Fiscal Developments and Public Finance

3

CHAPTER

Rapid fiscal consolidation was effected in 2010-11 with fiscal deficit dropping to 4.8 per cent of gross domestic product (GDP) from 6.5 per cent of GDP in 2009-10. The Budget for 2011-12 estimated a further reduction to 4.6 per cent of GDP to be achieved through a 16 per cent growth in tax revenue, disinvestment receipts of ₹40,000 crore and moderation in growth in expenditure to 4.9 per cent. Economic developments in the current fiscal have panned out very differently than was envisaged at the time of budget formulation. With a sharp deceleration in real GDP growth, particularly in the industry sector and continued high levels of prices in key commodities, a slippage is likely in the deficit targets envisaged at the time of Budget Estimates. However, with states performing better in overall terms, the combined deficit of the centre and states appears to be on firmer footing, which augurs well for strengthening medium-term macroeconomic prospects. The medium-term outlook is firmly on the consolidation path; albeit with a likely longer tail in terms of time horizon.

3.2 The macroeconomic environment has been under stress since 2008-09 when the global economic and financial crisis unfolded, necessitating rapid calibration of policies. Fiscal expansion followed in 2008-09 and 2009-10 did yield macroeconomic dividends in the form of a sharp recovery in 2009-10, which stabilized in 2010-11 at the same 8.4 per cent level of growth. Economic Survey 2010-11 had succinctly indicated the preponderantly structural nature of the fiscal deficit in India and underscored the need for sustained fiscal consolidation to support medium-term growth prospects. Given this nature, the resumption of fiscal consolidation in 2010-11 as envisaged in the Budget for 2010-11 was apposite and fairly ambitious. The outcome for 2010-11 exceeded this primarily on account of the larger-than-estimated growth in nominal GDP and substantial gains in terms of non-tax revenues and higher than anticipated tax revenues. Higher tax refunds in the current financial year implies that growth of last year was overstated. The higher than budgeted non-tax revenue in 2010-11 was appropriated by the higher expenditure outgo through supplementary demand for grants. Thus, substantial part of the better fiscal outcome (as proportion of the GDP) owed to higher nominal GDP in 2010-11.

3.3 The macroeconomic situation at the time of formulation of Budget 2011-12 looked positive, even though there was some concern about industrial slowdown. However, the persistence of inflationary pressures and consequent demand slowdown had their impact on public finances with rising costs impairing profit margins and thereby affecting levels of growth in corporate income tax and central excise. With global commodity prices remaining high and given limited flexibility in domestic price setting, there have been some expenditure additionalities with implications for the levels of deficit – both revenue and fiscal. The higher outgo in terms of tax refunds, the lower levels of non-tax revenues and the state of the equities market that was inappropriate for achieving the planned disinvestment in the first nine months of the current fiscal make it a challenge to reach the budgeted revenues in the current fiscal. At the same time global crude oil prices (Indian basket) averaged US $ 110.1/bbl in the first nine months, which was much higher than what was assumed at the time of budget formulation. Together with the fact that headline inflation has been high even with limited pass through of fuel prices, these have implications for higher levels of subsidies. While efforts are afoot to rein in expenditure overruns, it is likely that deficit calculations may have to factor in additional expenditure.

3.4 The Budget for 2011-12 had estimated a modest decline of ₹ 4385 crore in revenue receipts, which was placed at ₹ 7,89,892 crore over 2010-11. Given that non-tax revenues were bound to dip after a huge jump in 2010-11, revenue receipts were to be mainly driven by gross tax revenues which were estimated to reach ₹ 9,32,440 crore. It was also envisaged that growth in expenditure would be limited to 4.9 per cent and accordingly total expenditure was placed at ₹ 12,57,729 crore. As a proportion of GDP, revenue deficit was to be brought down to 3.4 per cent and fiscal deficit to 4.6 per cent in 2011-12 (Table 3.1 and Figure 3.1). As against a long-period average annual growth of 13.7 per cent in nominal GDP (between 1991-92 and 2007-08), the growth since 2008-09 has been more volatile, impacting fiscal aggregates when expressed as proportions of nominal GDP. For instance, a substantial part of the correction in fiscal deficit in 2010-11 owes to changes in nominal GDP (Table 3.1 A). While in absolute terms the provisional fiscal deficit was close to the BE, as a proportion of GDP there was sharp reduction.

Table 3.1 : Trends in Deficits of Central Government

Year	Revenue Deficit	Fiscal Deficit	Primary Deficit	Revenue Deficit as per cent of Fiscal Deficit
	(As per cent of GDP)			
2003-04	3.6	4.5	0.0	79.7
2004-05	2.4	3.9	0.0	62.3
2005-06	2.5	4.0	0.4	63.0
2006-07	1.9	3.3	-0.2	56.3
2007-08	1.1	2.5	-0.9	41.4
2008-09	4.5	6.0	2.6	75.2
2009-10	5.2	6.5	3.2	81.0
2010-11(P)	3.2	4.8	1.8	66.3
2011-12(BE)	3.4	4.6	1.6	74.4

Sources **: Union Budget documents and Controller General of Accounts.**
BE : Budget Estimates.
P: Provisional Actuals (Unaudited).
Notes**: The ratios to GDP at current market prices (CMP) are based on the Central Statistics Office's (CSO) National Accounts 2004-05 series.**

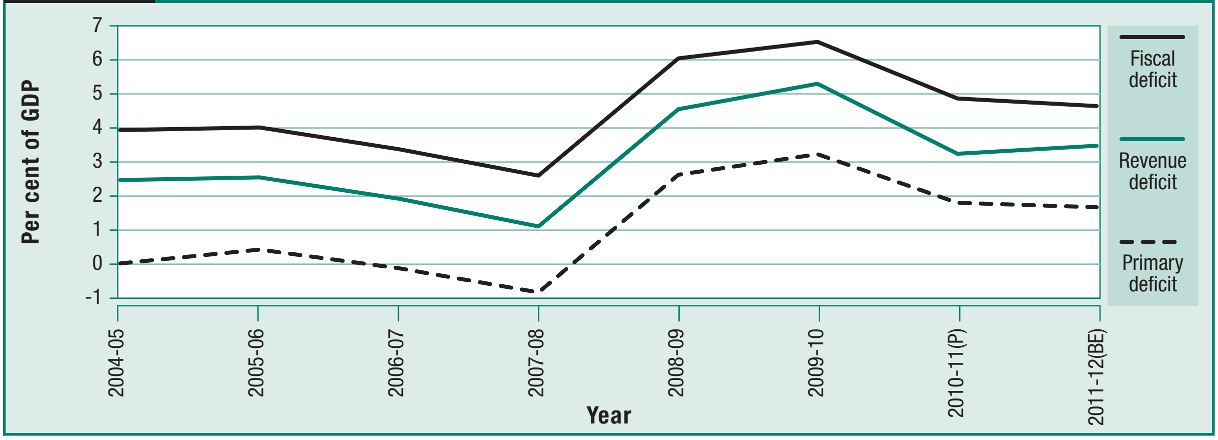
Budgetary developments in 2011-12

3.5 The macroeconomic backdrop leading to the presentation of the Budget for 2011-12 was fairly promising and the Economic Survey had indicated a return to the high growth path with a projection of 9 +/- 0.25 per cent. In terms of quarterly GDP data, growth was still strong even though there was some deceleration in the second quarter for 2010-11. Inflation was above 9 per cent in January 2011 and monetary policy was in a tightening mode; core inflation was moderate and while growth in the industrial sector as per the index of industrial production (IIP) was buoyant in the first two quarters of 2010-11, there was strong deceleration in the IIP in November 2010, which was seen more as a road bump than any long-run problem; and the savings and investment data showed promise of reverting to their pre-crisis trajectories. Against this backdrop, the Budget for 2011-12 indicated sustaining the process of fiscal consolidation and announced a

Table 3.1(A) : Trends in Deficits due to Change in GDP

	2010-11(BE) At the time of Budget 2010-11 (Estimates)	2010-11(AE) Advance Estimates	2010-11(RE) Revised Estimates	2010-11(QE) Quick Estimates
GDP(CMP) (₹ crore)	6934700	7877947	7875627	7674148
Nominal GDP growth (per cent)	12.5	20.3	20.2	17.2
	2010-11(BE)	**2010-11(RE)**	**2010-11(P)**	**2010-11(P)**
Fiscal deficit (₹ crore)	381408	400998	369043	369043
Fiscal deficit as per cent of GDP	**5.5**	**5.1**	**4.7**	**4.8**

Figure 3.1 Trends in deficits of the Central Government



plan to introduce an amendment to the Fiscal Responsibility and Budget Management (FRBM) Act in 2011-12, laying down the fiscal roadmap for the next phase.

3.6 Pointing to the criticality of effective management of public expenditure in sustaining the fiscal consolidation process, the Budget for 2011-12 indicated the initiatives in this regard including the constitution of the High Level Expert Committee on Efficient Management of Public Expenditure, the intent of the government to extend the nutrient-based subsidy regime to urea and the move towards direct transfer of subsidy. While reiterating the commitment to retaining at least 51 per cent ownership and management control of the central public-sector undertakings, the Budget for 2011-12 set a ₹ 40,000 crore disinvestment target . Given this situation and against the then estimated (Revised Estimates) level of fiscal deficit of 5.1 per cent, the Budget for 2011-12 placed fiscal deficit at 4.6 per cent (Table 3.2 and Figures 3.2 and 3.3).

3.7 The key objective of the FRBM Act 2003 was to ensure intergenerational equity in fiscal management and towards this end, revenue surpluses were to be generated by a specified time frame. The intention was that borrowings and revenue surpluses could be channeled into capital expenditure leading to creation of assets conforming to the 'golden rule' principle of treating borrowings only for capital expenditure. Given that there were large intergovernmental transfers which typically in an accounting sense could get classified as revenue expenditure, in the Union Budget 2011-12, a new fiscal indicator, namely "Effective Revenue Deficit" was introduced to ascertain the actual deficit in the revenue account after adjusting for expenditure of capital nature. Hence the "adjusted or "effective" revenue deficit is what is of importance for equity across generations. The effective revenue deficit for 2011-12 is projected at 1.8 per cent of GDP as against the revenue deficit estimate of 3.4 per cent of GDP.

Figure 3.2 Receipts and expenditure of the Central Government

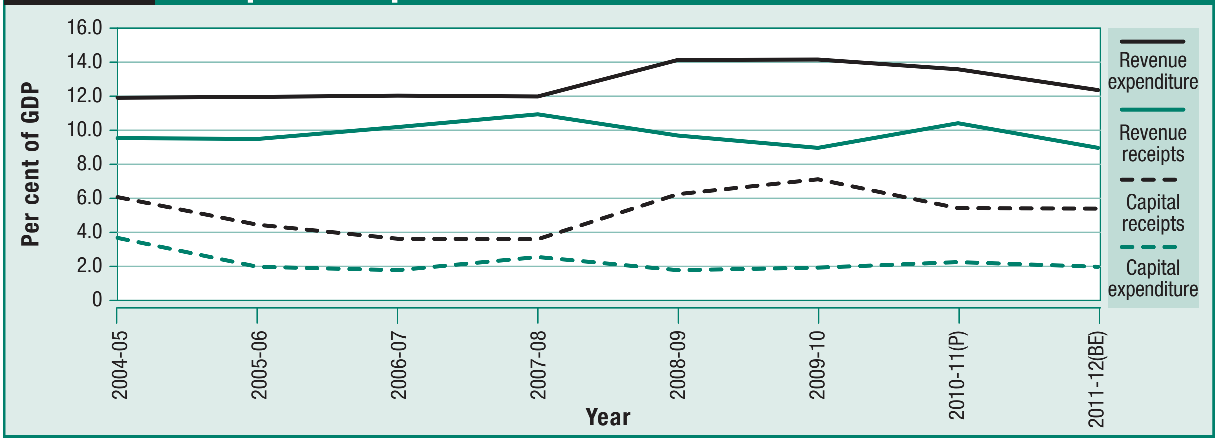


Table 3.2 : Receipts and Expenditure of the Central Government

	2006-07	2007-08	2008-09	2009-10*	2010-11 (BE)	2010-11 (P)	2011-12 (BE)
				(₹ crore)			
1. Revenue receipts (a+b)	**434387**	**541864**	**540259**	**572811**	**682212**	**794277**	**789892**
(a) Tax revenue (net of States' share)	**351182**	**439547**	**443319**	**456536**	**534094**	**572790**	**664457**
(b) Non-tax revenue	**83205**	**102317**	**96940**	**116275**	**148118**	**221487**	**125435**
2. Revenue expenditure	**514609**	**594433**	**793798**	**911809**	**958724**	**1039130**	**1097162**
of which:							
(a) Interest payments	150272	171030	192204	213093	248664	234738	267986
(b) Major subsidies	53495	67498	123581	135508	109092	131212	134411
(c)Defence expenditure	51682	54219	73305	90669	87344	92386	95216
3. Revenue deficit (2-1)	**80222**	**52569**	**253539**	**338998**	**276512**	**244853**	**307270**
4. Capital receipts	**149000**	**170807**	**343697**	**451676**	**426537**	**404642**	**467837**
of which:							
(a) Recovery of loans	5893	5100	6139	8613	5129	12752	15020
(b) Other receipt (mainly PSU disinvestment)	534	38795	566	24581	40000	22847	40000
(c) Borrowings and other liabilities $	142573	126912	336992	418482	381408	369043	412817
5. Capital expenditure	**68778**	**118238**	**90158**	**112678**	**150025**	**159789**	**160567**
6. Total expenditure [2+5=6(a)+6(b)]	**583387**	**712671**	**883956**	**1024487**	**1108749**	**1198919**	**1257729**
of which:							
(a) Plan expenditure	169860	205082	275235	**303391**	**373092**	**377350**	**441547**
(b) Non-plan expenditure	413527	507589	608721	721096	735657	821569	816182
7. Fiscal deficit [6-1-4(a)-4(b)]	**142573**	**126912**	**336992**	**418482**	**381408**	**369043**	**412817**
8. Primary deficit [7-2(a)]	**-7699**	**-44118**	**144788**	**205389**	**132744**	**134305**	**144831**
				(As per cent of GDP)			
1. Revenue receipts (a+b)	**10.1**	**10.9**	**9.6**	**8.9**	**9.8**	**10.4**	**8.9**
(a) Tax revenue (net of States' share)	**8.2**	**8.8**	**7.9**	**7.1**	**7.7**	**7.5**	**7.5**
(b) Non-tax revenue	**1.9**	**2.1**	**1.7**	**1.8**	**2.1**	**2.9**	**1.4**
2. Revenue expenditure	**12.0**	**11.9**	**14.1**	**14.1**	**13.8**	**13.5**	**12.3**
of which:							
(a) Interest payments	3.5	3.4	3.4	3.3	3.6	3.1	3.0
(b) Major subsidies	1.2	1.4	2.2	2.1	1.6	1.7	1.5
(c) Defence expenditure	1.2	1.1	1.3	1.4	1.3	1.2	1.1
3. Revenue deficit (2-1)	**1.9**	**1.1**	**4.5**	**5.2**	**4.0**	**3.2**	**3.4**
4. Capital receipts	**3.5**	**3.4**	**6.1**	**7.0**	**6.2**	**5.3**	**5.2**
of which:							
(a) Recovery of loans	0.1	0.1	0.1	0.1	0.1	0.2	0.2
(b) Other receipt (mainly PSU disinvestment)	0.0	0.8	0.0	0.4	0.6	0.3	0.4
(c) Borrowings and other liabilities $	3.3	2.5	6.0	6.5	5.5	4.8	4.6
5. Capital expenditure	**1.6**	**2.4**	**1.6**	**1.7**	**2.2**	**2.1**	**1.8**
6. Total expenditure [2+5=6(a)+6(b)]	**13.6**	**14.3**	**15.7**	**15.9**	**16.0**	**15.6**	**14.1**
of which:							
(a) Plan expenditure	4.0	4.1	4.9	4.7	5.4	4.9	5.0
(b) Non-plan expenditure	9.6	10.2	10.8	11.2	10.6	10.7	9.2
7. Fiscal deficit [6-1-4(a)-4(b)]	**3.3**	**2.5**	**6.0**	**6.5**	**5.5**	**4.8**	**4.6**
8. Primary deficit [7-2(a)]	**-0.2**	**-0.9**	**2.6**	**3.2**	**1.9**	**1.8**	**1.6**
Memorandum items				(₹ crore)			
(a) Interest receipts	22524	21060	20717	21756	19253	22064	19578
(b) Non-plan revenue expenditure	372191	420861	559024	657925	643599	726767	733558

Sources **: Union Budget documents and Controller General of Accounts.**
BE-Budget estimates P: Provisional actuals (unaudited)
*** Based on provisional actuals for 2009-10.**
$ Does not include receipts in respect of the Market Stabilization Scheme, which will remain in the cash balance of the Central Government and will not be used for expenditure.
Notes **: 1. The ratios to GDP at current market prices are based on the CSO's National Accounts 2004-05 series.**
2. The figures may not add up to the total due to rounding/approximations.

Figure 3.3 **Composition of revenue expenditure**

Revenue and capital receipts

3.8 With bright real GDP growth outlook, the Budget for 2011-12 projected revenue receipts at ₹ 7,89,892 crore, which was marginally lower than the ₹ 7,94,277 crore achieved during 2010-11 (Provisional Actuals). As pointed out earlier, in 2010-11 while the BE had placed non-tax revenue at ₹ 1,48,118 crore, the actual outcome was ₹ 2,21,487 crore, which was on account of a higher-than-estimated realization of ₹ 1,06,000 crore as proceeds from the auction of third generation/ broadband wireless access (3G/BWA) telecom spectrum. Adjusted for the excess receipts under this head, the growth in revenue receipts would be 20.2 per cent. In BE 2011-12 non-tax revenues were estimated at ₹ 1,25,435 crore. Adjusted for one-off receipts under spectrum auctions of ₹ 1,06,000 crore, BE 2011-12 envisages a growth of 14.8 per cent year-on-year in non-tax revenues.

3.9 Growth in gross tax revenue in 2011-12 (BE) was estimated at 18.5 per cent over RE 2010-11 and based on a return to the high growth path of the economy. As a proportion of GDP (as per the then available data), revenue receipts were estimated to decline to 8.8 per cent from a 10.4 per cent level in 2010-11. Gross tax revenue was estimated to improve to 10.4 per cent of GDP in 2011-12 (BE) from a level of 10.1 per cent of GDP in 2011-12. On the basis of GDP data released by the CSO on 31 January 2012 and 7 February 2012, revenue receipts were placed at 10.4 per cent of GDP in 2010-11 (8.9 per cent in 2011-12) and gross tax revenue was placed at 10.4 per cent of GDP (10.5 per cent in 2011-12) (Table 3.3).

3.10 Capital receipts of the non-debt variety have not been a major source of financing given the disintermediation of loans by the centre to states and the low levels of disinvestment receipts as well as changes in the policy of treating the proceeds therefrom. As against a target of ₹ 40,000 crore under other receipts (mainly PSU disinvestment), ₹ 22,847 crore was realized in 2010-11. The Budget for 2011-12 indicated that higher-than-anticipated realization in non-tax revenues early in 2010-11 led to the rescheduling of some of the planned disinvestment for that year and consequently ₹ 40,000 crore was budgeted for 2011-12 as well.

Direct Taxes

3.11 As a proportion of gross tax revenue, direct taxes have been accounting for over a half of the total since 2007-08. Given the composition earlier in the decade, which had a large share of indirect taxes, this indicated robust levels of growth in direct taxes, particularly corporation tax. However, growth in corporation tax was moderate in 2008-09 and 2009-10 owing to demand slowdown on account of the impact of global crisis. At 22.4 per cent, growth in corporation tax rebounded in 2010-11. Growth in personal income tax fell appreciably in 2008-09 to 3.3 per cent and rebounded in 2009-10 to reach 15.4 per cent. With growth in 2010-11 marginally lower at 13.7 per cent, overall growth in direct taxes in 2010-11 was at 19.5 per cent. It was budgeted at about the same level in BE 2011-12 with a growth of 20.2 per cent envisaged in corporation tax and 18.2 per cent in personal income tax. The Budget for 2011-12 underscored the governance initiatives taken

Table 3.3 : Sources of Tax Revenue

	2006-07	2007-08	2008-09	2009-10	2010-11 (BE)	2010-11 (P)	2011-12 (BE)
				(₹ crore)			
Direct (a)	**219724**	**295938**	**319859**	**367543**	**422500**	**439258**	**525151**
Personal income tax	75093	102644	106046	122370	120566	139148	164526
Corporation tax	144318	192911	213395	244725	301331	299423	359990
Indirect(b)	**241538**	**279031**	**269433**	**244737**	**315000**	**345739**	**397250**
Customs	86327	104119	99879	83324	115000	136058	151700
Excise	117613	123611	108613	102991	132000	138372	163550
Service tax	37598	51301	60941	58422	68000	71309	82000
Gross tax revenue #	**473512**	**593147**	**605299**	**624528**	**746651**	**795064**	**932440**
			Tax revenue as a percentage of gross tax revenue				
Direct (a)	**46.4**	**49.9**	**52.8**	**58.9**	**56.6**	**55.2**	**56.3**
Personal income tax	**15.9**	**17.3**	**17.5**	**19.6**	**16.1**	**17.5**	**17.6**
Corporation tax	**30.5**	**32.5**	**35.3**	**39.2**	**40.4**	**37.7**	**38.6**
Indirect(b)	**51.0**	**47.0**	**44.5**	**39.2**	**42.2**	**43.5**	**42.6**
Customs	**18.2**	**17.6**	**16.5**	**13.3**	**15.4**	**17.1**	**16.3**
Excise	**24.8**	**20.8**	**17.9**	**16.5**	**17.7**	**17.4**	**17.5**
Service tax	**7.9**	**8.6**	**10.1**	**9.4**	**9.1**	**9.0**	**8.8**
			Tax revenue as a percentage of gross domestic product				
Direct(a)	**5.1**	**5.9**	**5.7**	**5.7**	**6.1**	**5.7**	**5.9**
Personal income tax	**1.7**	**2.1**	**1.9**	**1.9**	**1.7**	**1.8**	**1.8**
Corporation tax	**3.4**	**3.9**	**3.8**	**3.8**	**4.3**	**3.9**	**4.0**
Indirect(b)	**5.6**	**5.6**	**4.8**	**3.8**	**4.5**	**4.5**	**4.5**
Customs	**2.0**	**2.1**	**1.8**	**1.3**	**1.7**	**1.8**	**1.7**
Excise	**2.7**	**2.5**	**1.9**	**1.6**	**1.9**	**1.8**	**1.8**
Service tax	**0.9**	**1.0**	**1.1**	**0.9**	**1.0**	**0.9**	**0.9**
Gross tax revenue #	**11.0**	**11.9**	**10.8**	**9.7**	**10.8**	**10.4**	**10.5**

Sources **: Union Budget documents and Controller General of Accounts.**

BE-Budget estimates P: Provisional actuals (unaudited)

 # includes Taxes referred to in (a) & (b) and Taxes of Union Territories and 'other' Taxes.

Notes **:1. Direct Taxes also include Taxes pertaining to expenditure, interest, wealth, gift, and estate duty.**

2. The ratios to GDP at current market prices are based on the CSO's National Accounts 2004-05 series.

through information technology including online preparation and e-filing of income tax returns, Electronic Clearing Services (ECS) facility for crediting of refunds directly in taxpayers' bank accounts; and electronic filing of tax deduction at source (TDS) documents. Also a category of taxpayers was notified who need not file a return of income as their income tax liability has been discharged at source.

3.12 In so far as proposals for 2011-12 were concerned, continuing the process of broadening the tax slab, the Budget enhanced the personal income tax exemption limit for the general category of individual taxpayers from ₹ 1,60,000 to ₹ 1,80,000; reduced qualifying age for senior citizens from 65 to 60 years with enhancement in their exemption by a further ₹ 10,000 (from ₹ 2,40,000 to ₹ 2,50,000); and created a new category of very senior citizens (80 years and above) who were given a higher exemption limit of ₹ 5,00,000. Budget 2011-12 reduced the surcharge on corporation tax to 5 per cent from the earlier 7.5 per cent while the rate of minimum alternate tax (MAT) was raised from 18 per cent to 18.5 per cent of book profits and the levy of MAT was extended to special economic zones (SEZs). Alternative Minimum Tax (AMT) at the rate of 18.5 per cent was introduced in the case of Limited Liabilities Partnerships (LLPs) to ensure a minimum level of tax payment by organised business.

Indirect Taxes

3.13 Reduction in excise duties was a key component of the fiscal stimulus package announced in the wake of the global financial and economic crisis and its impact on the economy. With the economy rebounding in 2009-10 and 2010-11 and healthy growth in indirect taxes in 2010-11, the budget for 2011-12 had the option of rollback of the excise duty cuts. But this was eschewed for two reasons: to see improved business margins, incentivize higher investment rates and to facilitate introduction of the goods and services tax (GST). While holding the peak non-agricultural custom duty rates at 10 per cent, the Budget for 2011-12 sought to rationalize three rates of 2 per cent, 2.5 per cent, and 3 per cent at the middle level of 2.5 per cent.

Customs

3.14 Some sector-specific changes in the rates of duty were made:

Food/Agro-processing/Agriculture:

- Basic customs duty reduced from 5 per cent to 2.5 per cent on specified agricultural machinery like paddy transplanters, laser land levellers, cotton pickers, reaper-cum-binders, straw or fodder balers, sugarcane harvesters, and tracks used for manufacture of track-type combine harvesters. Basic customs duty was reduced from 7.5 per cent to 2.5 per cent on parts and components required for the manufacture of such equipment.
- Basic customs duty reduced from 7.5 per cent to 5 per cent on micro-irrigation equipment.
- Basic customs duty on raw pistachios and cranberry products reduced from 30 per cent to 10 per cent; on sun-dried dark seedless raisins reduced from 100 per cent to 30 per cent.
- Full exemption from basic customs duty extended to de-oiled rice bran oil cake.
- Export duty of 10 per cent imposed on exports of de-oiled rice bran oil cake.

Automobiles:

- Full exemption from basic customs duty and special additional duty (SAD) along with concessional countervailing duty (CVD) of 5 per cent (by way of a central excise duty exemption) extended to specified parts of hybrid vehicles namely, battery packs, battery chargers, AC/DC electric motors, and motor controllers (subject to actual user condition and available till 31 March 2013).
- The customs duty dispensation and concessional CVD of 5 per cent also made available on imports of spare battery packs for electric vehicles by such importers as are registered with the agencies notified for the Central Financial Assistance scheme of the Ministry of Non-conventional and Renewable Energy.
- A definition for 'completely knocked down (CKD) unit' of a vehicle including two wheelers, eligible for concessional import duty, inserted to exclude such units containing a pre-assembled engine or gearbox or transmission mechanism or a chassis where any of such parts or sub-assemblies is installed.

Textiles:

- Basic customs duty reduced on raw silk (not thrown) of all grades from 30 per cent to 5 per cent; on poly tetra methylene ether glycol and diphenylmethane 4, 4-diisocyanate from 7.5 per cent to 5 per cent subject to actual user condition; on acrylonitrile reduced from 5 per cent to 2.5 per cent; on sodium polyacrylate from 7.5 per cent to 5 per cent; on caprolactum reduced from 10 per cent to 7.5 per cent; on nylon chips, fibre, and yarn from 10 per cent to 7.5 per cent; on rayon grade wood pulp from 5 per cent to 2.5 per cent.
- Cotton waste fully exempted from basic customs duty.

Capital Goods/Infrastructure:

- The scope of full customs duty exemption to water supply projects for agricultural and industrial use expanded by bringing the water pumping station and water reservoir also within the ambit of exemption.
- The benefit of full exemption from basic customs duty and CVD available to 'tunnel boring machines' and parts thereof for hydroelectric power projects extended to such machines for highway development projects also.
- Basic customs duty reduced from 7.5 per cent to 5 per cent for specified gems and jewellery machinery.

- Full exemption from basic customs duty provided to cash dispensers and parts required for the manufacture of cash dispensers.
- Concessional 5 per cent basic customs duty, 5 per cent CVD, and Nil SAD currently applicable to high-speed printing machinery extended to mailroom equipment compatible with such printing machinery imported by registered newspaper establishments.
- A concessional rate of 5 per cent basic customs duty, 5 per cent CVD, and Nil SAD extended to parts and components for manufacture of 23 specified high voltage transmission equipments.
- Full exemption from basic customs duty extended on bio-based asphalt sealers and preservation agents, millings removers and crack fillers, asphalt removers, and corrosion protectant and sprayer systems for bio-based asphalt applications.

Concessions to Environment-friendly Items:

- Concessional CVD of 5 per cent and full exemption from SAD provided to light- emitting diodes (LEDs) used for manufacture of LED lights and light fixtures.
- Basic customs duty on solar lanterns or lamps reduced from 10 per cent to 5 per cent.
- Full exemption from customs duty extended to toughened glass and silver paste imported for manufacture of solar cells/modules on actual user condition.

Health Sector:

- Endovascular stents fully exempted from basic customs duty of 5 per cent.
- A concessional import duty regime of 5 per cent basic customs duty, 5 per cent CVD, and nil SAD for specified raw materials for the manufacture of syringes, needles, catheters, and cannulae, on actual user condition.
- Exemption from SAD provided to patent and proprietary (P & P) medicines imported for retail sale.
- Customs duty on four specified life-saving drugs and their bulk drugs reduced from 10 per cent to 5 per cent with Nil CVD (by way of excise duty exemption).
- Basic customs duty on lactose for use in the manufacture of homoeopathic medicines reduced from 25 per cent to 10 per cent.

Electronics Hardware:

- A concessional import duty structure of 5 per cent CVD and Nil SAD prescribed on parts of inkjet and laser-jet printers imported for manufacture of such printers.
- Full exemption from basic customs duty extended to parts/components required for the manufacture of PC connectivity cables and sub-parts of parts and components of battery chargers, hands-free head phones, and PC connectivity cables of mobile handsets including cellular phones.
- Full exemption from SAD available up to 31 March 2011 on parts, components, and accessories for manufacture of mobile handsets including cellular phones extended up to 31 March 2012.
- Full exemption from customs duty extended to additional specified capital goods and raw materials for the manufacture of electronic hardware.
- A concessional import duty structure of 5 per cent CVD and Nil SAD prescribed on parts for manufacture of DVD writers, combo drives, and CD drives subject to actual user condition.

Aircraft:

- A basic customs duty of 2.5 per cent imposed on imports of aircraft for non-scheduled operations. The exemption from additional duty of customs (CVD) and special additional duty of customs (SAD) to continue.
- Exemption from education cess and secondary and higher education cess presently available to aircraft withdrawn.

Export Promotion:

- The list of specified goods, allowed to be imported duty free for use in the manufacture of leather goods for export, expanded.
- The list of specified goods, allowed to be imported duty free for use in the manufacture of textile and leather garments, expanded by including anti-theft devices like labels, tags, and sensors therein.
- Description of some items changed in the list of items that are allowed to be imported duty free for manufacture of textile/leather garments and other leather goods for export.

- Benefit of duty-free import extended to trimmings, embellishments, components, etc. for manufacture of leather goods, footwear, and textile garments by merchant exporters/their supporting manufacturers.
- Specified tools used in the handicrafts sector included in the list of specified goods allowed to be imported duty free to handicrafts exporters.
- Full exemption from basic customs duty extended to fin fish feed.
- Basic customs duty on vannamei broodstock reduced from 30 per cent to 10 per cent; on bamboo used for manufacture of agarbattis reduced from 30 per cent to 10 per cent.

Paper:

- Basic customs duty on waste paper reduced from 5 per cent to 2.5 per cent.

Metals:

- Full exemption from basic customs duty extended to stainless steel scrap.
- Basic customs duty on ferro-nickel reduced from 5 per cent to 2.5 per cent.
- Statutory rate of export duty on iron ores increased from 20 per cent to 30 per cent while unifying the effective rate of export duty on iron ore fines and lumps at 20 per cent.
- Iron ore pellets were fully exempted from export duty.
- Copper dross, copper residues, copper oxide mill scale, brass dross, and zinc ash exempted from special additional duty of customs of 4 per cent.
- Basic customs duty on vanadium pentaoxide and vanadium sludge reduced from 7.5 per cent to 2.5 per cent.
- Exemption from basic customs duty provided on the value of gold and silver contained in copper concentrate.

Precious Metals:

- An import duty of 'Nil basic customs duty + CVD of ₹ 140 per 10 gram + Nil special additional duty of customs' prescribed for gold dore bars of up to 80 per cent gold purity imported for refining and manufacturing serially numbered gold bars in India.

Miscellaneous:

- Basic customs duty reduced from 5 per cent to 2.5 per cent on carbon black feed stock, petroleum coke, and mineral gypsum.
- Crude palm stearin fully exempted from basic customs duty for use in the manufacture of laundry soap on actual user basis.
- At present specified categories of works of art and antiquities are exempted from customs duty for specified scope.
- Special provision made in the Finance Bill imposing definitive safeguard duty retrospectively on imports of caustic soda lye imported into India and retrospectively for the period 4 December 2009 to 3 March 2010.
- Special provision made in the Finance Bill to retrospectively provide a concessional basic customs duty of 30 per cent to fresh garlic imported by the National Consumer Cooperative Federation and the Madhya Pradesh State Cooperative Marketing Federation under import licences issued by the central government and cleared after 15 March 2003.
- Certain notifications amended retrospectively to allow exports made under the Export Promotion Capital Goods (EPCG) Scheme to simultaneously avail of export reward schemes such as the Served from India Scheme and Focus Market Scheme.

Special Economic Zones (SEZs):

- All clearances from SEZs into the domestic tariff area (DTA) exempted from SAD of 4 per cent provided they are not exempt from the levy of value added tax (VAT)/sales tax.
- The CVD exemption available to plastic materials reprocessed in India out of the scrap or the waste of goods extended to DTA clearances of such plastic materials manufactured in SEZ units also.

Ship Repairs:

- The benefit of exemption available to ship repair units on imports of spares and consumables required for repair of ocean-going vessels extended to such spares and consumables for repairs of ocean-going vessels by owners of such vessels registered in India.

Central Excise

3.15 Some of the major measures taken in the Budget for 2011-12 are as follows:

- An excise duty of 1 per cent without Cenvat credit facility imposed on about 130 specified items, which were hitherto either fully exempt from excise duty or chargeable to nil rate of excise duty.
- Merit rate of excise duty of 4 per cent increased to 5 per cent.
- A mandatory excise duty of 10 per cent imposed on ready-made garments and textile made ups bearing a brand name or sold under a brand name.
- An excise duty of 5 per cent was imposed on automatic looms and projectile looms.
- Exemption from excise duty available to clearances up to 3500 metric tonne of paper manufactured from non-conventional material withdrawn.
- Sugar and textile items have been omitted from the schedule of the Additional Duties of Excise (Goods of Special Importance) Act 1957.

Food/Agro-processing:

- Full exemption from excise duty extended to air-conditioning equipment, panels and refrigeration panels for installation of cold chain infrastructure for the preservation, storage, transport, or processing of agricultural, horticultural, dairy, poultry, apiaries, aquatic, and marine produce; conveyor belt systems for use in cold storage for the preservation, storage, transport or processing of agricultural, horticultural, dairy, poultry, apiary, aquatic and marine produce and in mandis and warehouses for storage of foodgrains and sugar.

Capital Goods:

- Excise duty exemption extended to goods required for expansion of an existing mega/ultra mega power project under specified conditions on a par with exemption from CVD on the import of goods for expansion of such projects.
- Excise duty reduced from 10 per cent to 5 per cent on parts of specified textile machinery.
- Full exemption from excise duty extended to specified parts of sewing machines (other than those with in-built motors).

Environment Friendly and Energy Saving Goods:

- A concessional rate of excise duty of 10 per cent prescribed for hydrogen vehicles based on fuel cell technology.
- Excise duty reduced from 10 per cent to 5 per cent on hybrid kits for conversion of fossil fuel vehicles to hybrid vehicles. Parts of such kits to attract 5 per cent duty.

Health:

- Excise duty on sanitary napkins, baby and clinical diapers, and adult diapers (as also similar articles of textile wadding) reduced from 10 per cent to 1 per cent with no Cenvat credit.

Water Supply:

- Full exemption from excise duty currently available to pipes required for delivery of drinking water from its source to the plant and from there to the first storage point extended to pipe fittings such as joints, elbows, and couplings.
- Concessional rate of excise duty of 1 per cent extended to water filters using pressurized tap water but without use of electricity and their replaceable kits.

Automobile Sector:

- Concessional rate of excise duty of 10 per cent extended to factory-built ambulances. Other vehicles retrofitted as ambulances subsequent to their removal from the factory to continue to be eligible for refund-based concession.
- The scope of the Taxi Refund Scheme extended to include vehicles carrying 13 persons including the driver.
- Concessional excise duty structure for taxis rationalized to provide refund of 20 per cent of the excise duty paid on such vehicles if they are registered as taxis subsequent to removal.
- Full exemption from excise duty extended to parts of power tillers when cleared to another factory of the same manufacturer for manufacturing power tillers.

Paper and Paper Board:

- Cotton stalk particle boards fully exempted from excise duty.

- Concessional rate of 5 per cent excise duty extended to corrugated boxes whether or not pasted with duplex sheets on their outer surfaces.
- Excise duty on greaseproof paper and glassine paper reduced from 10 per cent to 5 per cent.

Precious Metals:

- Excise duty on serially numbered gold bars, other than tola bars, made in the same factory starting from the ore/concentrate stage reduced from '₹ 280 per 10 grams' to '₹ 200 per 10 grams'.
- Concessional excise duty rate of ₹ 200 per 10 grams extended to serially numbered gold bars manufactured by refining of gold dore bar also.
- Excise duty of '₹ 300 per 10 gram' imposed on serially numbered gold bars, other than tola bars, manufactured during the process of copper smelting.
- Excise duty of '₹ 1500 per kg' imposed on silver manufactured during gold refining starting from the ore/concentrate stage or from gold dore bar or during the process of copper smelting.
- Excise duty of 1 per cent imposed on branded jewellery and articles of precious metals.

Textiles:

- A tariff rate of excise duty of 10 per cent prescribed for jute yarn while it is being simultaneously exempted from excise duty.

Miscellaneous:

- Enzymatic preparations used in the leather industry fully exempted from excise duty.
- Full exemption from excise duty (and hence from CVD on imports) provided to colour, unexposed cinematographic film in jumbo rolls of 400 feet and 1000 feet.

Service Tax

3.16 The introduction of service tax in 1994-95 ushered in a major structural change in indirect taxes in the form of a wider tax base and facilitated the process of rationalization of excise duties resulting in lower tax burden on productive sectors. Over the years, there has been an increase in the number of services and the rate of service tax leviable (Table 3.4).The Budget for 2011-12 retained the service tax rate at 10 per cent and focused on achieving a closer fit between the present service tax regime and the proposed GST. This was sought to be done by adding a few new services on the ability to pay principle, expanding or rationalizing the scope of existing services, rationalizing certain provisions relating to important services and valuation, modifying provisions of the Cenvat credit scheme seeking to effect the right balance between input credits and output tax, and harmonizing the provisions of the scheme across goods and services, incentivizing honesty and penalizing dishonesty in compliance, and adoption of point of taxation rules to facilitate accrual basis of the collection.

3.17 The major initiatives/highlights of Budget 2011-12 are detailed as follows :

Service tax was imposed on the following services: services provided by air-conditioned restaurants having a licence to serve alcoholic beverages in relation to serving of food and/or beverages; short-term accommodation provided by a hotel, inn, guesthouse, club or campsite, or any other similar establishment for a continuous period of less than three months.

The scope of certain existing services was expanded or altered:

- The scope of 'life insurance service' widened to cover all services provided to a policy holder or

Table 3.4 : Service Tax- A Growing Revenue Source

Year	No. of Services#	Tax Rate in per cent	Revenue (₹ crore)	Growth in per cent over Previous Year@
2004-05	75	10	14200	80.0
2005-06	78	10	23055	62.4
2006-07	93	12	37598	63.1
2007-08	100	12	51301	36.4
2008-09	106	12*	60941	18.8
2009-10	109	10	58422	-4.1
2010-11(P)	117	10	70896	21.4
2011-12 (April-December)	119	10	60860	37.3

Sources : Receipts Budget, Controller General of Accounts and Department of Revenue.

Notes : * Reduced to 10 per cent w.e.f. 24 February 2009.
@ Growth for 2011-12 (April-December) is over the corresponding period previous year.
# Based on new entries added each year.
P Provisional actual.

any person, by an insurer, including re-insurer carrying on life insurance business. Tax to be charged on the portion of the premium other than what is allocated for investment, when the break-up of premium is shown separately in any document given to the policy holder. The rate of composition increased from 1 per cent to 1.5 per cent.

- The scope of 'club or association service' expanded to include service provided to non-members within its ambit.
- The scope of the service of 'authorized service station' expanded to :
  - (a) include services provided by any person;
  - (b) cover all motor vehicles other than those meant for goods carriage and three-wheeler scooter auto-rickshaws; and
  - (c) cover decoration and other similar services in respect of vehicles along with the services already covered.
- The definition of 'business support services' amended so as to include services provided by way of operational or administrative assistance in any manner.
- The scope of legal consultancy services expanded by bringing within their ambit
  - (a) service provided by a business entity to individuals in relation to advice, consultancy, or assistance in any branch of law, in any manner;
  - (b) representational service provided by any person to any business entity (representational services provided to individuals to continue to be exempt); and
  - (c) 'arbitration' service provided by an arbitral tribunal to any business entity.
- In commercial training or coaching services, the definition of 'commercial training or coaching centre' amended so as to bring all unrecognized courses within the tax net, irrespective of the fact that such courses are conducted by an institute which also conducts courses that may lead to grant of a degree or diploma.

Certain exemptions were extended:

- Exemption provided to services rendered in relation to business exhibitions held abroad.
- An abatement of 25 per cent from the taxable value provided for the purpose of levy of service tax under 'transport of goods through coastal and inland shipping'.
- Exemption provided to 'works contract' service rendered for construction or finishing of new residential complexes under the Jawaharlal Nehru National Urban Renewal Mission and Rajiv Awaas Yojana.
- Exemption provided to services rendered within a port or other port or an airport under 'works contract' service for specified areas.
- Exemption provided to the Rashtriya Swasthya Bima Yojana under general insurance service.
- Value of air freight included in the assessable value of goods for charging customs duties excluded from taxable value for the purpose of levy of service tax under 'transport of goods by air' service.
- Services related to transportation of goods by road, rail, or air when origin and destination are located outside India exempted from service tax.
- A modified scheme introduced to refund service tax to SEZ units and developers and notification No.9/2009-ST superseded. In the modified scheme, 'wholly consumed' services defined in the notification in order to extend 'outright exemption' and to permit refund of all other services on a proportionate basis.
- Some existing exemptions on domestic and international travel and club or association services were withdrawn.

Collection Rates

3.18 As part of the announced long-term commitment to align custom tariffs to those prevailing in Association of South East Asian Nations (ASEAN) countries, peak rates of customs have been progressively reduced since the beginning of the reform process in 1991 to about 10 per cent in the Budget for 2007-08. Collection rates on overall basis progressively declined to reach 5.9 per cent in 2009-10. A rise in the rate is observed in 2010-11, reflected in part restoration of excise duty cuts (rise in CVDs) and rise in global commodity prices in some components like metals, man-made fibre, petroleum, oil and lubricants (POL) and chemicals (Table 3.5).

Table 3.5 : Collection Rates for Selected Import Groups*

(per cent)

Sl. No.	Commodity Groups	1990-91	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 (Provisional)
1	Food products	47	32	23	19	4	3	3
2	POL	34	6	5	6	3	2	6
3	Chemicals	92	20	22	22	16	14	17
4	Man-made fibres	83	34	28	30	17	22	30
5	Paper & newsprint	24	9	10	10	8	8	8
6	Natural fibres	20	13	12	13	6	4	5
7	Metals	95	25	24	24	17	17	22
8	Capital goods	60	13	14	16	13	11	13
9	Others	20	5	6	6	4	4	4
10	Non-POL	51	12	12	13	9	8	9
11	**Total**	**47**	**10**	**10**	**10**	**7**	**6**	**8**

Source : Department of Revenue, Ministry of Finance

Notes : * Collection rate is defined as the ratio of revenue collection (basic customs duty + CVD) to value of imports unadjusted for exemptions, expressed in percentage.

S.No. 1 includes cereals, pulses, tea, milk and cream, fruits, vegetables, animal fats, and sugar.

S.No. 3 includes chemical elements, compounds, pharmaceuticals, dyeing and colouring materials, plastic, and rubber.

S.No. 5 includes pulp and waste paper, newsprint, paperboards and manufactures, and printed books.

S.No. 6 includes raw wool and silk.

S.No. 7 includes iron and steel and non-ferrous metals.

S.No. 8 includes non-electronic machinery and project imports, electrical machinery.

Goods and Services Tax

3.19 To operationalize the GST, the Constitution (115th Amendment) Bill has been introduced in the Lok Sabha in March 2011 to enable Parliament and state legislatures to make laws for levying GST on every transaction of supply of goods or services or both. Some goods, namely crude petroleum, diesel, petrol, aviation turbine fuel, natural gas and alcohol are not to come under the purview of the GST. The constitutional amendment bill also seeks to empower the President to set up within 60 days of the passage of the legislation, a GST Council with the union Finance Minister as chairperson and union Minister of State for Revenue and Finance Ministers of all the states as members. The GST Council is to work on the basis of consensus and make recommendations on issues like GST rates, exemption lists, and threshold limits. Further, the bill provides for setting up of a GST dispute settlement authority, comprising a chairperson and two members to resolve disputes arising out of deviations from the recommendations of the GST Council either by the central or state governments. The draft Bill has since been referred to the Parliamentary Committee on Finance for examination.

3.20 Among the other steps that are being taken for the introduction of the GST is the establishment of a strong information technology (IT) infrastructure. For this purpose the government has set up an Empowered Group headed by Nandan Nilekani, Chairman, Unique Identification Authority of India (UIDAI). Significant progress has been made in the conceptualization and design of the GST Network (GSTN) - a common portal for the centre and states that will enable electronic processing of the key business processes of registration, returns, and payments. For this purpose, the structure of these processes is in advanced stages of finalization. The National Securities Depository Limited (NSDL) has been selected as technology partner for incubating the National Information Utility that will establish and operate the IT backbone for the GST. In this regard the NSDL has set up a pilot project in collaboration with eleven states prior to its roll-out across the country. Three Joint Working Groups of officials have also been constituted comprising officials from the central government, state governments, and an Empowered Committee of State Finance Ministers to work on legislation, business procedures and IT infrastructure respectively.

TAX EXPENDITURE

3.21 Under the Fiscal Responsibility and Budget Management Act (FRBMA) 2003 a Statement of Revenue Foregone is included in the Receipts Budget for 2011-12. Tax foregone on account of exemptions under corporate income tax for 2009-10 and 2010-11 was estimated at ₹ 72,881 crore and ₹ 88,263 crore respectively. In the case of corporates, deduction on account of accelerated depreciation, deduction for export profits of export-oriented units and units located in software technology parks, and for profits of businesses in the power and telecom sectors were some of the major incentives. Tax foregone on account of exemptions under personal income tax was estimated at ₹ 40,297 crore and ₹ 45,222 crore respectively in 2009-10 and 2010-11 with deduction on account of certain eligible savings, investments, and expenditures under Section 80C of the Income-tax Act being the major incentives. Though the absolute amount of deductions has gone up owing to higher absolute tax payments, the phasing out of profit-linked deductions and levy of MAT has led to a higher effective rate of tax in the case of corporates, rising to 23.5 per cent for financial year 2009-10 from 19.2 per cent for 2005-06.

3.22 In indirect taxes, the difference between the tariff rates (i.e. the rates mentioned in the schedules of the acts governing customs and central excise) and the effective rates that are operationalized by notifications issued from time to time constitutes the tax expenditure. Some of these exemptions are 'area'-based or based on the category of business groups or individual items (tariff heads) under central excise or customs tariffs. In so far as excise duties are concerned, revenue foregone was ₹ 1,69,121 crore in 2009-10, of which area-based exemptions amounted to ₹ 8,553 crore. In 2010-11, excise revenue foregone was estimated at ₹ 1,98,291 crore of which ₹ 11,250 crore was on account of area-based exemptions. In the case of customs, with greater levels of computerization, revenue foregone is available in greater detail. Tax expenditure on account of customs exemptions was estimated at ₹ 2,33,950 crore in 2009-10 and ₹ 2,28,500 crore in 2010-11. The major heads under these exemptions were diamond and gold, crude oil and mineral oils, edible vegetable, fruits, cereals and vegetable oils, machinery, and chemicals and plastics. Revenue foregone under various export promotion schemes was estimated at ₹ 38,662 crore and ₹ 54,082 crore, which is a part of the afore-mentioned estimates.

3.23 The high levels of tax expenditure broadly indicate the plethora of exemptions and a complex tax regime. There is merit in rationalizing and minimizing them. However, these tax expenditure quantifications indicate the extent of revenue foregone under certain assumptions and simplifications; it would be inappropriate to conclude that these revenues could have actually accrued but for the exemptions and hence constitute revenue loss. One of them being that revenue is directly proportional to the rate of duty. It has by now been fairly well established post-economic reforms, fewer and lower levels of taxes have resulted in higher tax revenues. As such, revenue foregone is to a large extent notional. Besides, lower effective rates offer the required protection for productive sectors and also facilitate the economy's competitiveness which in turn increases the tax base. Even in the case of excise on manufacture, the exemptions help achieve specific purposes and removal of exemptions would not ipso facto result in the same quantum of additional revenues as prices and altered demand conditions affect actual accrual.

NON-TAX REVENUE

3.24 As a proportion of GDP, non-tax revenue reached a peak of 3.0 per cent in 2001-02. After declining steadily to 1.7 per cent in 2008-09, it shot up to 2.9 per cent in 2010-11 on account of the 3G/BWA auction receipts. The Budget for 2011-12 placed non-tax revenue at 1.4 per cent of GDP. Broadly non-tax revenue is projected to continue to remain subdued in the next Plan also as per the preliminary projections of the Approach Paper to the Twelfth Plan. Heterogeneous sources such as dividends, interest, fees, fines, and miscellaneous receipts collected in the exercise of sovereign functions, regulatory charges and licence fees, and user charges for services (economic and social) rendered comprise non-tax revenues. Dividends and profits and user charges on economic services are the major components of non-tax revenues. The sluggishness in the growth of non-tax revenue is due to the low levels of trend growth in dividends and profits. A part of this owes to the high input costs, particularly of global prices of crude oil and less than commensurate pass through to domestic administered prices. However, a growth in user charges in both economic and social services at much higher levels in the recent past is a noteworthy development.

Expenditure Trends

3.25 A key component of fiscal reforms and the fiscal responsibility and budget management legislations is public expenditure management. In an emerging economy with a lot of unmet minimum needs of the masses that require focus on equity issues and macroeconomic needs that require prudential limits on deficits and debts, calibrating fiscal policies should entail an optimization of outcome from public expenditure. Recent budgets have focused on outcomes and reprioritization of expenditure rather than overtly on higher outlays. Expenditure reforms have to be of a long-term nature to overcome the structural rigidities. For instance, interest payments appropriated 29.6 per cent of revenue receipts in 2010-11 reflecting the burden of past fiscal imprudence and this can come down only with sustained fiscal consolidation for a number of years. The core principle in fiscal management of FRBMA 2003 is inter-generational equity. Therefore, given the limits to growth in expenditure as mandated by the FRBM and the large inclusive agenda needs of development policy, prioritization of expenditure is an imperative. Recognizing this, a high-level committee was constituted to go into the expenditure classification and management in a comprehensive way (Box 3.1).

3.26 It might be recalled that the fiscal stimulus package put in place to revive demand in 2008-09 entailed a large expenditure hike including front loading of plan expenditure. Thus both plan and non-plan expenditure went up substantially in 2008-09 and 2009-10. While fiscal consolidation resumed in 2010-11, the higher tax and non-tax revenues provided some space for funding additional expenditure; fiscal deficit could be lowered thanks to high growth in nominal GDP. However, in the current year there is no such space available with growth in nominal GDP expected to be only marginally higher than envisaged at the time of Budget Estimates. Besides, higher oil prices entail higher-than-budgeted subsidy outgo with attendant implications for the levels of deficit.

Box 3.1 : The Recommendations of the High Level Expert Committee on Efficient Management of Public Expenditure

The Planning Commission constituted the High Level Expert Committee (HLEC) on Efficient Management of Public expenditure under the Chairmanship of Dr C.Rangarajan. The terms of reference were: to clearly define the scope of public-sector Plan aligning it to changes in design and delivery systems; to suggest an action plan for abolition of the Plan and non-Plan distinction; to suggest a comprehensive framework for resource transfer to states; to examine the accountability concerns arising out of direct transfer of funds; and to examine revenue and capital expenditure classification on end-use basis.

The HLEC submitted its report in September 2011 and the main recommendations of the Committee are as follows:

- A fundamental shift in the approach of public expenditure management by removing the Plan-Non Plan distinction and with budgeting linked to outputs and outcomes.
- Introduction of a new multi-dimensional budget and accounting classification with uniform codes for central programmes, sub programmes and schemes being implemented in the States. The Central Plan Scheme Monitoring System (CPSMS) to be extended and a portal to be set up for the citizens to provide information on flow of resources and their utilization.
- The switchover to complete treasury mode from 12th Five Year Plan for all new schemes. A suitable accounting methodology to distinguish between final expenditure and transfer to be worked out by the CGA (Controller General of Accounts) and CAG (Comptroller and Auditor General).
- The annual budgetary component of the Plan of the Centre and States to have one-to-one relation with the Government Budget of the Centre or of a State respectively. All States/UTs to include information about investment outlays of SPSEs (State Public Sector Enterprises) in their budgets as a separate annexure. The resources of the rural and urban local bodies to be included as part of the State/UT Plans.
- Regular updates on Project-wise, Ministry-wise and Sector-wise information on Public Private Partnerships (PPPs) to be provided in Central and State Budgets as both annuity payments and VGF (Viability Gap Funding) pertaining to PPP projects are provided from the budgetary support.
- Continuation of the Revenue-Capital classification and introduction of an "adjusted revenue deficit" by adjusting the revenue deficit to the extent of grants for creating assets for better understanding and for compliance in terms of FRBMA. Capital expenditure should relate to the creation of assets and be determined by the ownership criterion.

Interest Payments

3.27 As a proportion of GDP, interest payments have come down even in the years 2008-09 and 2009-10 when there was a rise in deficits and debt owing to the fiscal stimulus packages. In terms of year-on-year growth, interest payments have risen sharply in this period and it is the higher growth in nominal GDP that accounts for their lower share in GDP. The annual average cost of borrowing remained sticky at 7.5 – 7.6 per cent in the last four years ending 2010-11 (RE). It has been budgeted to decline to 7.4 per cent in 2011-12 (Table 3.6 and Figure 3.4). In the Budget for 2011-12 interest payments account for 33.9 per cent of revenue receipts; bringing this proportion down would require lower levels of borrowing.

Table 3.6 : Interest on Outstanding Internal Liabilities of Central Government

	Outstanding Internal Liabilities	Interest on Internal Liabilities	Average Cost of Borrowings (per cent per annum)
	(₹ crore)		
2004-05	1603785	105176	7.2
2005-06	1752403	111476	7.0
2006-07	1967870	128299	7.3
2007-08	2247104	149801	7.6
2008-09*	2565991	170388	7.6
2009-10	2902148	192567	7.5
2010-11(RE)	3293369	219356	7.6
2011-12(BE)	3700359	244224	7.4

Source : Union Budget documents.

* Excludes ₹ 563 crore towards premium on account of domestic debt buyback scheme and prepayment of external debt.

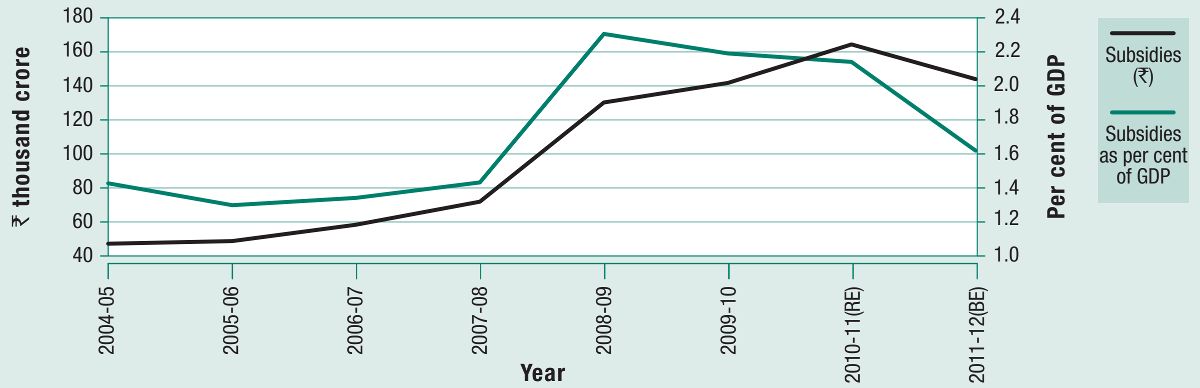
Notes: 1. Average cost of borrowing is the percentage of interest payment in year 't' to outstanding liabilities in year 't-1'.
2. Outstanding internal liabilities exclude NSSF loans to States, with no interest liability on the part of the Centre.
3. The figures of interest payment reported in the earlier issues may differ as these figures are net of interest payments on the National Small Savings Fund (NSSF) paid by the Government since 1999-2000, i.e. constitution of the NSSF.

Subsidies

3.28 Of the major items in non-Plan revenue expenditure, it is the subsidies that are more or less policy driven and amenable to reforms. Given the rising trend in some of the subsidies, recent budgets have focused on comprehensive reforms without compromising on entitlements to the poor. In so far as food subsidies are concerned, the National Food Security Bill seeks to correct the under-consumption by the poor and other vulnerable sections and might entail some rise in levels of subsidy when operationalized. In so far as fertilizer subsidies are concerned, with the exception of urea, a nutrient-based fertilizer subsidy regime is in place. Petroleum products' subsidies have also gone up in the recent years on account of high global prices of crude petroleum. Given the high headline inflation levels, the pass through of global prices to the domestic market was limited. Major subsidies grew appreciably in 2010-11 and were at ₹ 1,31,212 crore. While BE 2011-12 placed them at ₹ 1,34,411 crore, given the build-up so far in crude prices, they are likely to be much higher this year. As a proportion of GDP major subsidies exceeded the 2 per cent

Figure 3.4 Interest on internal liabilities and average interest cost of borrowing

Figure 3.5 Subsidies as per cent of GDP



mark in 2008-09 and 2009-10. In BE 2011-12, they were placed at 1.5 per cent of GDP (Figure 3.5).The resource projections for the Twelfth Plan detailed later in this chapter require far-reaching reforms in non-Plan expenditure and towards this end the recommendations of the Report of the Task Force on an IT Strategy for the PDS (public distribution system) and an implementable solution for direct transfer of subsidies on food and kerosene are important (Box 3.2).

Box 3.2 : Report of the Task Force on an IT Strategy for PDS and an implementable solution for the direct transfer of subsidy for Food and Kerosene

The Task Force on 'An IT strategy for PDS and an implementable solution for the direct transfer of subsidy for food and kerosene' was constituted by the Planning Commission under the Chairmanship of Nandan Nilekani, Chairman, UIDAI. The Task Force was mandated to recommend an IT strategy for PDS reform and suggest a solution for direct transfer of subsidies on kerosene, LPG, and fertilizer to the intended beneficiaries. The Terms of Reference of the Task Force were to identify and suggest required changes in the existing systems, processes and procedures; suggest IT frameworks and supply chain management; recommend institutional mechanisms to implement IT strategy for the PDS; and examine and suggest an implementable solution for direct transfer of subsidies on food and kerosene to intended beneficiaries with the use of Aadhaar (Unique Identification Numbers), Aadhaar enabled transactions, and Aadhaar authentication infrastructure. The Task Force submitted its report in October 2011 and the main recommendations are as follows:

- Set up a strong, robust IT infrastructure backbone to reform the functioning of PDS which would be an incentive based system for all stakeholders.
- End-to end computerization of PDS across the country and provision of a token-agnostic technology solution that can accept physical coupons, smartcards, electronic coupons, and facilitate direct cash transfers.
- PDS Network (PDSN), as the National Information Utility (NIU) to be the common software platform for all States, to implement and operate the IT infrastructure for PDS. PDSN as the technology back office would manage all IT operations related to PDS with focus on supply chain management to address leakages, real time fraud analytics, entitlement portability and transparent grievance redressal channel.
- Aadhaar (UIN) to be used in PDS to simplify ration card registration, cleaning up the beneficiary database; State Governments can use Aadhaar Payments Bridge and Aadhaar Enabled Payments Systems to channel subsidy funds for approved commodities to Aadhaar-enabled Bank Accounts.
- Provision of maximum choice to the beneficiaries in terms of location, mix of commodities, convenient quantities and in any number of installments; and choice to purchase commodities or receive a direct transfer of subsidy.
- The Organizational structure to operationalise the PDS to consist of a Governing Board appointed by the shareholders of PDSN which includes Government of India and other stakeholders with the Chairman of the Board appointed by Government of India. The CEO of PDSN would be selected through an open selection process by the Board.
- Set up a Core Subsidy Management System (CSMS) for direct transfer of subsidies on kerosene, LPG, and fertilizer through Aadhar Enabled Bank Account (AEBA) to facilitate robust identification of the beneficiary. The CSMS would support all forms of direct transfers of subsidies such as non-cash transfers, conditional cash transfers, direct cash transfers etc. CSMS would be responsive to the needs of beneficiaries, provide increased transparency, grievance redressal and real time transfer of funds.
- Fertilizers movement and sale at market price, with reimbursement of subsidy directly to the beneficiary, to reduce the incentive for pilferage due to two prices of the same commodity.

Supplementary demands for grants

3.29 Supplementary demands for grants are placed before Parliament to include all the additional expenditure proposals (higher demands or fresh proposals or re-appropriations) that were not envisaged at the time of formulation of the Budget and have to be incurred in the current year. Two supplementary demands for grants have so far been presented in the current fiscal. The first batch, consisting of 53 grants, was approved by Parliament in August 2011, which authorised gross additional expenditure of ₹ 34,724.5 crore. However, the aggregate net cash outgo amounted to ₹ 9,016.1 crore and gross additional expenditure, matched by savings of the Ministries/Departments or by enhanced receipts/recoveries amounted to ₹ 25,708 crore. The net cash outgo to meet the main items of additional expenditure is ₹ 2,300 crore for the additional requirement for the BPL Survey in the Department of Rural Development, ₹ 2,370 crore for additional expenditure under the Member of Parliament Local Area Development (MPLAD) scheme, and ₹ 1,066 for transfer of funds to the National Clean Energy Fund in the Department of Economic Affairs.

3.30 The second batch of Supplementary Demands for Grants for 2011-2012 includes 67 Grants and 1 Appropriation. The Parliament approved gross additional expenditure of ₹ 63,180.2 crore in December 2011. The aggregate net cash outgo is ₹ 56,848.5 crore and gross additional expenditure, matched by savings of the Ministries/Departments or by enhanced receipts/recoveries aggregates to ₹ 6,330.9 crore. Besides, token provision of ₹ 90 lakh is sought, ₹ one lakh for each item of expenditure, for enabling re-appropriation of savings in cases involving new service or new instrument of service. The main items of additional expenditure are ₹ 13,779 crore for subsidy on fertilizers, ₹ 2,297 crore for food subsidy, and ₹ 30,000 crore on providing compensation towards estimated under-recoveries to oil marketing companies on account of sale of petroleum products.

Central Plan Outlay

3.31 The central Plan outlay was placed at ₹ 5,02,250 crore for 2010-11 (RE). Gross budgetary support (GBS) for the Plan constituted 59.5 per cent of the total outlay. With a growth of 18 per cent over 2010-11 (RE), the central Plan outlay now stands at ₹ 5,92,457 crore in the Budget for 2011-12. The outlay comprises GBS of ₹ 3,35,521 crore and internal extra-budgetary resources (IEBR) of central public sector enterprises (CPSEs) of ₹ 2,56,936 crore. The broad sector-wise allocations for important sectors included energy (26.2 per cent); social services (24.4 per cent); transport (19.7 per cent); communication (3.4 per cent); rural development (9.3 per cent); industry and minerals (7.6 per cent); agriculture and allied activities (2.5 per cent); and irrigation and flood control (0.1 per cent). Central assistance to state and UT Plans in 2011-12 (BE) is placed at ₹ 1,06,026 crore, a growth of 10 per cent over 2010-11(RE). The Approach Paper to the Twelfth Plan has made provisional estimates of the GBS for the Twelfth Plan period at 5.2 per cent of GDP; rising from 4.9 per cent of GDP in 2012-13 to reach 5.8 per cent in 2016-17 (Box 3.3).

Government debt

3.32 Maintaining sustainable levels of government debt is critical to sustained high macroeconomic outcome. In fact, typically the fiscal rules under the fiscal responsibility and budget management framework entail assessment of what is usually a sustainable level of public debt for the country. The FRBMA 2003 had an incremental debt assumption rule in addition to the cap on fiscal deficits envisaged by the terminal year 2008-09. On account of the fiscal expansion in 2008-09 and 2009-10, the targets had to be relaxed and a new FRBM framework was necessitated. Even in the years of fiscal expansion there has been marginal decline in outstanding liabilities as a proportion of GDP. These declined from 56.9 per cent in 2007-08 to 51.2 per cent in 2010-11 (RE) and are budgeted at 48.8 per cent in 2011-12 (Table 3.7). As against the targets set by the Thirteenth Finance Commission and the Government Debt Report 2010, there has been over-performance in terms of reduction in government debt, driven by the favourable dynamics of the positive and sizeable differential between GDP growth rates and interest rates.

Economic and functional classification of the Budget

3.33 Central government budgets are essentially presented in terms of accounting classification to facilitate examination of the demands for grants

Box 3.3 : Financing the Public Sector Plan in the Twelfth Five Year Plan (2012-17)

The Approach Paper to the Twelfth Five Year Plan has indicated the provisional assessment of resource availability for the centre for the Twelfth Plan as detailed by the Working Group on Centre's Financial Resources. These estimates might undergo revisions when the resource position is finalized for inclusion in the Twelfth Plan Document.

Gross Budgetary Support: The Gross Budgetary Support (GBS) for the Twelfth Plan is projected to increase by about 0.83 percentage points of GDP over a five year period, from 4.92 per cent of GDP in 2011-12 to 5.75 per cent of GDP by 2016-17 (based on then available nominal GDP data). Compositionally, the increase in GBS in the Twelfth Plan is due to the following:

- Net tax revenue for the Centre is expected to increase only by 1.51 percentage points, from 7.40 per cent of GDP in 2011-12 (BE) to 8.91 per cent of GDP in 2016-17, non-tax revenues are expected to fall from 1.40 per cent of GDP in 2011-12 to 0.88 per cent of GDP in 2016-17.
- Contribution of non-debt capital receipts (mainly dis-investment proceeds) as a ratio of GDP is also expected to fall.
- There is no room for fiscal expansion and the fiscal deficit is expected to be lowered from 4.7 per cent of GDP in 2010-11 to 3.0 per cent of GDP in the latter part of the Twelfth Plan in line with the Government's medium term fiscal consolidation policies.

The limited scope to increase GBS would be a binding constraint in increasing allocations to important sectors like health, education and infrastructure. Thereby strict prioritization will have to be enforced in the Twelfth Plan to achieve the sectoral growth targets.

Aggregate resources for the Centre: Aggregate resources for the Centre are to fall from 14 per cent of GDP in 2011-12 (BE) to 13.11 per cent of GDP in 2016-17. The size of GBS is projected to increase mainly due to the projected decline in non-Plan expenditure from 9.09 per cent of GDP in 2011-12 to 7.36 per cent of GDP in 2016-17. The projected decline in Non-Plan Expenditure is crucial for financing the public sector plan.

Non-Plan expenditure: It is projected to grow at an average annual growth of around 10.0 per cent in nominal terms. Among the non-plan expenditure items, subsidies have remained rather high as a proportion of GDP in the past and the effective targeting of subsidies would be critical for achieving the resource targets in the Plan.

- Interest payments' forecast on the basis of projected growth of debt with interest rate of 8.7 per cent on annual incremental borrowings in consonance with FRBM targets.
- Defence expenditure to fall from 1.83 per cent of GDP in the base year to 1.56 per cent of GDP in the final year and the pay and allowances to grow at an annual rate of 7.0 per cent in nominal terms and unlikely to exceed (no likelihood of increase owing to growth in public employment or pay commission revisions).
- Pension expenditure to grow at an annual rate of 9.0 per cent- the level assumed by the 13th Finance Commission.
- Subsidies projected to decline from an estimated 1.6 per cent of GDP in 2011-12 (BE) to 1.24 per cent of GDP in the final year.
- It would be crucial to raise additional tax resources to raise the level of resources for the Twelfth Plan period, which could become possible if the critical tax-reforms take off and make the economy more competitive.

Provisional Estimates* of Centre's Resources for the Twelfth Five Year Plan

(as per cent of GDP)

Description	2011-12 (BE)	2012-13	2013-14	2014-15	2015-16	2016-17	XII Plan Average
Tax Revenue Net to Centre	7.40	8.14	8.53	8.72	8.83	8.91	**8.68**
Non-Tax Revenue	1.40	1.10	1.09	1.09	0.98	0.88	**1.01**
Non-Debt Capital Receipts	0.60	0.54	0.46	0.41	0.36	0.32	**0.41**
Fiscal deficit	4.60	4.10	3.50	3.00	3.00	3.00	**3.25**
Aggregate Resources (1+2+3+4)	14.00	13.88	13.59	13.21	13.18	13.11	**13.34**
Non-Plan Expenditure	9.09	8.96	8.63	8.23	7.83	7.36	**8.09**
GBS for Plan	4.92	4.92	4.95	4.98	5.35	5.75	**5.25**
Central Assistance to States/UTs	1.18	1.18	1.19	1.20	1.25	1.30	**1.23**
Central Plan	3.74	3.74	3.76	3.78	4.10	4.45	**4.02**
IEBR	2.86	2.86	2.85	2.84	2.84	2.83	**2.84**
Plan Resources for the Centre	6.60	6.59	6.61	6.63	6.94	7.28	**6.86**

* Assume 9.0 percent real GDP growth and 5.0 per cent inflation in terms of GDP deflator

Table 3.7 : Outstanding Liabilities of the Central Government

	2006-07	2007-08	2008-09	2009-10	2010-11 (RE)	2011-12 (BE)
			(₹ crore)			
1. Internal liabilities #	**2435880**	**2725394**	**3036132**	**3383761**	**3774758**	**4181842**
a) Internal debt	1544975	1808359	2028549	2349148	2703844	3110618
i) Market borrowings	972801	1092468	1326094	1746623	2082036	2425036
ii) Others	572174	715891	702455	602525	621808	685582
b) Other Internal liabilities	890905	917035	1007583	1034613	1070914	1071224
2. External debt(outstanding)*	**102716**	**112031**	**123046**	**134083**	**156347**	**170847**
3. Total outstanding liabilities (1+2)	**2538596**	**2837425**	**3159178**	**3517844**	**3931105**	**4352689**
4. Amount due from Pakistan on account of share of pre-partition debt	300	300	300	300	300	300
5. Net liabilities (3-4)	**2538296**	**2837125**	**3158878**	**3517544**	**3930805**	**4352389**
			(As per cent of GDP)			
1. Internal liabilities	**56.7**	**54.6**	**53.9**	**52.4**	**49.2**	**46.9**
a) Internal debt	36.0	36.3	36.0	36.4	35.2	34.9
i) Market borrowings	22.7	21.9	23.6	27.0	27.1	27.2
ii) Others	13.3	14.4	12.5	9.3	8.1	7.7
b) Other Internal liabilities	20.7	18.4	17.9	16.0	14.0	12.0
2. External debt(outstanding)*	**2.4**	**2.2**	**2.2**	**2.1**	**2.0**	**1.9**
3. Total outstanding liabilities	**59.1**	**56.9**	**56.1**	**54.5**	**51.2**	**48.8**
Memorandum items						
(a) External debt (₹ crore)@	201204	210083	264076	249311	278885	304146
(as per cent of GDP)	4.7	4.2	4.7	3.9	3.6	3.4
(b) Total outstanding liabilities (adjusted) (₹ crore)	2637084	2935477	3300208	3633072	4053643	4485988
(as per cent of GDP)	61.4	58.9	58.6	56.3	52.8	50.3
(c) Internal liabilities(Non-RBI) ##	2217671	2471396	2687037	3054435	3435432	3827516
(as per cent of GDP)	51.6	49.6	47.7	47.3	44.8	42.9
(d) Outstanding liabilities (Non-RBI)## (₹ crore)	2418875	2681479	2951113	3303746	3714317	4131662
Outstanding liabilities (Non-RBI) (as per cent of GDP)	56.3	53.8	52.4	51.2	48.4	46.4
(e) Contingent liabilities of central government (₹ crore)	109826	104872	113335	137205	n.a.	n.a.
Contingent liabilities of central government (as per cent of GDP)	2.6	2.1	2.0	2.1	n.a.	n.a.
(f) Total assets (₹ crore)	1339119	1571668	1569043	1607544	1796209	1980404
Total assets (as per cent of GDP)	31.2	31.5	27.9	24.9	23.4	22.2

Sources : Union Budget documents, Controller of Aid Accounts and Audit and Reserve Bank of India.

n.a. : not available

* External debt figures represent borrowings by central government from external sources and are based upon historical rates of exchange.

@ Converted at year end exchange rates. For 2006-07, the rates prevailing at the end of March 2007, for 2007-08, the rates prevailing at the end of March 2008, and so on.

Internal debt includes net borrowing of ₹ 29,062 crore for 2005-06,₹ 62,974 crore for 2006-07, ₹ 1,70,554 crore for 2007-08, ₹ 88,773 crore for 2008-09, ₹ 2,737 crore for 2009-10, and ₹ 20,000 crore for 2011-12(BE) under the Market Stabilisation Scheme.

This includes marketable dated securities held by the RBI.

Note : The ratios to GDP at current market prices are based on the CSO's National Accounts 2004-05 series.

Table 3.8 : Total Expenditure and Capital Formation by the Central Government and its Financing

(As per Economic and Functional Classification of the Central Government Budget)

	2006-07	2007-08	2008-09	2009-10	2010-11 (RE)	2011-12 (BE)
			(₹ crore)			
I. Total expenditure	**570185**	**688908**	**864530**	**992440**	**1179016**	**1233437**
II. Gross capital formation out of budgetary resources of central government	**87885**	**143892**	**136935**	**184501**	**274823**	**287316**
(i) Gross capital formation by the central government	36487	43652	51464	58999	68447	82931
(ii) Financial assistance for capital formation in the rest of the economy	51398	100240	85471	125502	206376	204385
III. Gross saving of the central government	**-33918**	**13674**	**-176082**	**-232452**	**-106154**	**-133287**
IV. Gap(II-III)	**121803**	**130218**	**313017**	**416953**	**380977**	**420603**
Financed by						
a. Draft on other sectors of domestic economy	110801	118180	299208	402774	355957	403930
(i) Domestic capital receipts	106284	145351	246612	404160	370957	383930
(ii) Budgetary deficit/draw down of Cash Balance	4517	-27171	52596	-1386	-15000	20000
b. Draft on foreign savings	11002	12038	13809	14179	25020	16673
			(As per cent of GDP)			
I. Total expenditure	**13.3**	**13.8**	**15.4**	**15.4**	**15.4**	**13.8**
II. Gross capital formation out of budgetary resources of the central government	**2.0**	**2.9**	**2.4**	**2.9**	**3.6**	**3.2**
(i) Gross capital formation by the central government	0.8	0.9	0.9	0.9	0.9	0.9
(ii) Financial assistance for capital formation in therest of the economy	1.2	2.0	1.5	1.9	2.7	2.3
III. Gross saving of the central government	**-0.8**	**0.3**	**-3.1**	**-3.6**	**-1.4**	**-1.5**
IV. Gap(II-III)	**2.8**	**2.6**	**5.6**	**6.5**	**5.0**	**4.7**
Financed by						
a. Draft on other sectors of domestic economy	2.6	2.4	5.3	6.2	4.6	4.5
(i) Domestic capital receipts	2.5	2.9	4.4	6.3	4.8	4.3
(ii) Budgetary deficit/draw down of cash balance	0.1	-0.5	0.9	0.0	-0.2	0.2
b. Draft on foreign savings	0.3	0.2	0.2	0.2	0.3	0.2
			(increase over previous year)			
II. Gross capital formation out of budgetary resources of central government	**3.7**	**63.7**	**-4.8**	**34.7**	**49.0**	**4.5**
Memorandum items						
			(₹ crore)			
1 Consumption expenditure	121609	131396	174345	210625	234395	248546
2 Current transfers	356560	408676	543347	580898	652873	673712
			(As per cent of GDP)			
1 Consumption expenditure	**2.8**	**2.6**	**3.1**	**3.3**	**3.1**	**2.8**
2 Current transfers	**8.3**	**8.2**	**9.7**	**9.0**	**8.5**	**7.6**

Sources : Ministry of Finance, An Economic and Functional Classification of the Central Government Budget-various issues.

Notes :
(i) Gross capital formation in this table includes loans given for capital formation on a gross basis. Consequently domestic capital receipts include loan repayments to the central government.
(ii) Consumption expenditure is the expenditure on wages and salaries and commodities and services for current use.
(iii) Interest payments, subsidies, pension, etc. are treated as current transfers.
(iv) Gross capital formation and total expenditure are exclusive of loans to States/UTs against States'/UTs' share in the small savings collection.
(v) The figures of total expenditure of the central government as per economic and functional classification do not tally with figures given in the current account. In the capital account, expenditure financed out of Railways, Posts, and Telecommunications' own funds, etc. is included
(vi) The ratios to GDP at current market prices are based on the CSO's National Accounts 2004-05 series.

and voting in Parliament. The Economic and Functional Classification of the Central Government Budget reclassifies such accounting budgetary outlays into economic and functional outlays. It provides a summary of union finances in terms of broad macroeconomic aggregates of government's consumption expenditure, capital formation, savings and transfer payments to rest of the economy. As per the Economic and Functional Classification 2011-12, the total budgeted expenditure of the central government for 2011-12 is ₹12, 33,437 crore (Table 3.8). The total expenditure is estimated to increase by 4.6 per cent over the Revised Estimates for 2010-11. Consumption expenditure is estimated to grow by 6.0 per cent and investment by 21.2 per cent. The transfer payments to the rest of the economy constitute 69.8 per cent of the total expenditure of the union finances, out of which the transfers intended for social and economic services account for 48 per cent, interest payments 30.4 per cent, and other statutory and non-development grants 3.4 per cent. In terms of functional classification, the budgeted expenditure on Social Services for 2011-12 is estimated to grow by 6.4 per cent. There has been an estimated decline of 6.5 per cent in expenditure on economic services and the budgeted expenditure on general services is to go up by 8.6 per cent for 2011-12. The net dissavings of the central government and its departmental undertakings were ₹ 2,38,165 crore in 2009-10, ₹ 1,11,854 crore in 2010-11 (RE), and are budgeted at ₹ 1,40,629 crore in 2011-12.

Fiscal outcome in 2011-12

3.34 In the Mid-Year Analysis 2011-12, it was indicated in some detail that higher refunds in the current fiscal had a major impact on the half-yearly fiscal outcome. It was mentioned that refunds of about ₹ 62,200 crore were made in the first half of the current fiscal as against ₹ 27,657 crore in the first half of 2010-11. Refunds under corporation tax accounted for the bulk of the higher refunds this

Table 3.9 : Central Government Finances

		Budget Estimates 2011-12	April-December		Col.4 as % of 2 2011-12 (BE)	Per cent change over 2010-11
			2010-11	2011-12		
	1	2	3	4	5	6
			(₹ crore)			
1.	**Revenue receipts**	**789892**	**584268**	**498491**	**63.1**	**-14.7**
	Gross tax revenue	**932440**	**527782**	**592347**	**63.5**	**12.2**
	Tax (net to Centre)	664457	391148	420414	63.3	7.5
	Non Tax	125435	193120	78077	62.2	-59.6
2.	**Capital receipts**	**467837**	**202584**	**397870**	**85.0**	**96.4**
	of which					
	Recovery of loans	15020	8591	14115	94.0	64.3
	Other receipts	40000	22744	2743	6.9	-87.9
	Borrowings and other Liabilities	412817	171249	381012	92.3	122.5
3.	**Total receipts (1+2)**	**1257729**	**786852**	**896361**	**71.3**	**13.9**
4.	**Non-Plan expenditure (a)+(b)**	**816182**	**536898**	**619457**	**75.9**	**15.4**
	(a) Revenue account	733558	487692	550692	75.1	12.9
	of which:					
	Interest payments	267986	146304	179429	67.0	22.6
	Major subsidies	134211	94318	104181	77.6	10.5
	Pensions	54521	40210	40454	74.2	0.6
	(b) Capital account	82624	49206	68765	83.2	39.7
5.	**Plan expenditure (i)+(ii)**	**441547**	**249954**	**276904**	**62.7**	**10.8**
	(i) Revenue account	363604	212885	233903	64.3	9.9
	(ii) Capital account	77943	37069	43001	55.2	16.0
6.	**Total expenditure (4)+(5)=(a)+(b)**	**1257729**	**786852**	**896361**	**71.3**	**13.9**
	(a) Revenue expenditure	1097162	700577	784595	71.5	12.0
	(b) Of which grants for creation of capital assets	146853	35361	84149	57.3	138.0
	(c) Capital expenditure	160567	86275	111766	69.6	29.5
7.	**Revenue deficit**	**307270**	**116309**	**286104**	**93.1**	**146.0**
8.	**Effective revenue deficit**	**160417**	**80948**	**201955**	**125.9**	**149.5**
9.	**Fiscal deficit**	**412817**	**171249**	**381012**	**92.3**	**122.5**
10.	**Primary deficit**	**144831**	**24945**	**201583**	**139.2**	**708.1**

Source **: Controller General of Accounts, Ministry of Finance.**

year. As per the data made available by the Controller General of Accounts for April-December 2011, union finances are apparently under some stress with revenue deficit at 93.1 per cent of the BE and fiscal deficit at 92.3 per cent (Table 3.9). In the first nine months, gross tax revenue has grown by 12.2 per cent as against the BE target of 17.3 per cent. Among the major taxes, growth in corporation taxes at 6 per cent as against the 20.2 per cent envisaged by BE 2011-12 and union excise duties at 8 per cent as against the 18.2 per cent envisaged by BE 2011-12 are the key concerns. Growth in service tax at 30 per cent, customs at 15 per cent, and personal income tax at 16 per cent are either on a par with or above BE 2011-12.

3.35 As against the BE growth target of 4.9 per cent for the whole year, growth in total expenditure in the first nine months of 2011-12 was 13.9 per cent, which comprised of 15.4 per cent growth in non-Plan expenditure and 10.8 per cent growth in Plan expenditure. Typically, based on the trend in the last five years, 33.4 per cent of total tax revenues accrue in the fourth quarter and 32.9 per cent of total expenditure is incurred in the fourth quarter. As such, a simple extrapolation would indicate a slippage of over 3 per cent each in revenue receipts and expenditure. Consequently, a slippage is likely from the revenue and fiscal deficits budgeted. The rapid build-up in expenditure over the nine months and less than commensurate growth in revenue have led to high proportions of deficits in the first nine months (Table 3.10).

Performance of Departmental Enterprises of the Central Government

Railways

3.36 Indian Railways has been taking measures to judiciously augment its resources through public-private partnerships (PPP), cost sharing with state governments and other stake holders, and market borrowings. In order to step up investment in rail infrastructure, the Railways Budget for 2011-12 announced mobilization of an additional ₹ 10,000 crore through issue of tax-free bonds during the year. Freight loading by Indian Railways during the fiscal 2010-11 was at 921.7 million tonnes against 887.8 million tonnes in 2009-10, registering an increase of 3.8 per cent. Despite an incremental loading of 33.9 million tonnes over 2009-10 levels, railways freight loading during the fiscal fell short of the revised target by 2.3 million tonnes. The freight traffic target for the year 2011-12 was fixed at 993 million tonnes, an increase of 7.8 per cent over the freight loading of previous year. During April-November 2011,

Table 3.10 : Trends in Cumulative Central Government Finances (April-December) for 2011-12

(₹ crore)

	Budget Estimates	April	April-May	April-June	April-July	April-August	April-Sept.	April-Oct.	April-Nov.	April-Dec.
1. Revenue receipts	789892	6880	28716	90920	137155	188550	305528	359712	392813	498491
Per cent to BE		0.9	3.6	11.5	17.4	23.9	38.7	45.5	49.7	63.1
2. Capital receipts	467837	80250	137546	170297	238010	283667	293565	320662	367881	397870
Per cent to BE		17.2	29.4	36.4	50.9	60.6	62.7	68.5	78.6	85.0
3. Total receipts	1257729	87130	166262	261217	375165	472217	599093	680374	760694	896361
Per cent to BE		6.9	13.2	20.8	29.8	37.5	47.6	54.1	60.5	71.3
4. Non-Plan expenditure	816182	70123	121390	177093	263497	340215	421270	479181	539416	619457
Per cent to BE		8.6	14.9	21.7	32.3	41.7	51.6	58.7	66.1	75.9
5. Plan expenditure	441547	17007	44872	84124	111668	132002	177823	201193	221278	276904
Per cent to BE		3.9	10.2	19.1	25.3	29.9	40.3	45.6	50.1	62.7
6. Total expenditure	1257729	87130	166262	261217	375165	472217	599093	680374	760694	896361
Per cent to BE		6.9	13.2	20.8	29.8	37.5	47.6	54.1	60.5	71.3
7. Revenue expenditure	1097162	67495	138785	225541	332075	418550	527308	602724	673270	784595
Per cent to BE		6.2	12.6	20.6	30.3	38.1	48.1	54.9	61.4	71.5
8. Revenue deficit	307270	60615	110069	134621	194920	230000	221780	243012	280457	286104
Per cent to BE		19.7	35.8	43.8	63.4	74.9	72.2	79.1	91.3	93.1
9. Fiscal deficit	412817	74661	130726	162653	228753	273523	280810	307009	353369	381012
Per cent to BE		18.1	31.7	39.4	55.4	66.3	68.0	74.4	85.6	92.3

Source **: Controller General of Accounts, Ministry of Finance.**

Indian Railways carried 618 million tonnes of revenue-earning freight traffic. The freight carried shows an increase of 24.56 million tonnes over the freight traffic of 593.4 million tonnes actually carried during the corresponding period last year, which implies a growth of 4.1 per cent. Freight earnings at ₹ 62,844.7 crore during 2010-11 exceeded the revised target by ₹ 355.4 crore, registering a growth of 7.4 per cent over 2009-10. Passenger earnings (excluding other coaching earnings) during 2010-11 stood at ₹ 25,792.6 crore as against ₹ 23,488 crore in 2009-10, an increase of 9.8 per cent. The overall traffic revenue for 2010-11 at ₹ 94,525.5 crore registered a growth of 8.5 per cent over 2009-10. Taking into account further accumulation of ₹ 10.2 crore to the traffic outstandings, the gross traffic receipts of the Railways for 2010-11 stood at ₹ 94,535.6 crore. Gross traffic receipts for 2011-12 were budgeted at ₹ 1,06,239 crore.

3.37 The total approximate earnings of Indian Railways on originating basis during 1 April to 20 December 2011 were ₹ 71,613.1 crore, translating to an increase of 10.2 per cent over the ₹ 64982.4 crore earned during the same period last year. During this period, the total goods earnings went up from ₹ 43,257.9 crore to ₹ 47,653.3 crore, also showing an increase of 10.2 per cent. The total passenger revenue earnings at ₹ 20,249.8 crore increased by 9.5 per cent as compared to ₹ 18,501.6 crore during the same period last year. Ordinary working expenses at ₹ 68,139.22 crore during 2010-11 indicate an increase of 3.5 per cent over 2009-10. The total working expenses including appropriations to the Depreciation Reserve Fund and Pension Fund at ₹ 89,474.22 crore recorded an increase of 7.9 per cent over 2009-10. Ordinary working expenses are budgeted at ₹ 73,650 crore for 2011-12 and total working expenses at ₹ 96,450 crore (BE).

3.38 Taking into account the net variation of the miscellaneous receipts and miscellaneous expenditure, Railways' net revenue in 2010-11 was ₹ 6,346.14 crore. After fully discharging the dividend liability of ₹ 4,941.25 crore for the fiscal, during 2010-11, Railways generated an excess of around ₹ 1,404.89 crore. Dividend liability during 2011-12 was budgeted at ₹ 6,735 crore.

3.39 A moderate growth of traffic revenues on account of improved economic condition is reflected in an improvement in operating ratio[1] of the Railways, which stood at 94.6 per cent in 2010-11 as against 95.3 per cent in 2009-10. Net Revenue as a proportion of capital-at-charge and investment from Capital Fund for the works out to 3.8 per cent in 2010-11 as compared to 4.5 per cent in 2009-10. The operating ratio for 2011-12 was targeted at 91.1 per cent at BE stage.

3.40 The Plan outlay for 2010-11 stood at ₹ 40,793 crore including internally generated resources of ₹ 11,527 crore (i.e. 28.3 per cent of the Plan outlay) and market borrowings of ₹ 9,780 crore (i.e. 23.9 per cent of the Plan outlay) by the Indian Railway Finance Corporation (IRFC), which also includes borrowings of ₹ 100 crore for Rail Vikas Nigam Limited. The annual Plan outlay for 2011-12 was budgeted at ₹ 57,630 crore. Construction work has commenced in the East and West Dedicated Freight Corridors and is targeted for completion in the terminal year of the Twelfth Plan. The project is being implemented through a mix of bilateral/multilateral debt, budgetary support, and PPP with a debt-equity ratio of 2:1. In a major move to give further impetus to Railways' modernization plans, an Expert Group was constituted in September 2011, under the Chairmanship of Sam Pitroda to recommend ways and means of modernizing Indian Railways, while at the same time ensuring adequate focus on addressing social and strategic requirements of the country.

Department of Posts

3.41 The gross receipts of the Department of Posts in 2010-11 were placed at ₹ 6,962.3 crore. The gross and net working expenses during the year 2010-11 were ₹ 13,793.7 crore and ₹ 13,307.9 crore respectively, resulting in a deficit of ₹ 6,345.6 crore. In the current year 2011-12 (BE), the gross receipts are budgeted at ₹ 7,517.7 crore and with gross and net working expenses estimated at ₹ 13,522.4 crore and ₹ 12,827.3 crore respectively, with the deficit estimated at ₹ 5,309.6 crore. Government has approved the IT Modernization Project of the Department of Posts for a total Plan outlay of ₹ 1,877.2 crore. The project is intended for computerization of all the non-computerized post offices, mail offices, administrative and other offices, establishment of required IT infrastructure and development of required software applications. This IT Modernization Project is envisaged for

[1] The operating ratio represents the percentage of working expenses to gross traffic earnings.

implementation of all the above activities and is expected to be rolled out by the year 2013.

Broadcasting

3.42 The provisional expenditure of Prasar Bharati, which is the public service broadcaster, in 2010-11 was ₹ 2,686 crore excluding charges on account of space segment and spectrum charges and interest and depreciation costs. The total revenue earned was ₹ 1,310.3 crore (net) in 2010-11. Prasar Bharati has taken a number of steps to increase revenue generation by adopting an aggressive marketing strategy and providing services catering to the advertising needs of various entities through a single window facility. The FM radio sector is on the positive growth path. Radio is increasingly gaining acceptance among advertisers and higher ad spends on radio are likely to materialize. The Budget for 2011-12 provided ₹ 1,944.1 crore to cover the resource gap of Prasar Bharati.

State-level finances

3.43 As a proportion of GDP, total receipts of the state governments were more or less stable or higher even in the fiscal expansion years of 2008-09 and 2009-10. In 2010-11, there has been an increase in receipts driven by higher tax devolution as well as growth in own state revenues. The disbursements of the states also exhibit a similar trait and the BE for 2011-12 indicate a revenue surplus and moderation in fiscal deficit to 2.2 per cent of GDP (Table 3.11). As per the Thirteenth Finance Commission's fiscal consolidation road map for states, the states need to eliminate revenue deficit and achieve a fiscal deficit of 3 per cent of their respective gross state domestic products (GSDP), latest by 2014-15. The fiscal deficit of states has remained below 3 per cent of GDP since 2006-07. The revenue receipts are budgeted to grow by 12.4 per cent in 2011-12. With the introduction of GST and other critical tax reforms, the states would be able to generate revenue to meet the fiscal targets.

State-level Reforms

3.44 The Thirteenth Finance Commission has worked out a fiscal consolidation road map for states individually requiring them to eliminate revenue deficit and achieve a fiscal deficit of 3 per cent of their respective GSDPs, latest by 2014-15. It has also recommended a combined states' debt target of 24.3 per cent of GDP to be reached during this period. The states are required to amend or enact their FRBMAs to incorporate the fiscal consolidation roadmap recommended for each state. So far information about twenty-seven states having enacted/amended their FRBM Acts (including 2 states through Ordinances) as prescribed by the Thirteenth Finance Commission, has been received. In respect of one remaining State (Goa), its FRBM Act enacted in 2006 already contains the fiscal consolidation roadmap which is in line with the recommendations of FC-XIII for the first three years of the award period (i.e. 2010-11 to 2012-13).

3.45 At the consolidated level, states could generate a surplus of 0.2 per cent of GDP in their revenue accounts in 2011-12 (BE) as against a deficit of 0.3 per cent (of GDP) in 2010-11 (RE). In 2011-12 (BE), the consolidated fiscal deficit of the states fell to 2.2 per cent of GDP from 2.7 per cent in 2010-11 (RE). Debt and other obligations of states too decreased to 22.6 per cent of GDP in 2011-12 (BE) from 23.6 per cent in 2010-11 (RE). The borrowing limits for each state are fixed by the Government of India keeping in view the recommendations of the Finance Commission. The borrowing limits for the year 2011-12 have been fixed keeping in view the fiscal deficit targets prescribed by the Thirteenth Finance Commission for States.

Treasury Computerization of State Governments

3.46 A scheme for implementation of the mission mode project 'Computerisation of State Treasuries' was put in place by the Government of India in June 2010 under the National e-Governance Plan (NeGP). The states and UTs are required to complete their projects in about three years beginning 2010-11. The funds are released against deliverables. The scheme will support states and UTs to fill the existing gaps in their treasury computerization, upgradation, expansion and interface requirements, apart from supporting basic computerization. The scheme covers installation of suitable hardware and application software systems in a networked environment on a wide area basis and building of interfaces for data sharing among various stakeholders.

3.47 The scheme for treasury computerization is expected to make the budgeting process more efficient, improve cash flow management, promote real-time reconciliation of accounts, strengthen

Table 3.11 : Receipts and Disbursements of State Governments*

	2006-07	2007-08	2008-09	2009-10	2010-11 (RE)	2011-12 (BE)
			(₹ crore)			
I. Total receipts(A+B)	**673605**	**765735**	**891292**	**1007636**	**1214374**	**1394956**
A. Revenue receipts (1+2)	**530556**	**623748**	**694658**	**768136**	**970167**	**1109458**
1. Tax receipts	372841	437948	482983	528075	673659	784292
of which						
State's own tax revenue	252548	286546	321930	363062	458886	534719
2. Non-tax receipts	157714	185799	211675	240062	296509	325167
of which:						
Interest receipts	11825	12637	16356	15309	17165	16987
B. Capital receipts	**143049**	**141987**	**196634**	**239500**	**244207**	**285498**
of which:						
Recovery of loans & advances	7579	7770	11072	8088	5598	4483
II. Total disbursements(a+b+c)	**657280**	**752324**	**882332**	**1015009**	**1239241**	**1378820**
a) Revenue	505699	580805	681985	799154	993083	1092879
b) Capital	137793	157258	184376	198366	228516	264573
c) Loans and advances	13789	14261	15971	17489	17642	21368
III. Revenue deficit	**-24857**	**-42943**	**-12673**	**31018**	**22916**	**-16579**
IV. Gross fiscal deficit	**77508**	**75455**	**134589**	**188820**	**207857**	**199427**
			(As per cent of GDP)			
I. Total receipts(A+B)	**15.7**	**15.4**	**15.8**	**15.6**	**15.8**	**15.7**
A. Revenue receipts (1+2)	**12.4**	**12.5**	**12.3**	**11.9**	**12.6**	**12.4**
1. Tax receipts	8.7	8.8	8.6	8.2	8.8	8.8
State's own tax revenue	5.9	5.7	5.7	5.6	6.0	6.0
2. Non-tax receipts	3.7	3.7	3.8	3.7	3.9	3.6
of which:						
Interest receipts	0.3	0.3	0.3	0.2	0.2	0.2
B. Capital receipts	**3.3**	**2.8**	**3.5**	**3.7**	**3.2**	**3.2**
of which:						
Recovery of loans & advances	0.2	0.2	0.2	0.1	0.1	0.1
II. Total disbursements(a+b+c)	**15.3**	**15.1**	**15.7**	**15.7**	**16.1**	**15.5**
a) Revenue	11.8	11.6	12.1	12.4	12.9	12.3
b) Capital	3.2	3.2	3.3	3.1	3.6	3.0
c) Loans and advances	0.3	0.3	0.3	0.3	0.2	0.3
III. Revenue deficit	**-0.6**	**-0.9**	**-0.2**	**0.5**	**0.3**	**-0.2**
IV. Gross fiscal deficit	**1.8**	**1.5**	**2.4**	**2.9**	**2.7**	**2.2**

Source **: Reserve Bank of India.**

*** Data from 2009-10 onwards are provisional and are based on budget documents of 28 state governments for the year 2011-12, of which 5 are Vote on Accounts.**

BE : Budget Estimates RE : Revised Estimates

Note **: (1) Negative (-) sign indicates surplus in deficit indicators.**

(2) The ratios to GDP at current market prices are based on the CSO's National Accounts 2004-05 series.

(3) Capital receipts include public accounts on a net basis.

(4) Capital disbursements are exclusive of public accounts.

management information systems (MIS), improve accuracy and timeliness in accounts preparation, bring about transparency and efficiency in public delivery systems, help bring about better financial management along with improved quality of governance in states and UTs. The overall estimated cost of the scheme is ₹ 626 crore at ₹ 1 crore per district in existence on 1 April 2011. Financial support is up to 75 per cent (90 per cent in case of north-eastern states) of the individual project cost of admissible components limited to ₹ 75 lakh per district (₹ 90 lakh per district for north-eastern states). Funds will be released as central assistance in three instalments of 40 per cent, 30 per cent, and 30 per cent each, subject to satisfactory receipt of utilization certificates.

Consolidated General Government

3.48 Consolidated general government is the aggregation of union and combined state finances after due process of netting of inter-governmental transactions. This aggregation gives clarity in the fiscal operations of the general government and its macroeconomic impact. The gross fiscal deficit of the general government is budgeted to decline to 6.9 per cent of GDP in 2011-12 (Table 3.12).The revenue deficit had increased to 4.3 per cent and 5.7 per cent of GDP in the years 2008-09 and 2009-10 on account of the fiscal expansion; declined to 3.8 per cent in 2010-11(RE) and is budgeted to decline further to 3.3 per cent in 2011-12. The revenue receipts reflect marginal increase over the period 2009-10 to 2010-11. Tax receipts have remained at around 16 to 17 per cent of GDP since 2006-07. With rationalization of tax structure through moderate levels and few rates, implementation of the Direct Taxes Code (DTC) integrating all direct tax laws, widening of the tax base, and reduction in compliance costs through improved tax

Table 3.12 : Receipts and Disbursements of Consolidated General Government

	2006-07	2007-08	2008-09	2009-10	2010-11 (RE)	2011-12 (BE)
			(₹ crore)			
I. Total receipts(A+B)	**1124252**	**1329654**	**1608494**	**1844923**	**2215502**	2408486
A Revenue receipts (1+2)	877075	1061892	1116955	1210735	1604894	1728593
1 Tax receipts	724023	877496	926303	984611	1237344	1448749
2. Non-tax receipts	153052	184396	190652	226124	367550	279844
of which						
Interest receipts	21744	22584	25224	25911	26129	26340
B Capital receipts	247177	267762	491539	634188	610608	679893
of which:						
a) Disinvestment proceeds	2440	45750	832	25393	23447	42042
b) Recovery of loans & advances	-1773	4682	8939	11499	7077	11198
II. Total disbursements(a+b+c)	**1108174**	**1316246**	**1599533**	**1852296**	**2240369**	**2392348**
a) Revenue	932441	1071518	1357819	1580750	1897653	2019284
b) Capital	157316	225803	218679	246245	295475	334579
c) Loans and advances	18417	18925	23035	25301	47241	38485
III. Revenue deficit	**55366**	**9626**	**240864**	**370015**	**292759**	**290691**
IV. Gross fiscal deficit	**230432**	**203922**	**472807**	**604669**	**604951**	**610515**
			(As per cent of GDP)			
I. Total receipts(A+B)	**26.2**	**26.7**	**28.6**	**28.6**	**28.9**	**27.0**
A Revenue receipts (1+2)	20.4	21.3	19.8	18.7	20.9	19.4
1. Tax receipts	16.9	17.6	16.5	15.2	16.1	16.3
2. Non-tax receipts	3.6	3.7	3.4	3.5	4.8	3.1
of which						
Interest receipts	0.5	0.5	0.4	0.4	0.3	0.3
B Capital receipts	5.8	5.4	8.7	9.8	8.0	7.6
of which:						
a) Disinvestment proceeds	0.1	0.9	0.0	0.4	0.3	0.5
b) Recovery of loans & advances	0.0	0.1	0.2	0.2	0.1	0.1
II. Total disbursements(a+b+c)	**25.8**	**26.4**	**28.4**	**28.7**	**29.2**	**26.8**
a) Revenue	21.7	21.5	24.1	24.5	24.7	22.7
b) Capital	3.7	4.5	3.9	3.8	3.9	3.8
c) Loans and advances	0.4	0.4	0.4	0.4	0.6	0.4
III. Revenue deficit	**1.3**	**0.2**	**4.3**	**5.7**	**3.8**	**3.3**
IV. Gross fiscal deficit	**5.4**	**4.1**	**8.4**	**9.4**	**7.9**	**6.9**

Source : Reserve Bank of India.

BE : Budget Estimates RE : Revised Estimates

Note : The ratios to GDP at current market prices are based on the CSO's National Accounts 2004-05 series.

administration, adoption of IT would create an enabling environment for voluntary compliance and would increase buoyancy in tax revenues and help in fiscal consolidation.

Outlook

3.49 The fiscal outcome in 2011-12 is likely to be affected by the macroeonomic setting which indicates a sharp slowdown in industry and rising costs affecting profits. As a consequence, revenues grew at a less-than-estimated pace in key areas on the one hand and additional expenditure needs arose from the stickiness in high global commodity prices, particularly crude petroleum and fertilizers on the other. Besides, the financial market conditions were not appropriate for going ahead with the scheduled disinvestment plan. As such, a slippage on the targets of the deficit indicators is likely though efforts are afoot to minimize them. This is essentially an exceptional year when a whole host of factors have turned out differently than envisaged at the time of presentation of the Budget. A large fiscal correction followed by a likely slippage (in the previous and current fiscal respectively) is somewhat in the nature of a cyclical fiscal adjustment; but going forward there is a need to anchor fiscal consolidation on structural reforms in expenditure.

3.50 While, there may be some slippage in the current year, the medium-term stance of fiscal consolidation could be salvaged, though the timelines may have to be redrawn. The new FRBM framework on the anvil is likely to factor in the developments in the current fiscal and indicate the correct fiscal consolidation path for the medium term. What is critical here is that policies need to be in place to cater to the uncertainties that might arise during the course of the year, particularly in dealing with risks like global oil prices that have acquired a systemic nature. The Mid-Year Analysis had indicated clearly that the finances of the consolidated government are what matters for macroeconomic outcome. It is here that the fact that states (combined) have done exceedingly well in terms of both the deficit indicators even in the years of fiscal expansion augurs well for rapid fiscal consolidation.