GOVERNMENT OF KERALA

MEDIUM TERM FISCAL POLICY & STRATEGY STATEMENT

WITH MEDIUM TERM FISCAL PLAN FOR KERALA

2011-12 TO 2013-14

FINANCE DEPARTMENT

2011

STATEMENT OF COMPLIANCE

❖ This 2011-12 Medium Term Fiscal Policy and Strategy Statement is placed before the Legislature in compliance with Section 3 of the Kerala Fiscal Responsibility Act, 2003.

❖ Section 3 of the Act requires the Medium Term Fiscal Policy Statement to include the following elements all of which have been incorporated in the document:

1. *A statement of recent economic trends and prospects for growth and development.*
2. *An assessment of sustainability relating to the revenue deficit and the use of capital receipts for generating productive assets.*
3. *An evaluation of the performance against targets for 2008-09 and 2009-10.*
4. *The medium term fiscal objectives of the Government.*
5. *Three year rolling targets for fiscal indicators with specification of underlying assumptions.*
6. *The strategic priorities and key policies of the Government.*
7. *Policies of Government for the ensuing financial year relating to taxation, expenditure, borrowings, other liabilities etc.*

Foreword

In pursuance of the statutory requirement under Kerala Fiscal Responsibility Act and the rules thereto, I present before this august house the Medium Term Fiscal Policy and Strategy Statement for the year 2011-12.

I expressed my pain and anguish while presenting the MTFP for 2010-11, on the implications of 13th FC award to the State. Even then I exuded the confidence that the State would mop up revenues of its own to tide over the difficulties. Now that confidence has come true and the State is poised to achieve the MTFP targets set out for 2010-11 BE backed by buoyant revenues of States Own Revenues. The indicators in 2010-11 RE are reflective of this.

Even though the fiscal challenges emanating from the implementation of recommendations of the 9th pay commission and 4th State Finance Commission was visualized at the time of projecting forward estimates for 2011-12 in the MTFP 2010, the present estimates far exceed the previous one .But for this development, the indicators in 2011-12 BE would have been much higher. I expect that the commitment arising out of these recommendations would be reflected in the accounts 2011-12 itself. From 2012-13 we would tread the path of revised road map for fiscal consolidation on the strength of buoyant revenues and expenditure projection no longer beset with the problem of outstanding dues which was giving harrowing times till 2009-10 to our budgetary and financial planning.

The fiscal consolidation path I hope will be achievable in a co-coordinated manner. I seek the wholehearted support of all the Stake holders, in making the MTFP targets achievable.

10th February 2011

Dr.T.M.Thomas Isaac
Minister for Finance

OVERVIEW

1. The Medium Term Fiscal Plan 2010 was submitted last year at a time when the global financial crisis was showing no signs of abating and the 13th Finance Commission had awarded a raw deal to the State. The Plan 2010 had stated that the State would go ahead with efforts to increase revenues so that the XIth Plan target of ₹ 40422 crore can be achieved. The policy priorities were accordingly designed and incorporated in the budget for implementation. The revenue efforts are well on track and it is hoped that the targets would exceed the ambitious projections made in the Budget Estimates of 2010-11. On the other hand, the MTFP has taken note of the fact that the 9th pay/pension revision would take effect from 2011-12. Hence, the three year rolling target includes the likely impact of these revisions on the State finances.

2. The annual expenditure commitment estimated has taken an upward turn from ₹ 1473 crore to ₹ 1965 crore. Given the huge non-plan revenue expenditure commitment, the natural course for any Government would have been to compress the plan expenditure. But this extreme measure is not being resorted to as this would hurt the budgetary policy of inclusiveness and distort the aims of XIth plan objectives. Giving a 10 percent increase over the plan outlay of ₹ 10025 crore in 2010-11, the plan for 2011-12 is fixed at ₹ 11,030 crore. This would take the XIth plan outlay to ₹ 42164 crore from ₹ 40,422 crore. This is undoubtedly a rare fete achieved in any of the recent five year plans. As in the previous years, the MTFP relies primarily on raising revenues. As a result, the extent of borrowing envisaged in the budget is conservative and within the ceiling allowed by the Centre. Further, the projections for the next two years comply with the indicators given in the revised roadmap for fiscal consolidation. However, in 2011-12, some deviations from the targets in the revised roadmap has been necessitated. This is due to the

implementation of the 9th pay/pension revision, as well as higher provisioning for devolutions to LSGIs, as recommended by the 4th SFC.

GLOBAL SCENARIO

3. Historically, the global economic development has had a strong bearing on the State economy due to the States' dependence on export earnings from high value agriculture products and marine products as well as remittances. The outlook for world economy continues to be uncertain. Growth across regions is not uniform. Even the mild recovery phase, which began in the later part of 2009-10, seems to have vulnerabilities. Trade and budget deficits continue in the advanced economies. Deflation and unemployment continue unabated. A loose monetary policy is pursued by them on the hope of reviving their economies. On the other hand, the developing and Emerging Market Economies visualize overheating of their economies driven by surge in global commodity prices and food inflation.

4. The near zero interest rate in the advanced economies has generated huge flows of hot money, which is moving globally, seeking only profits. This not only creates opportunities for arbitrage due to the higher interest rate prevailing in developing and emerging market economies, but also creates conducive atmosphere for global speculation in various assets, including commodities. This flow of hot money, so far, has been a one-way affair to the detriment of developing and Emerging Market Economies. Another negative consequence of this hot money flow is the appreciation of exchange rates in the currencies of developing and EMEs. This, in turn, has reduced the export competitiveness in developing and EMEs. Export-oriented economies are facing serious difficulties due to this. As a result, the affected countries have been resorting to artificial interventions to keep their currencies depressed, so that

they remain globally competitive. A trade and currency war is looming large and can shrink the size of global trade. The decrease in international trade, and the consequent unemployment this can create, can be destabilising to nations.

5. Unfortunately, the recently concluded G-20 summit in Seoul has belied expectations that global co-ordination required for an orderly restructuring of the global imbalance would evolve. For advanced nations, protecting domestic industry and employment is evidently more predominant than any form of global co-operation. The recent visa restrictions are indications towards such protectionist moves.

NATIONAL SCENARIO

6. As regards the national scenario, the growth rates in the real sector, recently released by the CSO, suggest that the economic recovery is along the expected lines. The second quarter growth in 2010-11 at 8.9 percent, which is the same as the growth rate in the 1st quarter, points to the possibility of achieving the projected growth of 8.5 percent in 2010-11. The agriculture sector has been performing well with a 4.4 percent growth rate, though partly due to a poor growth rate of 0.9 percent in the last year. Boosted by good monsoon, the Kharif crop contributed significantly to the increase to agricultural production. The water levels in the reservoirs are also comfortable, raising hopes of a better production from the Rabi crop as well. The growth of 9 percent and 9.6 percent, respectively, for industry and services are also according to expectations. It is anticipated that if the growth in agriculture is sustained for the remaining period, inflation also will moderate to around 7 percent. However, this rate of inflation would still be way below the RBI's comfort zone of 5.5 percent.

7. Despite the good GDP growth numbers, inflation continues to be the dampener. Even though overall levels of inflation have fallen, food inflation is persistently high for a prolonged period. The increased Kharif crop production does not appear to have pushed prices downward. Inflation has spilled over to the industrial sector as well, and high commodity prices cause industrial input costs to rise. The RBI, in its efforts to anchor inflationary expectation, has been keeping the policy rates at high levels. Thus, in addition to rising input costs, the cost of funds also has become higher for the industry. Even the IMF has cautioned of a possible overheating in developing and EMEs as detrimental to sustainable growth. The growth in the industrial sector, which was 13 percent in the first quarter of the current year, has slipped to 9.81 percent in the 2nd quarter, according to the CSO. The IIP growth numbers for the month of November have slipped to 2.7 percent. It is perhaps in this context that the industry has demanded that the fiscal stimulus package of the centre should continue. The FAO has hinted at a possible decline in the growth of agricultural production world over, and its consequences for the poor around the world.

8. There has been some resilience in the export front and the Ministry of Commerce is hopeful of achieving the export target of US $ 200 billion in the current year. But imports also have been increasing, resulting in the widening of trade deficit. The current account deficit for 2010-11 is expected to be between 3 and 4 percent of the GDP, primarily because of the widening trade gap. So far, the FII inflows are financing this gap. Long term dependence of these volatile capital flows to finance current account deficit is fraught with danger. Sustainability of exports depends on a low domestic inflation and a stable exchange rate not hindered too much by capital inflows of hot and volatile nature. The flow of FDI this year has been tardy suggesting a lower enthusiasm of foreign capital for investment purposes. This may be due to risk aversion also. The forex reserves, which were capable of financing above 12 months import

requirements in the past several years, have now come down to 10.3 months import requirements of late.

9. The banking sector too has seen constraints in the form of lack of liquidity. One of the reasons for this is structural. The credit growth has surpassed the growth of deposits this year. The credit deposit ratio is more than 100 percent this year. In order to ease the situation, quantitative restrictions have been relaxed, and the RBI has reduced SLR to 24 percent, extended additional liquidity window to banks and put in an OMO of about ₹ 48,000 crore to tackle the situation. The matter can become more complicated if withdrawals are made by the FIIs consistently.

10. In short, the growth phase prevailing now is not comparable with the previous high growth phase of 2003-04 to 2007-08. The pre-crisis growth phase was largely accompanied by moderate and stable inflation as well as low interest rates. Contrary to this, the present growth phase is beset with the problems of high inflation, high interest rates and high current account deficit. For the current growth phase to be sustainable, all these issues have to be addressed.

STATE FINANCES: ASSESMENT OF SUSTAINABILITY STRATEGIC PRIORITIES, KEY POLICIES AND MEDIUM TERM FISCAL OBJECTIVES

STATE ECONOMY

11. After a fall of the growth rate of the State's GSDP to 7.22 percent in 2008-09 compared to 2007-08, the State economy has posted a robust GSDP growth rate of 9.73 percent between 2008-09 and 2009-10, as per the quick estimates of Economic & Statistics Department. A higher GSDP growth rate in the State than the GDP growth rate at the national level has been the hallmark

of the Kerala economy for the past several years. The per capita income of the State has been maintained at a higher level at P 52984 (at constant prices) than the national average of P 33731 (at constant prices) because of this. As per the estimates of the Economics and Statistics Department of the State, the growth in GSDP for 2010-11 is estimated at 10.10 percent over 2009-10. Going by the receipt of SOTR so far in the current year, the GSDP growth estimates for 2010-11 seems realistic.

12. The high growth between 2008-09 and 2009-10 has been broad-based, though Agriculture continues to lag. Industry and Services have grown according the growth pattern in the national economy and registered growth rates of 9.43 percent and 11.57 percent, respectively, which are higher than the corresponding national growth rates.

FISCAL PERFORMANCE IN 2009-10

13. From the BE level of 1.3 percent and 2.47 percent of GSDP, the RD and FD in 2009-10 has gone up, in the actuals, to 2.18 percent and 3.42 percent of GSDP respectively. The increase in RD and FD was caused by a revenue shortfall that resulted from the global and national slowdown. The Central Transfers to the State fell in absolute terms by ₹1834 crore and the SOTR item of stamps & Registration fell by ` 833 crore. The increase in RD from ₹ 3008 crore in the BE to ₹ 5023 crore is mainly because of these shortfalls in revenues. Thus, the share of RD in the FD has risen to 63.8 percent in 2009-10. However, the positive factor in 2009-10 was that the revenue expenditure could be contained within the budgeted level. In addition, the Government could incur higher levels of capital expenditure. The growth in capital expenditure was 9.95 percent and within this, direct spending (capital outlay) grew at a healthy rate of 21.45

percent. The debt/GSDP ratio was 30.81 compared to 31.47 percent in the previous year.

14. In 2009-10, some stimulus spending was also undertaken by the Government. These measures included providing rice at P 2 per kg to an expanded number of households (far higher than that stipulated as BPL by the central government), selling of rice at ₹ 14 per kg through Supplyco outlets and the enhancement of welfare pensions from ₹ 200 to ₹ 250. Administrative sanctions have been issued for works totaling around ₹ 4000 crore towards capital projects. Major expenditure on account of this is anticipated to be incurred in 2010-11 and some spill over to 2011-12 is expected.

REVIEW OF MTFP 2010

15. The RE 2010-11 shows an increase of 24.38 percent in SOTR compared to actuals in 2009-10. The revision is based on current trends in revenue collection witnessed in SOTR especially in Sales Tax/VAT and Stamps & Registration. This rise in SOTR would have reduced the RD, but the impact of a reduced horizontal share in the 13th FC award, which would weigh down heavily on Central Transfers, has prevented such a reduction in RD. The revenue expenditure is expected to grow by an additional 3 percent in the RE over BE. This increase will be offset by the additional revenue arising out of States Own Tax revenue. Hence, RD as a percentage of GSDP remains more or less the same as that of BE. The capital expenditure, however, is expected to post a decline of 19.8 percent from the BE, mainly under non-plan capital outlay and loan disbursement. On the other hand, spending under plan capital outlay is anticipated to increase by 34.38 percent. The FD/GSDP is likely to post a 0.33 percent drop because of this.

Table 1		State Finances				₹ Crore
		2008-09 Accounts	2009-10 Accounts	2010-11 BE	2010-11 RE	2011-12 BE
A. Revenue Receipts		**24512.18**	**26109.40**	**31180.82**	**32127.01**	**38546.89**
1.	State Tax Revenue	15990.18	17625.02	20884.23	21922.51	26641.53
2.	State Non-Tax Revenue	1559.29	1852.22	2314.31	2235.57	2530.94
3.	Central Government Transfers	6962.71	6632.16	7982.28	7968.93	9374.42
	i. Share of Central Taxes	4275.52	4398.78	4825.76	4900.50	5488.56
	ii. Grant in aid	2687.19	2233.38	3156.52	3068.43	3885.86
B. Capital Receipts		**6231.67**	**7999.74**	**8201.89**	**7845.56**	**10578.67**
1.	Recoveries of Loans	35.64	38.47	56.24	58.55	70.75
2.	Other Receipts	9.11	48.96	9.50	9.50	20.00
3.	Borrowings and other liabilities	6186.92	7912.31	8136.15	7777.51	10487.92
	a. Public Debt (Net)	5271.05	4850.46	7723.21	6279.08	7793.76
	b. Public Account (Net)	915.87	3061.84	412.94	1498.43	2694.15
C. Total Receipts (A+B)		**30743.85**	**34109.14**	**39382.73**	**39972.57**	**49125.56**
D. Non Plan Expenditure		**25441.27**	**27283.03**	**31726.63**	**31471.86**	**40596.56**
1.	On Revenue Account	25012.00	26953.32	29376.97	30513.23	38782.40
	a. of which interest payments	4659.69	5292.48	5786.48	5517.92	6254.56
2.	On Capital Account	24.84	157.23	2250.00	646.56	709.81
3.	On Loan Disbursements	404.44	172.48	99.67	312.07	1104.35
E. Plan Expenditure (including CSS)		**5461.87**	**6785.41**	**8063.21**	**8383.32**	**8682.03**
1.	On Revenue Account	3211.86	4179.05	5433.41	5349.90	5783.93
2.	On Capital Account	1670.76	1902.16	1895.38	2547.12	2220.32
3.	On Loan Disbursements	579.25	704.20	734.42	486.30	677.78
F. Total Expenditure (D+E)		**30903.14**	**34068.44**	**39789.84**	**39855.19**	**49278.59**
1.	Revenue Expenditure	28223.85	31132.38	34810.37	35863.13	44566.33
2.	Capital Expenditure	1695.60	2059.39	4145.38	3193.69	2930.13
3.	On Loan Disbursements	983.69	876.68	834.09	798.37	1782.13
G. Revenue Surplus/Deficit (A-F(1))		**-3711.68**	**-5022.98**	**-3629.55**	**-3736.12**	**-6019.44**
H. Fiscal Deficit (A+B(1)+B(2))-F)		**-6346.22**	**-7871.62**	**-8543.28**	**-7660.13**	**-10640.95**
I. Primary Deficit (H-D(1a))		**-1686.52**	**-2579.14**	**-2756.80**	**-2142.21**	**-4386.39**

16. Except Revenue Deficit, in all other parameters like Fiscal Deficit, Primary Deficit and Debt targets, the State has achieved the targets. The reason for the hike in RD is the increase in pension payments in 2010-11 RE.

The Fiscal Targets for 2010-11 were	Actual outcome of 2010-11 RE
➢ **A Revenue Deficit of 1.37% of GSDP**	✓ A Revenue Deficit of 1.41 % of GSDP
➢ **A Fiscal Deficit of 3.22 % of GSDP**	✓ A Fiscal Deficit of 2.89 % of GSDP
➢ **A Primary Deficit of 1.04 % of GSDP**	✓ A Primary Deficit of 0.81% of GSDP
➢ **A Debt of 29.52 % of GSDP**	✓ A Debt of 29.52 % of GSDP

PROJECTIONS FOR BE 2011-12

REVENUE RECEIPTS

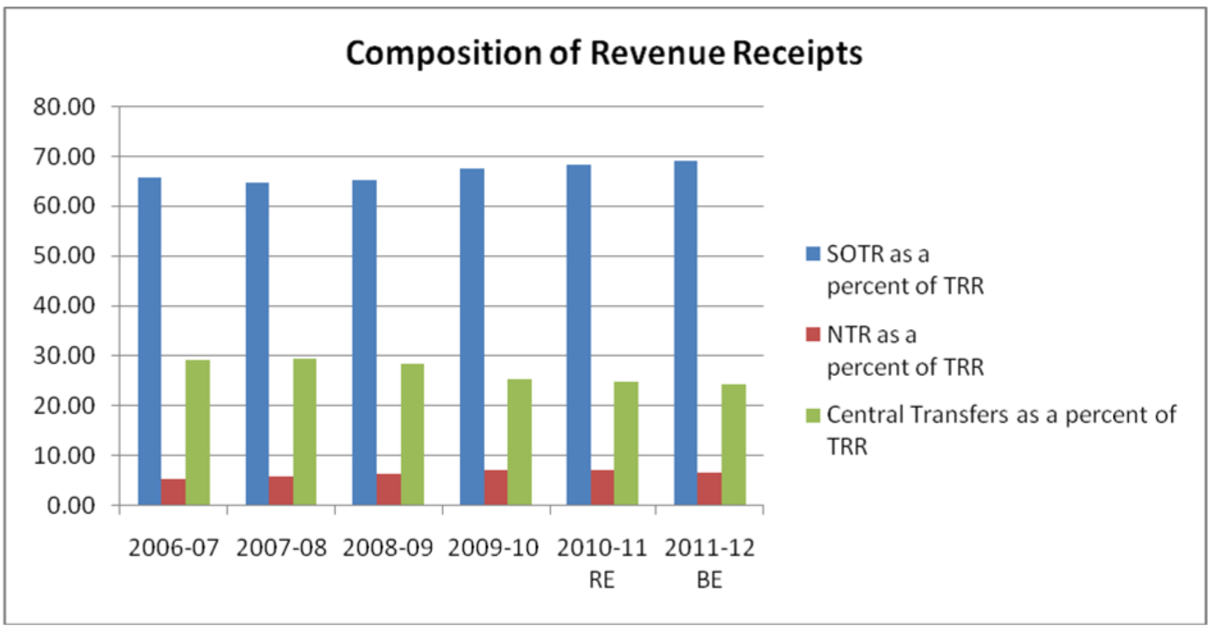
17. Average buoyancy of the States Own Tax Revenue for the past five year (2005-2010) is a little above one. The buoyancy-based growth rate of State's Own Tax revenue therefore will be around 15 percent. But there has been realisation that the State is yet to achieve its full potential in respect of Sates Tax/VAT. Various measures have already been taken to ensure tax compliance and strengthening of tax administration and as a result, in 2010-11, the Government is expecting tax buoyancy that would be far above the average tax buoyancy obtained during the last five years (2005-10). The optimistic anticipation is that with the plugging of loopholes, higher buoyancy for one more year will be possible. This will increase the potential tax collection and hence, the growth rate adopted for the year 2011-12 is at a higher level of 22.68 percent.

An optimistic projection of 24.26 percent is provided for Stamps and Registration on the anticipated outcome of spur in real estate activities, which are ancillary to some newly conceived projects being materialized in the State. Other SOTR items also are likely to post good growth over RE 2010-11. Only a normal growth rate of 13 percent is anticipated in respect of non-tax revenue. The Central Transfer may rise by 17.64 percent. The overall growth in Revenue Receipts for 2011-12 is thus anticipated to be 20 percent. These optimistic projections are based on strong grounds and hence are realistic and achievable.

Table 2 **Structure of Own Tax Revenues** **₹ Crore**

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 RE	2011-12 BE
SOTR	9779	11942	13669	15990	17625	21923	26642
of which							
a. Sales Tax/VAT	7038	8563	9372	11377	12771	15836	19428
Growth Rate		21.67	9.45	21.39	12.25	24.00	22.68
b. Excise Duty	841	953	1169	1398	1515	1800	2059
Growth Rate		13.32	22.67	19.59	8.37	18.81	14.39
c. Motor Vehicle Tax	629	708	853	937	1131	1233	1411
Growth Rate		12.56	20.48	9.85	20.70	9.02	14.44
d. Stamp Duty & Regn.	1101	1520	2028	2003	1896	2617	3252
Growth Rate		38.06	33.42	-1.23	-5.34	38.03	24.26
Percentage to Total							
a. Sales Tax	71.97	71.70	68.56	71.15	72.46	72.23	72.92
b. Excise Duty	8.60	7.98	8.55	8.74	8.60	8.21	7.73
c. Motor Vehicle Tax	6.43	5.93	6.24	5.86	6.42	5.62	5.30
d. Stamp Duty & Regn.	11.26	12.73	14.84	12.53	10.76	11.94	12.21

Table 3			Composition and Growth of Revenue Receipts				₹ Crore	
Year	SOTR	NTR	Central Transfers	Total Revenue Receipts	Growth rate of SOTR	Growth rate of NTR	Growth rate of Central Transfers	Growth rate of TRR
2006-07	11942	938	5307	18187				
2007-08	13669	1210	6228	21107	14.46	29.00	17.35	16.06
2008-09	15990	1559	6963	24512	16.98	28.87	11.80	16.13
2009-10	17625	1852	6632	26109	10.22	18.77	-4.75	6.52
2010-11 RE	21923	2236	7969	32127	24.38	20.71	20.16	23.05
2011-12 BE	26642	2531	9374	38547	21.53	13.21	17.64	19.98



EXPENDITURE

18. Revenue expenditure as a percentage of total expenditure was as high as 94 percent in 2002-03 and almost remained the same throughout the period 2002-2007. Since 2007-08, a marked shift in the pattern of expenditure in favor of capital expenditure is visible as can be seen from the table below. A major contributory towards this achievement is the higher tax buoyancy attained from 2006-07. For 2010-11, it is estimated that the share of capital expenditure in the total expenditure would be 10 percent. Even in the face of fresh commitments anticipated in the revenue expenditure in 2011-12 this tempo can be maintained with a marginal fall.

19. The SPI expenditure, which was as high as 68 percent in 2003-04, has improved to 63.12 percent in 2010-11 RE. Even during the period of 2006-08, when the full impact of 8th Pay Revision was absorbed, the capital expenditure grew positively as against the lower growth in capital expenditure recorded in the years prior to 2006, when Pay/Pension revision was postponed, and DA installments and several other committed payments like welfare payments were withheld as a part of financial management strategy.

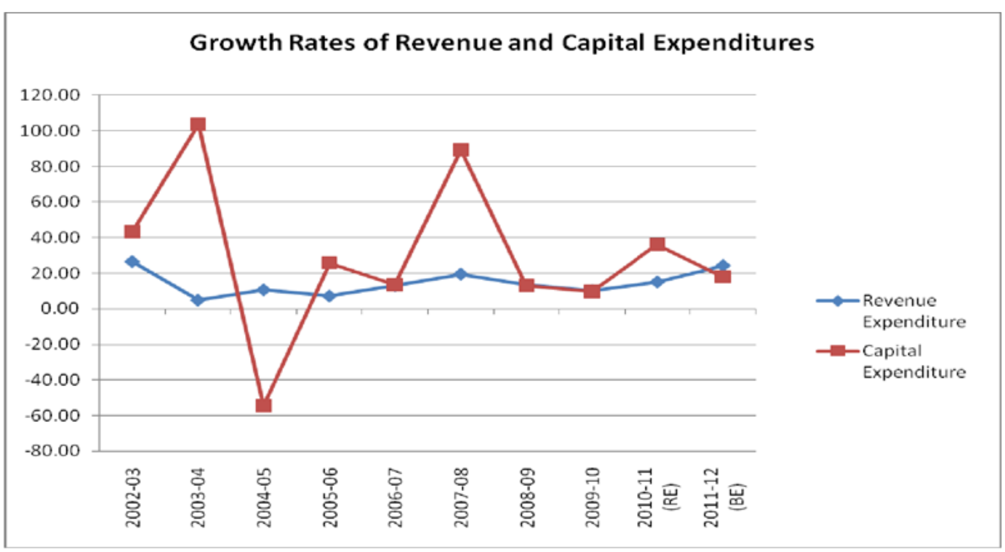


Table 4			Expenditure Patterns				₹ Crore
	2005-06	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11 RE**	**2011-12 BE**
Revenue Expenditure	**18424**	**20825**	**24892**	**28224**	**31132**	**35863**	**44566**
Plan	3223	2308	2277	3212	4179	5350	5784
Non Plan	15201	18516	22614	25012	26953	30513	38782
Revenue Expenditure of which							
i) Interest payments	3799	4190	4330	4660	5292	5518	6255
ii) Pensions	2861	3295	4925	4686	4706	5788	7311
iii) Salaries	5369	6317	7367	8801	9799	11332	16326
vi) Others	3171	4715	5993	6865	7156	13225	14674
Capital Expenditure	**1104**	**1252**	**2368**	**2679**	**2936**	**3992**	**4712**
Capital Expenditure of which							
i) Capital Outlay	817	903	1475	1696	2059	3194	2930
ii) Loans & Advances	287	349	893	984	877	798	1782
Total Expenditure	**19528**	**22077**	**27259**	**30903**	**34068**	**39855**	**49278**

20. The implementation of the 9th pay/pension revision will take effect from July 2009. Arrear in respect of 20 months salary, incremental addition of pay for 2011-12 and two installments of DA are factored into the salary expenditure estimates. Pension revision arrears for 21 months in the revised pension, incremental pension, provision for DCRG at enhanced rates etc are also built into the estimates. The 4th SFC has submitted the recommendation as per which, 25 percent of the State plan outlay will be devolved for

development expenditure and general purpose grant and maintenance grants are to constitute 8 percent of the SOTR in 2011-12. The enhanced devolution formula envisages higher outgoes to LSGI on implementation. In anticipation of this, adequate provision is included in the estimates. The revenue expenditure thus records an increase of 24 percent over the RE 2010-11.

STRATEGIC PRIORITIES

21. The strategy adopted from 2006-07 in achieving the fiscal consolidation and the targets set in the MTFP are certainly moving in the right direction. The view right from the beginning of this Government in 2006-07 was that in the context of Kerala, fiscal consolidation cannot be achieved by compressing social sector expenditure, and denying much needed public goods to the needy and the deserved. Hence, it was thought that rather than orienting towards compression of expenditure, augmentation of revenue would be the right course in achieving the fiscal consolidation. The design of MTFP from 2006-07 has adopted this strategy. This strategy has paid off handsomely. As a result, SOTR, which was ₹ 9779 crore in 2005-06, is expected to reach ₹ 21923 crore in the RE of 2010-11. This gives rise to a phenomenal growth rate of 124 percent rise in revenues over a period of 5 years. The growth in Non Tax revenue during the above five-year period is 139 percent.

22. Thus, the State could easily tide over the phase of crisis in 2008-09 and 2009-10 and leap back to the path of fiscal consolidation in 2010-11.Another strategy adopted by this government was that all outstanding dues would be cleared in a phased manner, so that budgetary planning and MTFP targets are not disturbed. Outstanding dues that have fallen due over years include DA/DR installments, payments to contractors and welfare payments, all of which were swelling to several thousand rupees at one stage. In the wake of financial commitment that arose out of implementation of 8th pay/pension

revision in 2006-07, the intensive drive for clearing outstanding payments could begin only from 2007-08. After a span of three years, the problem of overdue payments was almost solved by 2009-10. As against the outstanding dues of 24 months bills to contractors, only a normal time lag of 2 months is taken now. As against 3-4 installments of DA/DR in arrears earlier, the outstanding position now is nil.

23. Welfare payments are also not in arrears now. Thus, by adopting the right strategy, all the mounting dues were settled. This has imparted much quality to the fiscal indicators derived from the year 2008-09. As against the fiscal indicators derived earlier, which were not exposing the true position of dues in arrears, the indicators from 2008-09 are unblemished. With the removal of this clog in the system, budgetary planning and financial management has become smoother and Budgetary Planning and MTFP targets will not be vitiated in future by the cropping up of outstanding dues. In view of the success in the strategy, the Government intends to continue the practice of clearing current liabilities in the current year itself.

DEBT MANAGEMENT AND SUSTAINABILITY

24. Financing needs to support development goals at lowest cost; this is the debt management strategy of the Government. Fiscal parameters were kept within the sustainable level for fostering growth. When compared to the growth of debt of 70 per cent during the five year span, ending March 31, 2006, the growth of debt in the next five year span ending March 31, 2011 would be only 57 percent. Considering that the later period is a one in which the world has undergone a period of turmoil, and its repercussions were felt in our country as well, the improvement in debt sustainability indicators is laudable. The composition of debt remains almost unchanged during the last five years. The internal debt as a percent of total debt stock is at 63.46 percent while the loan

from the Centre is at 8.56 percent in 2011-12. At the same time, the contribution of PF, Small savings etc to debt stock is at 28.28 percent. The debt as a percentage of GSDP comes down from 33.56 in 2005-06 to 29.03 percent in 2011-12. The Debt/GSDP limit proposed by the 13th Finance Commission for 2011-12 is 32.3 percent. The compressed borrowing ceiling allowed in 2010-11 would reduce the fiscal space in 2011-12 in view of the increased provisioning for Pay/Pension revision and increased devolutions anticipated from the implementation of 4th SFC recommendations. The FD/GSDP and RD/GSDP ratios allowed by the 13th Finance Commission for 2011-12 are 3.5 percent and 1.4 percent respectively. For the reasons stated above, RD-GSDP ratio will be increasing to be sold 1.97 percent but FD-GSDP ratio would be within the limits. The RD/FD ratio shows that the quality of Fiscal Deficit has been improving. The RD/FD ratio which was at 74.82 percent in 2005-06 came down to 58.48 percent in 2008-09. Due to varied factors like revenue shortfall following the global crisis, higher interest outgo and some stimulus spending in 2009-10, this ratio increased to 63.81 percent and again decelerated to 48.77 percent in 2010-11 RE. But the implementation of Pay/Pension revisions, and also the increased devolution to LSGI's, will raise the RD/FD ratio in a disproportionate manner in 2011-12 to 56.56 percent. This indicator will show improvement again from the year 2012-13. Another important indicator is the debt-TRR ratio. From 2006-07, this ratio has been within the benchmark level of 300 percent. It is mainly due to the enhanced States Own Revenue (SOR) buoyancy of over 1 for the last five years. Domar Gap, which has also been positive throughout this period, indicates the sustainable debt position of the Government.

FISCAL POLICY FRAME WORK

25. Going by the fiscal indicators obtained in 2010-11 RE, it can be construed that fiscal stabilization has been a success in the State on the back of strong GSDP growth numbers, revenue augmentation, allocation of resources in

an effective manner and clearance of outstanding liabilities. Building on this platform, the State would move towards fiscal consolidation in a policy environment conducive to growth with inclusion and augmentation of revenues further. The Governments fiscal policy framework are summarized below.

MEDIUM TERM FISCAL POLICY PLAN FROM 2011-12 TO 2012-13

- Ensure the attainment of inclusive growth targets drawn in the XI th plan period by fostering initiatives already made.
- Putting in place adequate measures to solve second generation problems in Health and Education
- Maintaining gender equality by taking appropriate measures.
- Creating an eco-friendly environment.
- Promoting and strengthening new growth sectors.
- To develop and fund a comprehensive road renovation project so as to raise the quality of roads and reduce road accidents.
- Increase growth momentum by harnessing private capital in a big way and without diluting labour rights.
- Environment protection and healthy land use.
- To bring all the social security programmes together and to develop a comprehensive one with transparency, so that the deserving ones are not left out.
- Develop a suitable welfare programme for NRI's.
- Abundant potential available for green technology will be tapped and activities towards developing green technology will be encouraged.
- To strengthen the tax administration system further so as to plug loopholes in the system and augment tax collection.
- Current liabilities will be settled in the current year and no payments will be allowed to fall due and accrue in a threatening manner so as to distort budgetary and financial planning.

THREE YEAR ROLLING TARGETS AND UNDERLYING ASSUMPTIONS

GSDP

26. The 13th FC has estimated GSDP growth rates of 13.99 percent and 14.50 percent respectively for 2011-12 and 2012-14. As against this, the Economics & Statistics Department has estimated a GSDP growth of 15.40 percent for 2011-12. The growth of GSDP by a shade higher than GDP growth rate has been a trend for the past several years. Eventhough, for computation of borrowing ceiling, the State has to settle for the figures worked out by MoF, for working out indicators, the final figure will be that of CSO based on the figures of Economics & Statistics Department. However, for forward estimates we have reckoned the figures of 13th FC.

REVENUE

STATE'S OWN TAX REVENUE

27. The high tax buoyancy obtainable in 2010-11 cannot be taken as trend and projected into the future. After reaching close towards the potential tax revenues, average buoyancy may be the better factor for further projection. Government is hoping for a buoyancy of around one in future. Hence for forward estimates, the States Own tax revenues are projected at 15 percent against the GSDP growth rate of 14.50 percent.

NON-TAX REVENUES

28. Eventhough the non-tax revenues are growing more than 13 percent in the last few years, it is considered that annual increase of fee/ user charges cannot be resorted to annually. Hence a conservative growth rate of only 13 percent is adopted which the Government reckon is realistic.

RESOURCES FROM THE CENTRE

29. A definitive pattern is not visible to give a growth rate that is feasible in the medium term. For 2011-12 BE growth rate adopted is 18 percent

relying on a better GDP performance. For forward estimates 15 percent projections seems realistic.

Overall growth in revenue receipts thus derived is 15 percent for the forward estimates.

REVENUE EXPENDITURE

SALARIES

30. For the forward estimates in 2012-13 one time arrears (July 2009 to March 2010) has been removed and projected further providing for normal increase of pay and two installements of DA's. Projection for 2013-14 includes normal growth rates as well as provision for two additional installments of DAs.

PENSION

31. Pension revision commitment and arrear pension for the period from July 2009 to March 2010 is included in the BE for 2011-12. For 2012-13 one time arrear portion has been removed and projected with 12 percent growth for forward estimates.

INTEREST

32. Interest is calculated on the midyear debt reckoning effective interest rates at 7.80 percent for the forward estimates period.

While subsidies maintenance and repair and administrative expenditure are projected with 10 percent increase, other revenue expenditure is projected with 12 percent which would be realistic.

DEVOLUTION TO LSGIs

33. Based on the recommendations made by the 4th SFC for development expenditure, general purpose grant and maintenance grant.

CAPITAL EXPENDITURE

34. Taken as residuary items. With improvements in fiscal indicators in 2012-13 a sharp increase from the previous year is anticipated. In the year

ahead the FD will only be 3 percent of GSDP according to the revised road map for fiscal consolidation and an increase as that in the previous year will not be available.

OUTCOMES IN MAJOR INDICATORS IN 2012-13 AND 2013-14

35. The MTFP forward estimates for 2012-13 and 2013-14 are in accordance with the targets proposed by the 13th Finance Commission.

Indicators	Proposed by 13th FC		MTFP Targets	
	2012-13	2013-14	2012-13	2013-14
RD/GSDP	0.90	0.50	0.89	0.46
FD/GSDP	3.50	3.00	3.50	2.96
Debt/GSDP	32.30	30.7	28.76	28.03

The major improvement is in the Debt-GSDP ratio. The targets proposed by the 13th FC for the years 2012-13 and 2013-14 are 32.3 and 30.7 respectively. But as per the Medium Term Fiscal Plan for these years they are likely to come down to 28.76 and 28.03 percent respectively which will ease debt servicing costs in the coming years.

Table 5	Medium Term Fiscal Plan 2011-12						
Item	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
	Accounts	Accounts	Accounts	RE	BE	Forward Estimates	
Revenue Receipts	21107	24512	26109	32127	38547	44278	50863
State's own tax revenue	13669	15990	17625	21923	26642	30638	35233
Non Tax Revenue	1210	1559	1852	2236	2531	2860	3232
Resources from Centre	6228	6963	6632	7969	9374	10781	12398
Revenue Expenditure	24892	28224	31132	35863	44566	47407	52720
Non -Interest Revenue Expenditure	20562	23564	25840	30345	38311	40310	44400
Interest	4330	4660	5292	5518	6255	7096	8320
Salaries	7693.66	9064	9799	11332	16326	16533	18050
Pensions	4925	4686	4706	5788	7311	6668	7468
Non SPI Revenue Expenditure	7943.34	9814	11335	13225	14675	17110	18882
Subsidies	219	329	441	506	397	436	480
Power subsidy	0	0	0	0	0	0	0
Maintenance & repair	633	858	734	614	527	580	638
Devolution to LSGs	2273	2439	2668	2880	3839	5025	5403
Administrative Expenditure	1473	1620	1154	1461	1598	1758	1934
Other Revenue Expenditure	3376	4568	6338	7764	8313	9311	10428
Revenue Surplus/Deficit	**-3784.84**	**-3712**	**-5023**	**-3736**	**-6019**	**-3128**	**-1857**
Capital Expenditure	1475	2680	2936	3992	4712	9227	10150
Capital Outlay		1696	2059	3194	2930	7267	7993
Loan disbursements(net)	848	984	877	798	1782	1960	2156
Non Debt Capital Receipts		45	87	68	91	100	110
Fiscal Deficit/Surplus	**-6100.2**	**-6347**	**-7872**	**-7660**	**-10641**	**-12256**	**-11897**
Primary Fiscal Deficit/Surplus	-1770.55	-1687	-2579	-2142	-4386	-5159	-3577
End of the period Debt	52642	59340	67120	74643	83602	94852	106670
Debt Service	4330	5004	5569	5842	6616	7505	8784
Salary+Pension+Interest	16948.66	18410	19797	22638	29891	30296	33838
Explicit Power subsidy	0	0	0	0	0	0	0
Debt Stock	55410	63270	70969	78317	88887	100816	112523
Government Guarantees	8317	7992	7496	7193	7193	7193	7193
Interest/Revenue (%)	20.51	19.01	20.27	17.18	16.23	16.03	16.36
Debt/Revenue (%)	262.52	258.12	271.81	243.77	230.59	227.69	221.23
(Salary+Pen+Interest)/Revenue(%)	80.30	75.11	75.82	70.46	77.55	68.42	66.53
(Salary+Pen+Interest)/GSDP(%)	10.23	9.16	8.60	8.53	9.76	8.64	8.43
(Salary+Pen)/GSDP (%)	7.61	6.84	6.30	6.45	7.72	6.62	6.36
Rev Deficit/Rev Receipt (%)	17.93	15.14	19.24	11.63	15.62	7.07	3.65
RD/GSDP (%)	2.28	1.85	2.18	1.41	1.97	0.89	0.46
FD/GSDP (%)	3.68	3.16	3.42	2.89	3.48	3.50	2.96
Debt Stock/GSDP (%)	33.44	31.47	30.81	29.52	29.03	28.76	28.03
GSDP	165722	201020	230316	265322	306172	350567	401399
Nominal GSDP Growth Rate(%)		21.30	14.57	15.20	15.40	14.50	14.50
Average Interest Rate (%)		7.85	7.89	7.39	7.48	7.80	7.80
Domar Gap		13.45	6.69	7.81	7.91	6.70	6.70