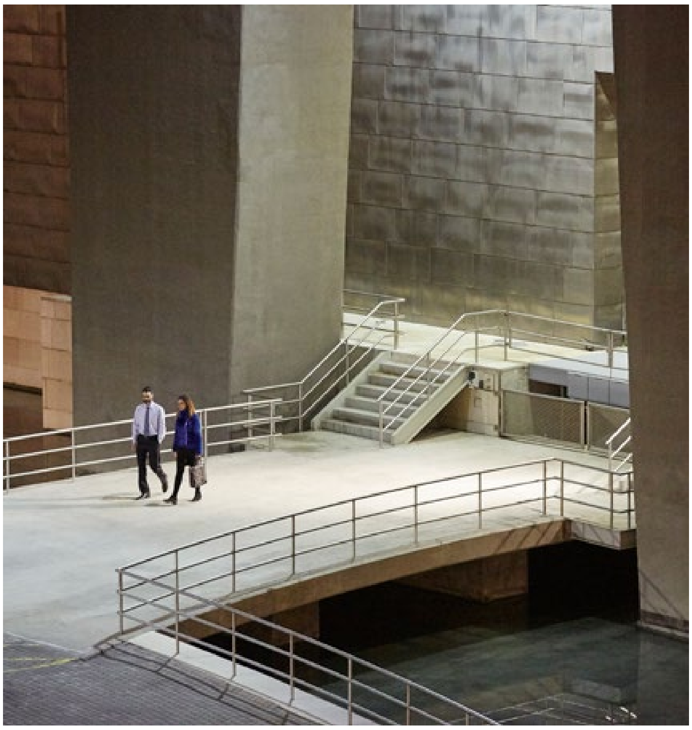
Meeting the GST collection target is contingent on implementation of multiple policy reforms such as rationalisation of GST rates, re-engineering of the supply chain, implementation of an online matching facility, rapid conclusion of tax investigations and disputes, putting in place of various transitional provisions (for instance, enabling a recipient to avail credit of a tax demand on a transaction for which a supplier did not pay tax because of a bona-fide mistake or belief, or allowing payment of a demand because of denial of CENVAT credit through reversal of CGST credit).[10] In addition, proper implementation of GST requires expansion of the tax base by bringing all goods and services into the tax net, even though several commodities such as natural gas, petrol, diesel, select agro-based products and others are exempted from its purview. To implement an effective tax administration system and to widen the tax base, the Government should explore the option to consolidate the GST portal with the Customs portal.

Excise duties:

Customs and Union Excise duties are other important sources of indirect taxes. Compared to the RE for 2018-19, Customs duties for 2019-20 are expected to grow at 11.8% and the RE for 2018-19 has been revised upward by 16%. Excise duties on petroleum and tobacco have been kept outside the ambit of the GST due to their growing importance as a revenue source.

Key insights:

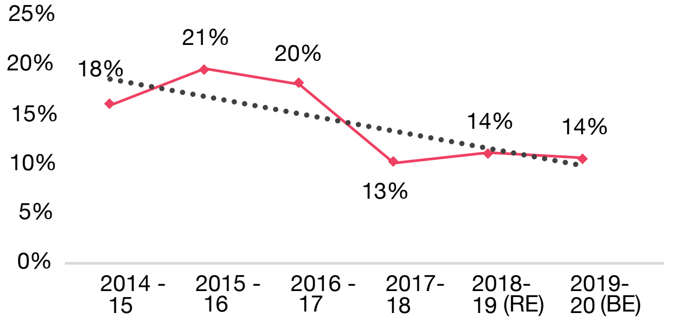
- The estimated IT collection in 2019-20 seems reasonable with the expectation of increased tax compliance and efficiency in collection through technology-enabled tax assessments and the return-processing system.
- The estimated corporate tax collection seems reasonable, given the sensitivity of corporate tax to GDP growth, and the projected GDP growth rate for 2019-20 and 2020-21. However, achievement of the target is subject to domestic and external risk factors.
- In view of steady increase in the number of GST returns filed and transition towards a more formalised economy, GST collections are expected to rise and stabilise during 2019-20.



Non-tax revenue

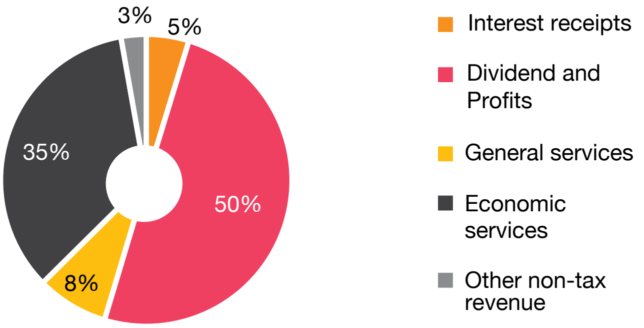
In terms of its composition, dividends and profits contribute nearly half of NTR, followed by economic and general services and interest receipts.

Figure 8: Share of NTR in total revenue receipts



Source: Union Budget Documents, 2016-17 to 2019-20

Figure 9: Components of NTR



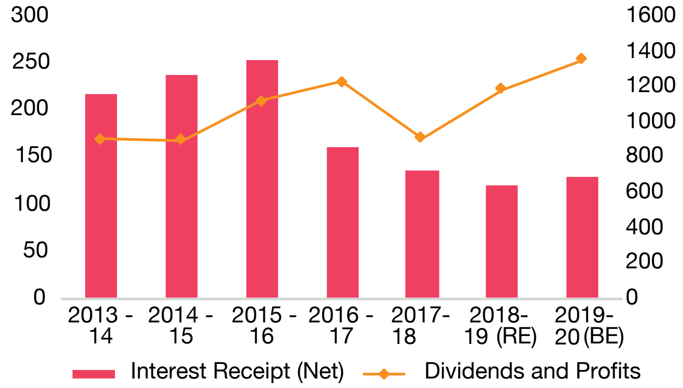
Source: Union Budget Document, 2019-20

10 Source: 365 days of GST: A Historic Journey (PwC publication)

The dividends and profits of public enterprises, banks, and financial institutions have been increasing over the years, except in 2017-18 when they dipped. The likely reason for this could be the temporary effect of demonetisation. Another important source of NTR are interest receipts from loans to the Government, UTs and state governments. These have shown a declining trend since 2016-17. The decline in interest receipts can be mainly attributed to the dip in the share of loans from the Centre in states' total liabilities (4% of total liabilities as per Interim Budget estimates for 2019) and their replacement with market loans. This is in accordance with the recommendation of the 12th Finance Commission regarding disintermediation of the Central Government for future state loans.

Revenues from telecommunications mainly comprise proceeds from sale of spectrum, and contribute 44% (BE 2019-20) of revenues under economic services. The Government has been aware of the fact that it has been unable to meet the target for revenues through spectrum sale in recent financial years (2014-15 onwards), with the exception of 2015-16 when it surpassed its budget estimate. With stiff competition in the telecom sector and the financial pressures faced by companies, this has led to benign bidding by operators. This could be the reason for the Government revising its estimates for 2018-19 downward by 19%

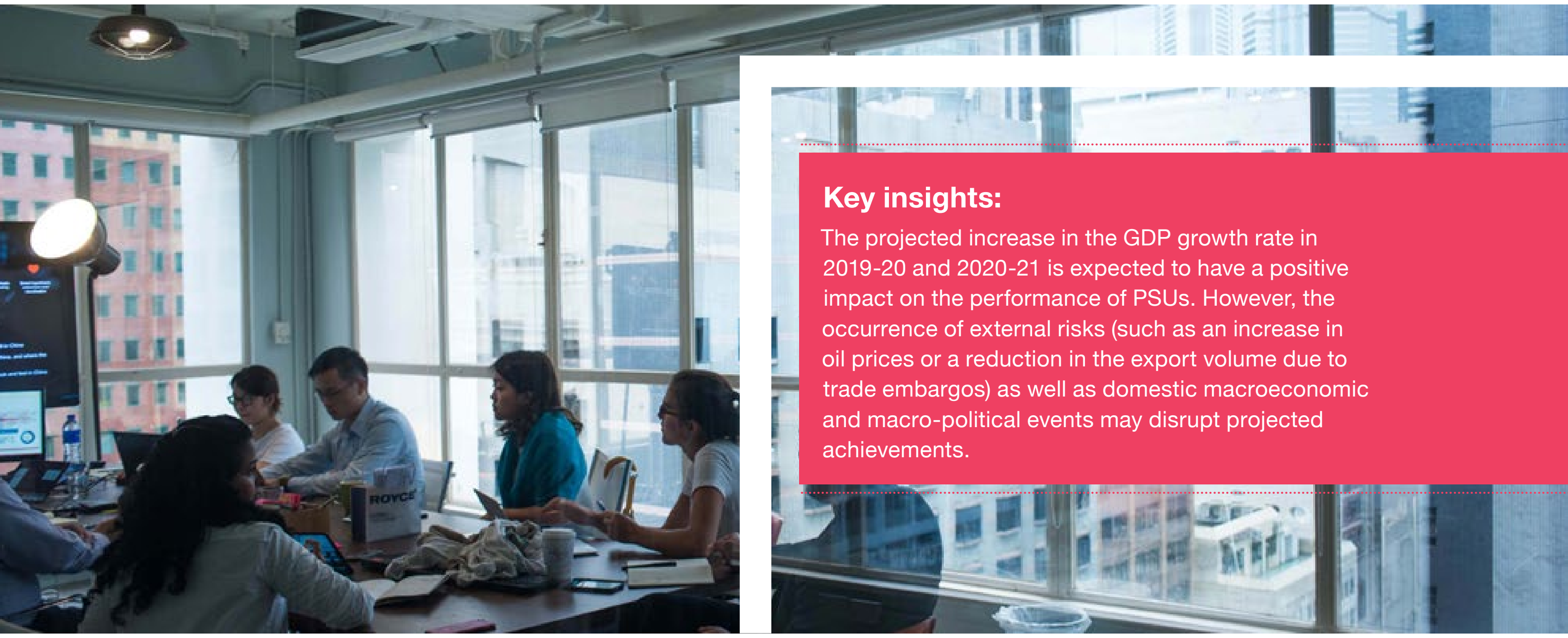
Figure 10: Trend in interest receipts, dividend and profits (in billion INR)



Source: Union Budget Documents, 2015-16 to 2019-20

and the BE for 2019-20 being projected to grow at 6% INR 41.52 trillion).

The projected growth of non-tax revenues accompanied by an estimated GDP growth of 7.4% seems achievable. The major components of growth of non-tax revenues comes from dividends from state-owned enterprises and the Reserve Bank of India (RBI).



Key insights:

The projected increase in the GDP growth rate in 2019-20 and 2020-21 is expected to have a positive impact on the performance of PSUs. However, the occurrence of external risks (such as an increase in oil prices or a reduction in the export volume due to trade embargos) as well as domestic macroeconomic and macro-political events may disrupt projected achievements.

Non-debt capital receipts

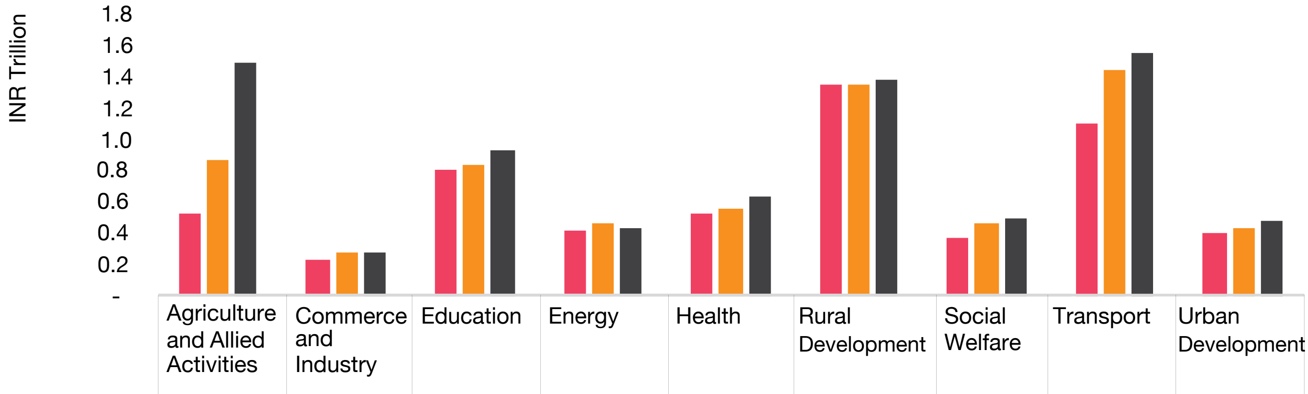
Non-debt capital receipts mainly comprise disinvestment receipts (88% as per BE for 2019-20), and recoveries of loans and advances. Receipts from disinvestment have been budgeted at INR 0.9 trillion for 2019-20. Historically, the Government has been falling short in meeting its non-debt capital receipts targets (for various reasons including market conditions.) and its non-debt capital receipts have exceeded budget estimates in two consecutive fiscal years since 2017-18. While receipts exceeding BE in 2017-18 was primarily due to the strategic disinvestment of Hindustan Petroleum Corporation Ltd. (HPCL), in 2018-19, overachievement of the BE target is attributed to oversubscription of the Exchange Traded Fund (ETF) due to the strategic sale of Rural Electrification Corporation. Therefore, with regard to 2018-19, the RE is the same as the BE of INR 0.8 trillion, of which the Government raised INR 0.85 trillion by 22 March 2019.

Where will the funding go?

Focusing on sectoral allocations

As is evident in Figure 11, the budgeted expenditure for 2019-20 on all the select sectors, except the commerce and energy sectors, have increased compared to the previous two years. In the energy sector, allocation for solar projects under off-grid and decentralised renewable power seems to be declining at the rate of 35% to INR 5.25 billion for 2019-20 from INR 8.12 billion in 2018-19 RE.

Figure 11: Key sectoral expenditure



	Agriculture and Allied Activities	Commerce and Industry	Education	Energy	Health	Rural Development	Social Welfare	Transport	Urban Development
2017-18	0.5	0.2	0.8	0.4	0.5	1.3	0.4	1.1	0.4
2018-19 RE	0.9	0.3	0.8	0.5	0.6	1.4	0.5	1.5	0.4
2019-20 BE	1.5	0.3	0.9	0.4	0.6	1.4	0.5	1.6	0.5

2017-18 2018-19 RE 2019-20 BE

Source: Union Budget Documents, 2019-20

As seen in Figure 11, expenditure in the agriculture sector has witnessed the highest jump due to an increase in the quantum of agriculture subsidy payment, which represents a sizeable component of the Centre's revenue expenditure. In 2019-20, the total expenditure on subsidies is estimated to increase to INR 3.34 trillion over RE for 2018-19 (11.7% vis-à-vis 2017-18), which is due to an increase in the expenditure on food, fertilisers and petroleum subsidies (refer to Table 2).

Table 2: Expenditure on subsidies

	Actuals 2017-18 (INR trillion)	Budgeted 2018-19 (INR trillion)	Revised 2018-19 (INR trillion)	Budgeted 2019-20 (INR trillion)	Percentage of change (RE 2018-19 to BE 2019-20)
Food	1.00	1.69	1.71	1.84	7.5%
Fertiliser	0.66	0.70	0.70	0.75	7.0%
Petroleum	0.25	0.25	0.25	0.37	50.9%
Others	0.33	0.31	0.33	0.38	13.8%
Total	2.24	2.95	2.99	3.34	11.7%

Source: Union Budget Documents, 2019-20

The allocation for food subsidy in 2019-20 is INR 1.84 trillion, which constitutes a 7.5% increase, compared to the RE for 2018-19. In 2018-19, around INR 1.69 billion was allocated for food subsidies, but the RE was higher than the BE by INR 1.71 trillion. The reason for the increase in allocation of food subsidy in the Interim Budget 2019-20 is due to implementation of the National Food Security Act (NFSA) 2013, under which the Government has promised to provide subsidised food grains to more than 0.80 billion people annually. The Act has been implemented across all the states and Union Territories from November 2016 and is expected to cost the Government INR 1.40 trillion annually.

The Government has budgeted a high 51% rise in its expenditure on its petroleum subsidy for 2019-20, which amounts to INR 0.37 trillion. It has earmarked INR 0.33 trillion as cooking gas subsidy, within which INR 0.29 trillion is allocated for disbursement (under the direct benefit transfer) of the liquefied petroleum gas (LPG) subsidy. Another INR 27.24 billion has been provisioned for delivery of LPG connections to poor households under the Ujjwala Yojana scheme. These allocations indicate a reduced kerosene subsidy, which was pegged at INR 44.89 billion for 2019-20. This is driven by an expected increase in the number of new LPG connections, leading to a decrease in the number of users of kerosene across the country. The adequacy of the Government's overall allocation of the petroleum subsidy for 2019-2020 will depend on crude oil prices and the rupee's exchange rate against the dollar. The fertiliser subsidy is expected to rise to INR 0.75 trillion from INR 0.7 trillion during this period. However, a large part of payment of subsidies is expected to be a rollover, which could be the reason direct benefit transfer in fertilisers has not picked up. Expenditure on other subsidies include interest subsidies for various government schemes, subsidies on the price support scheme for agricultural produce, import of pulses and the subsidy for production of sugarcane, among others. In 2019-20, the Government's expenditure on other subsidies is expected to increase by INR 45.46 billion (13.8%) over its revised estimates for 2018-19.

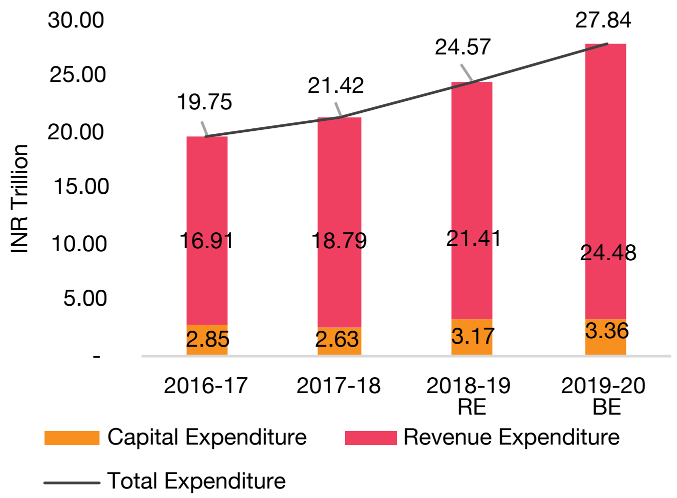
Focusing on allocations for select schemes

The Government is expected to spend INR 27.84 trillion in 2019-20, which is 13.3% higher than its revised estimate for 2018-19. Of the total estimated expenditure, it is proposed that INR 8.60 trillion will be spent on Central sector schemes (which is directly and entirely funded by the Central Government). Moreover, INR 3.28 trillion is proposed to be spent on centrally sponsored schemes (CSS). The proposed expenditure on central sector schemes and CSS in 2019-20 is 16.7% and 7.5% higher than the revised estimate of 2018-19, respectively.

In terms of the composition of the Government's allocation for Central sector schemes (whose volume is significantly higher than its allocation for CSS in 2019-20), the share of its revised and budgeted expenditure out of its total expenditure is highest for the Department of Food and Public Distribution for 2018-19 and 2019-20, respectively. Food subsidies have been the largest component of the Department's expenditure, i.e. the share of expenditure to provide food subsidies was 96% of the total expenditure in 2018-19, and was given to the Food Corporation of India under the National Food Security Act, 2013 for the Targeted Public Distribution System (TPDS), or to states for decentralised procurement of food grains. The expenditure on food subsidies has increased four-fold over the past 10 years. The main reasons for this increase include the rise in the procurement cost of food grains and implementation of the National Food Security Act, 2013, in all the states.[11] In recent years, the Government has implemented several schemes and programmes to increase farmers' income. This is expected to reduce expenditure on subsidies incurred by the Government on procurement of food grains. Its key programmes include the Pradhan Mantri Fasal Bima Yojana (PMFBY), and the electronic National Agricultural Market (e-NAM) and PM-KISAN schemes. However, although the minimum selling price (MSP) of select farm proceeds was increased in the budget in 2018-19, several commodities produced by farmers are still beyond the scope of MSP. To address this challenge, the Government proposed implementation of 'Operation Greens' in its budget in 2018-19 and subsequently approved INR 5 billion to boost production and processing of tomatoes, onions and potatoes in the country. However, to continue its reforms to transform the agriculture sector, the Government needs to focus on incentivising processing of low-value agrarian products. In addition, it should focus more on diversification of crops by allocating funds for implementation of the restructured National Bamboo Mission[12] and development of the forestry and animal husbandry sectors.

For retired Central Government employees, the Government has budgeted INR 1.74 trillion on pension payments in 2019-20, which is 4.6% higher than its revised estimate for 2018-19. The Pradhan Mantri Shram-Yogi Maandhan Yojana (PM-SYMY) has been announced for workers in the unorganised sector with a monthly income of up to INR 15,000. The scheme will provide them an assured monthly pension of INR 3,000 and is contributory in nature, with the contribution amount increasing with age and the Government making a matching contribution. Employees who are members of the National Pension Scheme (NPS), the Employees' State Insurance Corporation Scheme or Employees' Provident Fund Scheme as well as those who are income tax assesses have been left outside the purview of this scheme. However,

Figure 12: Total expenditure and composition



Source: Union Budget Documents, 2018-19 to 2019-20

while allocation for pension payments to 610 million retired Central Government employees is 6.3% of the Government's total budgeted expenditure for 2019-20, its allocation for pension payments under the SYMY to 100 million beneficiaries working in the unorganised sector is only 0.02% of its budgeted expenditure. Considering the large number of intended beneficiaries, allocations seem disproportionate, but this can be attributed to the ramp up time needed to enrol the beneficiaries.

On similar lines, the Government had formulated the Atal Pension Yojana (APY) for workers in the unorganised sector in its budget for 2015-16. The APY is being administered through the NPS system by the Pension Fund Regulatory and Development Authority (PFRDA) and provides a guaranteed minimum monthly pension to subscribers whose monthly earning ranges between INR 1,000 and INR 5,000. Since the targeted beneficiaries of both the pension schemes are similar, the rationale for the formulation of a new pension scheme and the involvement of a separate implementing agency is not apparent. Therefore, synergies between the two schemes and their merger at a future date (to avoid increased overheads) could be considered in the future.

The budgetary allocation for the Swachh Bharat Mission (SBM) witnessed a sharp decline of more than 34% from INR 0.19 trillion in actual estimates for 2017-18 to INR 0.12 trillion for 2019-20. The SBM's website indicates that from 12 February 2019, 550,595 villages have been officially categorised as being Open Defecation Free (ODF), which is a commendable achievement since only 47,021 villages had the ODF status as on 31 March 2016.[13] Since 2019-20 is the concluding year of the mission, a reduction in budgetary allocation for the scheme is consistent with gradual tapering-off of activities in this space. However, as is often the case, the quality of data on the ODF status of villages is doubtful. Therefore, if decision-making is based on inadequate or doubtful evidence, shifting the focus away from SBM by downsizing budgetary allocation for it may erode the progress already made in this area.

11 Source: 18th Report of the Standing Committee on Food, Consumer Affairs and Public Distribution: Demands for Grants 2017-18, Department of Food and Public Distribution

12 Source: Press release of Press Information Bureau (titled "Cabinet approves restructured National Bamboo Mission") dated 25 April 2018

13 Source: https://sbm.gov.in/sbmdashboard/Default.aspx

In the Health sector, the Government implemented a CSS titled Ayushman Bharat in September 2018. This scheme focuses on provision of universal healthcare and not only subsumes previously launched similar schemes such as the Rashtriya Swasthya Bima Yojana (RSBY) and the Senior Citizen Health Insurance Scheme (SCHIS), but also increases the scope of service delivery significantly (for example, Ayushman Bharat offers 135 healthcare packages to target beneficiaries vis-à-vis 70 packages offered by the erstwhile RSBY).[14] Budgetary allocation for the scheme was increased from INR 24 billion in 2018-19 to INR 64 billion in 2019-20. However, although INR 2.50 billion have been allocated for setting up Ayushman Bharat Health and Wellness Centres under the National Urban Health Mission, and INR 13.50 billion has been earmarked for setting up health and wellness centres under the National Rural Health Mission, considering the geographical expanse of various states in India, the quantum of these allocations are small. Furthermore, apart from a high 167% increase in allocation for the Ayushman Bharat scheme (which focuses on the demand side of healthcare services), the budgetary allocation for schemes involving supply of healthcare services has only increased marginally (around 7%). In addition, the Government has not explicitly allocated budgetary resources to create affordable healthcare facilities to treat critical diseases in semi-urban and rural areas, although access to affordable healthcare services in these areas is a major issue.

Key insights:

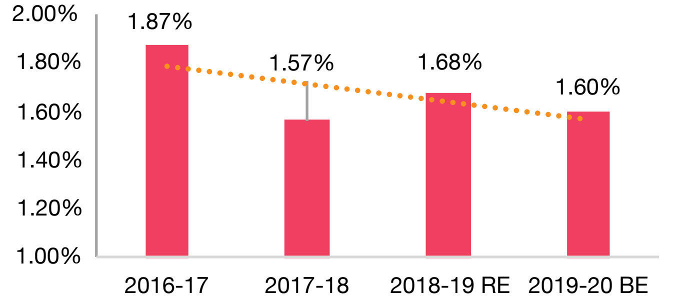
- A positive impact on the agrarian economy is expected through the advancement of the PM-KISAN scheme, which includes alleviation of agrarian distress and implementation of measures to cater to the increase in rural consumption and demand volumes. However, implementation of this scheme may lead to fiscal stress in days ahead.
- A significant impact on the pension sector of the unorganised labour force is expected by the implementation of the PM-SYMY. It is expected that this scheme will encourage saving among workers in the unorganised sector and give a boost to the economy.

Assessing quality of expenditure on capex

One of the crucial parameters to assess the quality of expenditure is the trajectory of capital expenditure (which includes construction of new assets and expenditure on its operation and maintenance). Capital expenditure as a percentage of total expenditure has seen a decrease of 0.08 percentage points compared to 2018-19 and is expected to be 1.6% of the GDP in 2019-20.

It is interesting to note that internal and extra-budgetary revenues (IEBR), which comprise funds raised by central public sector enterprises (PSEs) from their profits, loans and equity, remain the main source of funding for capital expenditure. Utilising IEBR to fund capital expenditure is due to fiscal constraints placed by the Government. As IEBR is kept out of the calculation of fiscal deficit, the share of capital expenditure in fiscal deficit is overrated. Considering this, it is clear that data relating to allocation for capital expenditure in the Union Budget does not fully capture the actual spending. Over the past three years, IEBR has surpassed budgetary allocation of capital expenditure. Such expenditure not being captured in budgetary estimates results in understatement or overstatement of FRBM indicators. However, since payment made towards capital investments primarily depends on the ability of PSEs to generate resources, given the weak performance of several PSEs in India, this may lead to contingent liabilities for the Government in the future.

Figure 13: Capital expenditure as a percentage of GDP



Source: Union Budget Documents, 2018-19 to 2019-20

Allocation of expenditure and a long-term vision

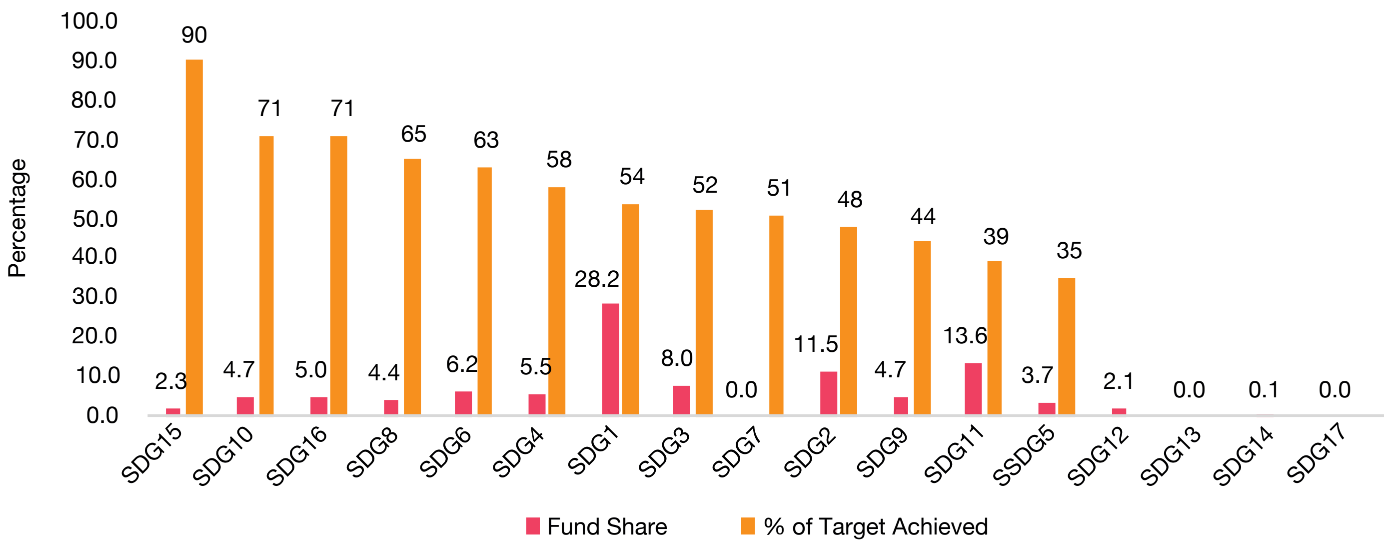
The composition and quality of budgeted expenditure presented in the Interim Budget for 2019-20 is cognizant of the short- to medium-term objectives of the Government. However, it is also important to realise that such short- and medium-term objectives need to be aligned with a long-term view. Furthermore, the Interim Budget included a vision for the next decade under a 10-point agenda. The Government's agenda may be refabricated within the framework of Agenda 2030, as enunciated by the Sustainable Development Goals (SDGs). Given India's commitment to reach its SDG targets by 2030, an analysis of how allocation of expenditure for 2019-20 is in alignment with the progress made towards the Government's SDG targets and provides meaningful insights on the adequacy of such allocations to cater to the need. It should also be noted in this regard and overall that government expenditure as a percentage of the GDP has gone down over the last few decades.[15] This can be attributed to increasing expenditure at the state government or local government levels due to growing cooperative federalism in the country. Furthermore, over time, the Government has utilised the strengths of the private sector in delivering services to the public. It is therefore interesting to analyse the adequacy of current allocations to meet SDG targets with respect to CSSs that are implemented by state governments, but are largely funded by the Central Government, with a defined state government share.

14 Source: Ayushman Bharat: National Health Protection Mission (PwC publication)

15 https://data.worldbank.org/indicator/GC.XPN.TOTL.GD.ZS?locations=IN&view=chart

To calculate the adequacy of allocations for meeting SDG targets vis-à-vis implemented CSS, each CSS is aligned to several relevant SDGs. Moreover, to arrive at the indicative amount of funds allocated to each SDG through the CSS, details of the funds allocated for each CSS needs to be obtained from the Interim Budget 2019-20 and then divided by the total number of affected SDGs. Finally, for details pertaining to allocation of funds for each SDG, the aggregate of allocation of funds for each of them needs to be divided by the total allocation across all CSSs. An overview of our analysis is presented in the Figure 14.

Figure 14: Share of fund allocation (CSSs) vs achievement of target (SDGs)



Source: SDG India Baseline Report, 2018, NITI Aayog; Union Budget Document, 2019-20 & PwC calculations

In its report, SDG India Index: Baseline Report, 2018, NITI Aayog provides normalised scores, which represent the percentage of each SDG target achieved by India. It also maps various relevant CSSs that are responsible for the progress of each SDG. To arrive at the share of the estimated fund allocation (combined for various CSSs) per SDG, budgetary estimates of expenditure for 2019-20 for CSSs (responsible for achieving different SDGs) have been plotted against normalised SDG target scores. Once mapped against the progress made by SDGs in India by goals, our analysis negates the hypothesis that the higher the percentage of a target achieved, the less should be the share of the fund allocated to an SDG (conversely, the greater the shortfall from the SDG target, the higher the fund share should be allocated to an SDG). In Figure 14, no obvious trend is observed when the percentages of SDG targets (by goals) achieved are plotted against the share of allocations of the CSSs responsible for achieving respective SDG goals. It should be observed that the Government is prioritising certain goals such as SDG-1 (eradication of poverty), SDG-11 (setting up of cities and communities) and SDG-2 (achievement of zero hunger), and allocation of funds for CSSs responsible for these SDGs have seen substantial increments. However, the schemes catering to SDG-7 (affordable and clean energy), SDG-13 (climate action) and SDG-17 (strengthening means for implementation and revitalisation of global partnership for sustainable development) require substantial investments, since their progress has been minimal.

An in-depth and exhaustive analysis, including central sector schemes and CSSs, may provide further insights on the adequacy of budgetary allocations for such long-term targets. Interdependence and cross-sector connect need to be emphasised for exploration of sectoral engagements and allocations to holistically achieve India's long desired goal of eliminating poverty and exclusion, and minimising inequalities.

On the revenue side, there is an overall rise in the levels of direct tax collection due to improved tax compliance and an expanded tax base based on several initiatives taken by the Government. The estimate of income tax and corporate tax collection for 2019-20 seems reasonable based on efficiency gains expected through technology-enabled tax assessments, the return-processing system and projected GDP growth for 2019-21. Similarly, in view of the steady increase in the number of GST returns filed and the transition towards a more formalised economy, GST collections are expected to rise and stabilise during 2019-20. The non-tax revenue target, backed by the rise in dividends and profits of PSUs, banks and FIs, seems achievable.

On the expenditure front, apart from the commerce and energy sectors, the budgeted expenditures of all other sectors for 2019-20 have increased compared to the previous two financial years. The agriculture sector continues to remain a priority, especially due to the implementation of the National Food Security Act (NFSA), 2013. However, there is scope to revisit the design of the proposed pension scheme (PM-SYMY) to consolidate and enhance the benefits provided under existing schemes for the unorganised sector.

Although capital expenditure constitutes a focus area for the government, its ability to finance such requirements through its own budgetary resources remains limited. The increments in budgeted allocations for the Central Sector Schemes and Centrally Sponsored Schemes have attracted significant attention in the overall budgeted expenditure of 2019-20; this is fairly aligned with the short- and medium-term priorities of the Government.

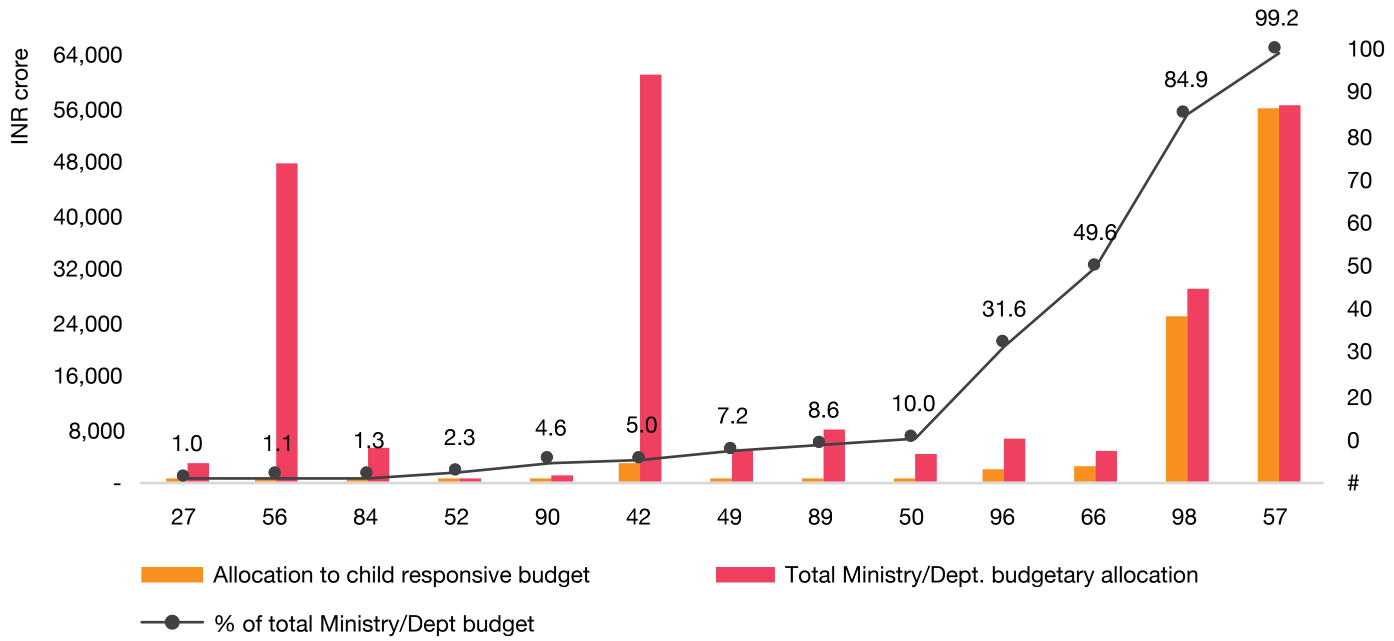
Overall, the interim budget fairly reflects the Government's focus areas and sources of revenue. However, its implementation will depend on whether the changes proposed in the budget are retained by the new government to be elected post the General Elections in India.

Potpourri

The Child Budget refers to a document that recognises and analyses the public resources allocated to programmes and services focused on development of children in the country. In India, a standalone statement on schemes related to the welfare of the children was first included in the budget for the financial year (FY) 2008-09. Since then, while the total budgetary allocation for children's development has been increasing at an average annual growth of 10.5%, its proportion in the total budgetary allocation has declined over time, with the share hovering around 3.2% since the last three years.

For FY 2019-20, there are 24 ministries, departments or Union Territories of the Government that have explicit budgetary provisions for the welfare of children. This constitutes 3.25% of the total budget allocation. The graph below shows that budgetary provisions targeted at welfare of children accounts for at least 1% of the Interim Budget for 2019-20.

Child Budget component of ministries / departments in 2019-20



Demand no.	Ministry/Department/Union Territory
27	Ministry of Environment, Forests and Climate Change
56	Ministry of Housing and Urban Affairs
84	Department of Science and Technology
52	Daman and Diu
90	Department of Empowerment of Persons with Disabilities
42	Department of Health and Family Welfare
49	Andaman and Nicobar Islands
89	Department of Social Justice and Empowerment
50	Chandigarh
96	Ministry of Tribal Affairs
66	Ministry of Minority Affairs
98	Ministry of Women and Child Development
57	Department of School Education and Literacy

Round the corner

News bytes

India's external debt declines at 3.6% to US$510.4 billion at end September 2018
The Economic Times, 31 December 2018

India's external debt fell by US$19.3 billion, or 3.6%, to US$510.4 billion during the six-month period ended 30 September 2018 due to a decrease in commercial borrowings, Non-Resident Indian (NRI) deposits and the valuation effect. The RBI claimed that the decline in the magnitude of external debt was primarily due to gains in valuation due to the appreciation of the US dollar against the rupee.

Source: https://economictimes.indiatimes.com/news/economy/finance/indias-external-debt-declines-3-6-to-510-4-billion-at-sept-end/articleshow/67326995.cms

RBI allows one-time restructuring of MSME loans of up to INR 25 crore
Business Standard, 2 January 2019

On 1 January 2019, the RBI introduced a one-time restructuring scheme for micro, small and medium enterprises (MSMEs) with a maximum exposure of INR 25 crore. This scheme has to be implemented by 31 March 2020. According to the RBI's notification on its website, banks need to incur an additional provision of 5% for these restructured accounts.

Source: https://www.business-standard.com/article/finance/rbi-allows-one-time-restructuring-of-msme-loans-of-up-to-rs-25-crore-119010200026_1.html

Asian Development Bank to scale up lending to US$4.5 billion in 2019
The Economic Times, 11 January 2019

The Asian Development Bank (ADB) has asserted that it will scale up its India funding to US$4.5 billion (around INR 31,500 crore) in 2019. According to its prediction, the Indian economy will grow at around 7.3% in the current fiscal and at 7.6% in the next fiscal as investments pick up and stabilisation of GST adds to revenues.

Source: https://economictimes.indiatimes.com/news/economy/finance/asian-development-bank-to-scale-up-lending-to-4-5-billion-in-2019/articleshow/67488471.cms

GST collections pegged at INR 7.61 lakh crore for FY20; budgeted target for FY19 missed
The Economic Times, 1 February 2019

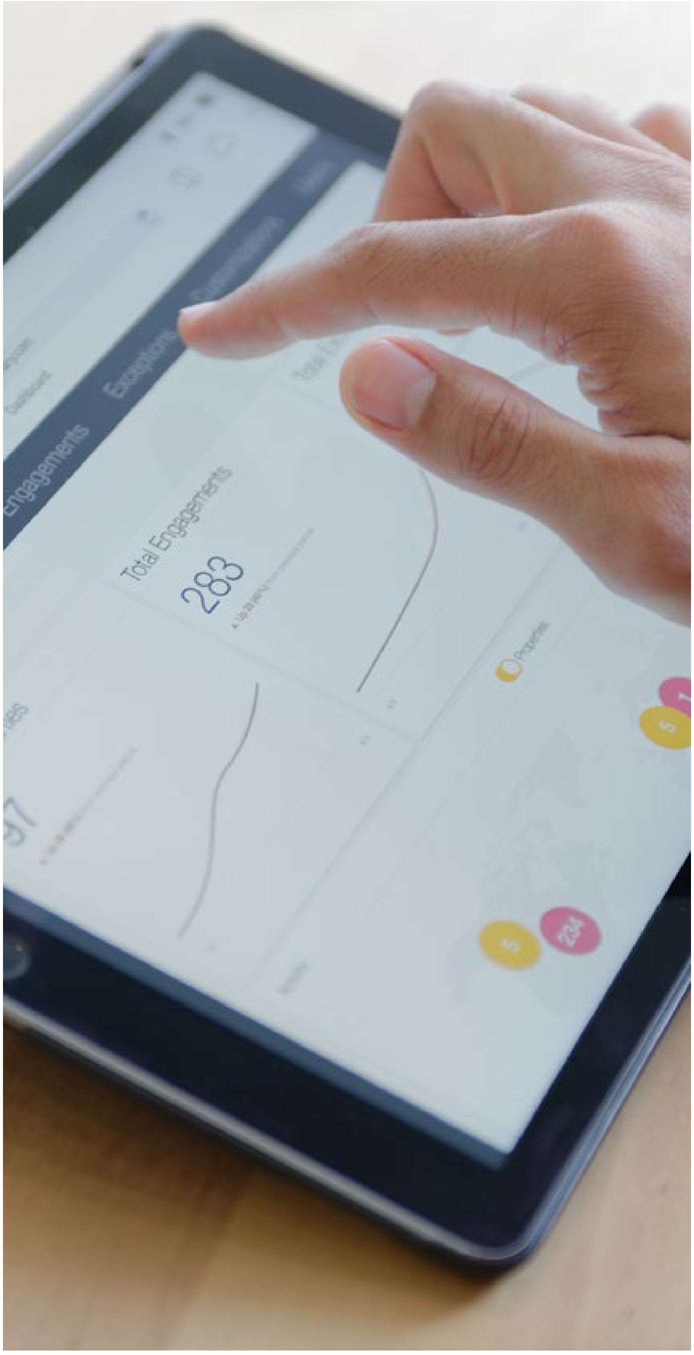
GST collections by the Centre missed the budgeted target set for the current fiscal by INR 1 lakh crore, and the total mop-up by indirect tax has been pegged at more than INR 7.61 lakh crore for 2019-20. The Government aims to collect more than INR 7.43 lakh crore from GST in the current fiscal ending March 2019. However, in its revised estimates, the revenue mop-up has been pegged at more than INR 6.43 lakh crore.

Source: https://www.imf.org/en/Publications/WP/Issues/2019/01/18/Global-Value-Chains-What-are-the-Benefits-and-Why-Do-Countries-Participate-46505

For every rupee in the Government's kitty, 70 paise comes from direct and indirect taxes
The Economic Times, 1 February 2019

According to the Interim Budget 2019-20 presented in Parliament by the Finance Minister, the collection from GST has been pegged at 21 paise as a percentage of every rupee earned, making it the single largest source of revenue.

Source: https://economictimes.indiatimes.com/news/economy/finance/for-every-re-in-government-kitty-70-paise-comes-from-direct-indirect-taxes/articleshow/67792673.cms



Paper releases

The share of income from labour around the world: evidence from a panel dataset

ADBI working paper series, February 2019

There are two fundamental reasons why shares of factors of production have been traditionally overlooked in literature on the economy. First, because of their nature, factor shares are conceptually difficult to define and measure. Second, they have had, for a long time, been perceived as being constant over time. In this study, the author has evaluated five different methods of estimation commonly used in literature on labour share and has proposed a new measurement. The author has also compiled a global dataset of labour income shares across 151 economies—developing and developed—for all or part of 1970-2015. The results indicate that the indicator is correlated to the other five measures but it retains unique information. Contrary to the traditional assumption of stable factor shares, the author has documented the existence of considerable heterogeneity across economies and variability over time. According to the results, there has been a general decline in the labour share around the world, in particular from the mid-1980s onwards.

Source: https://www.adb.org/sites/default/files/publication/484346/adbi-wp920.pdf

Optimal regulation of p2p lending for small- and medium-sized enterprises

ADBI working paper series, January 2019

The purpose of this paper is to describe and evaluate the range of peer-to-peer (P2P) lending systems on offer to small and medium-sized enterprises (SMEs) in several countries, considering different regulatory regimes. In some countries, there are different incentives for platforms that rate credit and originate loans without holding the risk of these loans. However, when investor returns are guaranteed by platforms, investors have no incentive to distinguish among risk categories. In several countries, notably the People's Republic of China, P2P platforms engage in fraudulent behaviour and implement ponzi-like schemes. On the other hand, stringent regulations in the US have prevented new entrants from providing competition to established platforms. Therefore, regulators should be mindful of these risks and others while seeking to capitalise on the benefits the sector offers to provide new funding opportunities to SMEs. In the authors' view, the UK is an effective model to follow because of its tailor-made and flexible regulations.

Source: https://www.adb.org/sites/default/files/publication/478611/adbi-wp912.pdf

Global value chains: What are the benefits and why do countries participate?

IMF working paper, 18 January 2019

Over the last two decades, world trade and production have become increasingly organised around global value chains (GVCs). According to recent theoretical work, countries can benefit by participating in GVCs through multiple channels. However, little is known empirically about the economic importance of supply chains. The Eora MRIO database is used to compute different measures of GVCs' participation for 189 countries and illustrate the global patterns of supply chains as well as their evolution over time in order to contribute to this topic. It has been found that GVC-related trade, rather than conventional trade, has a positive impact on income per capita and productivity. However, there is widespread heterogeneity and the gains appear more significant for upper-middle and high-income countries. According to the study, 'moving up' to more high-tech sectors while participating in major supply chains does take place, but it is not universal. This suggests that other factors matter. The study confirms the findings of the literature on standard gravity on GVC trade, which highlights the key role played by institutional features such as enforcement of contracts and the quality of infrastructure as determinants of GVC participation

Source: https://www.imf.org/en/Publications/WP/Issues/2019/01/18/Global-Value-Chains-What-are-the-Benefits-and-Why-Do-Countries-Participate-46505

Competition, financial constraints and misallocation: Plant-level evidence from Indian manufacturing

Research on development output, DFID, 21 January 2019

A commonly held view is that intensified competition will improve allocation of resources in an economy by moving these to more productive organisations. This is because when organisations are financially constrained, increased competition undermines their profitability, and thereby, their capacity to accumulate capital through internally financed investment. This way, competition may not improve misallocation of resources after all.

Source: https://www.gov.uk/dfid-research-outputs/competition-financial-constraints-and-misallocation-plant-level-evidence-from-indian-manufacturing

PwC updates

Our work

Project: Policy insights garnered from administrative data

About the project: PricewaterhouseCoopers Private Limited has been engaged as the consultant for an innovative project that aims to gain policy insights from administrative data. Financed by the World Bank, the project is being jointly implemented by the Directorate of Economics and Statistics, the Planning Department, and the Department of Information Technology and Communication, Government of Rajasthan.

Objective and scope of this assignment: The project is aimed at utilising Big Data IT infrastructure and significant quantities of administrative and transactional data collected by the Government of Rajasthan (GoR) for enhanced planning, resource allocation, monitoring and evaluation of outcomes. The GoR's goal is to rely less on primary data collection and more on secondary or transactional data routinely generated during administration of Rajasthan or through its citizens' transactions with the Government or other third parties. This project will initially focus on developing indicators or indices for key sectors of the economy such as health, education and infrastructure to facilitate planning, budgeting, allocation, monitoring and evaluation at fairly disaggregated levels, i.e. district, block, village, etc. This exercise will be subsequently extended to other sectors. Overall, the project will harness the power of data analytics for effective decentralised planning, efficient resource allocation and systematic monitoring of outcomes. The focus of the project will be to design and implement a system of reporting that is easy to interpret and use. Use of dashboards or other visualisation and analytical tools will also be explored to achieve this.

Dr. Manoranjan Pattanayak made a presentation on quality assurance in official statistics at the Bhagwat Singh Mehta Auditorium, HCM Rajasthan State Institute of Public Administration, Jaipur, Rajasthan.

Our people

Ms. Aashima Verma

Designation: Associate Director, Public Sector and Governance Unit, Government Reforms and Infrastructure Development (GRID)

Work experience: 12 years

Work experience in Indian states: Andhra Pradesh, Assam, Himachal Pradesh, Madhya Pradesh, Meghalaya, Odisha, Punjab, Rajasthan, and West Bengal

Work experience in other countries: Azerbaijan, Bangladesh, Nepal, the Philippines, Saint Kitts & Nevis, Saint Lucia, and Saint Vincent and the Grenadines

Education and qualifications:

- B.A.(Hons) in Economics, Sri Ram College of Commerce, University of Delhi, 2004 (1st class)
- M.A. in Economics, Delhi School of Economics, University of Delhi, 2007 (1st class)
- Cleared UGC-National Eligibility Test (NET) Examination, Economics, 2007

For over the last decade, Aashima has been supporting governments at all levels in India and abroad on programmes and projects that focus on strengthening public financial management (PFM) systems and procedures across various components. Her experience spans public policy and inventions in a range of sectors—education, health, social security, water, urban infrastructure, etc. as well as a large clientele—funded directly by governments and multilateral institutions. She has managed multiple technical assistance programmes and contributed to designing some of these, including a recent programme worth USD$500 million.

The key highlights of the programmes and projects she has led and/or delivered, which demonstrate her areas of expertise, are presented below:

- Contributed to strengthening fiscal policy frameworks, including management of fiscal risks, PPP-related contingent liabilities and debt management strategies for resource-rich and stressed countries
- Designed proposals and supported implementation of inter-governmental fiscal decentralisation frameworks, including governance and design structure of an incentive fund for devolution
- Developed roadmaps for introduction of medium-term budgetary or expenditure frameworks (MTBF or MTEF) at the national, state and local body levels, and piloted their implementation in three states and one municipal corporation in India, with clear linkages to performance budgeting, including SDGs
- Developed governance frameworks and financing structures, and designed proposals for welfare programmes in select sectors (e.g. social security and health insurance).
- Conducted functional reviews across tax-, customs-, budget- and treasury-related operations—standalone, and as a part of preparation of conceptual designs of integrated financial management systems
- Conducted fiduciary assessments of programmes, surveys on tracking of public expenditure and reviews of public expenditure across a range of sectors at all levels of governments
- Carried out economic viability analyses of infrastructure projects (water supply, multi-modal transport hub, etc.).

Aashima recently conducted a two-day training programme on MTEF for around 100 officials representing multiple departments of a state government in India. Currently, she is managing a three-country assignment that centres on a review of public expenditure in the water sector. Her focus areas include fiscal policy in development, institutional reforms for development, result management of public policy and policy-oriented economic research.

About us

The Public Sector and Governance (PS&G) practice of the Government Reforms and Infrastructure Development (GRID) SBU of PwC in India has been working closely with clients in the public sector and at all levels of the Government, as well as key donors such as DFID, JBIC, the World Bank and the ADB. A large team of our full-time dedicated professionals and associates provide services to governments, and multilateral and private sector clients in the areas of public finance, economics and development of urban infrastructure.

In public finance and economics, our work broadly includes budget reforms, revenue augmentation strategies, improvement of performance, institutional strengthening, accounting and financial management systems, debt management and automation or computerisation. In addition, the team has gained traction in the areas of public expenditure and financial accountability (PEFA) and fiduciary risk assessment (FRA) and has been engaged in such assignments across South Asia. Our Economics sub-group focuses on applied economics services related to macro and microeconomics, competition, impact assessment and business forecasting.

In the area of development of urban infrastructure, our team provides advisory services from planning to implementation,

including management of programmes, business plans and strategies, institutional strengthening, financial management and accounting, and municipal project development through PPP, transaction advisory and contract management.

Most of our projects include training of and capacity building for our government counterparts, working with project teams on specific modules.

Contacts

Ranen Banerjee
Partner, Leader - Public Finance and Economics
PricewaterhouseCoopers Private Limited
Building no. 10, 17th Floor, Tower C, DLF Cyber City
Gurgaon, Haryana 122 002
Tel: + 91 124 3306 009
Fax: +91 124 3306999
Mobile: + 91 9818886207 | Email: ranen.banerjee@pwc.com

Editorial team

Aashima Verma
Email: aashima.verma@pwc.com

Gunjan Bansal
Email: gunjan1.bansal@pwc.com

Janki Soneja
Email: janki.soneja@pwc.com

Contributors to this issue:

Aashima Verma
Daipayan Ghosh
Janki Soneja
Gunjan Bansal
Rudrasis Mohanty
Samik Mukherjee
Shivangi Dewan
Tapas Sanyal

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