MEDIUM TERM FISCAL POLICY STATEMENT

A. FISCAL INDICATORS – ROLLING TARGETS AS PERCENTAGE OF GDP

(at current market prices)

		Revised Estimates 2008-09	Budget Estimates 2009-10	Targets for 2010-11	Targets for 2011-12
1.	Revenue Deficit	4.4	4.8	3.0	1.5
2.	Fiscal Deficit	6.0	6.8	5.5	4.0
3.	Gross Tax Revenue	11.6	10.9	11.9	12.4
4.	Total outstanding liabilities at the end of the year	59.6	61.4	60.1	57.2

Notes:—

1. *"GDP" is the Gross Domestic Product at current market prices.*
2. *"Total outstanding liabilities" include external public debt at current exchange rates. For projections, constant exchange rates have been assumed.*
3. *Targets for 2010-11 and 2011-12 will be revisited after the implementation of the 13th Finance Commission recommendations from 2010-11.*

1. The medium term fiscal outlook presented above indicates variation over the projections presented along with the Interim Budget 2009-10 in February, 2009. These variations have been necessitated due to the continuing sign of bleak outlook for the growth in the world economy during 2009-10. The extraordinary economic circumstances have been detailed in the Fiscal Policy Strategy Statement and Macro-Economic Framework Statement presented along with the Interim Budget 2009-10. The World economy has never witnessed these kind of crises in different sectors in the same fiscal year. In the first half of the fiscal year 2008-09, rising prices in the world commodity market including petroleum products required Government to take various fiscal and administrative measures in concert with monetary policy initiatives by the Reserve Bank of India to reduce the impact of inflationary pressures in the Indian economy. Various measures were undertaken on the indirect tax side to reduce the impact of global price rise on Indian economy details of which are enumerated in the Fiscal Policy Strategy Statement. At the same time, Government also made higher provisions for food, fertiliser and petroleum subsidies to control price rise and minimize the adverse effects of inflation on the vulnerable sections of the society. These measures along with easing of global price pressures, helped in bringing down the inflation by the 4th quarter of 2008-09.

2. During 2008-09, post budget rate cuts in taxes/duties (mainly in indirect taxes) and increased subsidy burden as indicated above resulted in higher than estimated revenue and fiscal deficit in the first half of the fiscal year. However, with direct tax revenue receipts showing higher than the estimated buoyancy in the first half (growth of 35.6 per cent in H1 2008-09 against estimated 17.1 per cent in B.E.2008-09), there were indications that the shortfall in indirect taxes and additional expenditure commitments arising out of post budget developments would be neutralised to some extent in the second half of the fiscal year. But the second half of 2008-09 brought with it a different set of problems with the collapse of several international financial institutions. Notwithstanding strong macro-economic fundamentals, the Indian economy was also affected as most emerging market economies were, with the rate of growth slowing down. The growth in 2008-09 moderated to 6.7 per cent against the average of about 9 per cent achieved during the previous four years. In order to keep the economy on the higher growth trajectory, the government took a conscious decision to use fiscal policy as a tool to provide a boost to demand and counter the situation created by the global financial crisis. These policy measures resulted in revenue deficit and fiscal deficit going up to 4.6 per cent and 6.2 per

cent of GDP respectively in 2008-09 (Provisional Accounts). Fiscal consolidation in the previous four years, in line with the mandate under the FRBM Rules, has resulted in total liabilities of the Government as percentage of GDP declining from 63.3 in 2004-05 to 59.6 in RE 2008-09. Though this level of debt and liabilities is still high, but certainly this correction during the FRBM Act regime has given additional fiscal space to manoeuvre the fiscal policy during the current challenging circumstances.

3. The measures undertaken by the Government during the second half of 2008-09 have helped in keeping the Indian economy on growth trajectory, though at moderate level in comparison with the performance of recent past. There are early signs of the economy moving ahead towards revival. The considerate view of the Government is to continue with the fiscal policy of increased public expenditure with special emphasis on provisions for social sector programmes and creation of rural as well as urban infrastructure on a fast track basis. The B.E. 2009-10 provides for additional plan expenditure of Rs.40,000 crore over that in the Interim B.E.2009-10. Most of the additionality is accounted for in schemes like NREGS, PMGSY, RGGVY, NRHM, AIBP, JNNURM, RKVY, TUFS etc. The enhanced provisions for these schemes are aimed to boost demand, generate employment in the domestic economy as well as create infrastructure in rural and urban areas. The enhanced provision on social sector and health sector programmes are aimed at giving necessary comfort to the vulnerable sections of society.

4. With the continuance of reduced rates of taxes/duties alongwith factoring in the effects of the economic slowdown and the new Budget proposals on direct and indirect taxes, the gross tax to GDP ratio is set to decline to 10.9 per cent in B.E.2009-2010. After accounting for States' share in Central taxes, the tax revenue (net) to Centre is estimated to decline from Rs.4,97,596 crore in the Interim B.E.2009-10 to Rs.4,74,218 crore in B.E 2009-10. On the positive side, due to likely higher receipts from telecommunication sector vide 3G auction, transfer of surplus from the Reserve Bank of India to Central Government and increased dividend receipts from certain sectors like banks, petroleum and steel, the non-tax revenue is set to increase from Rs.1,11,955 crore in the Interim B.E.2009-10 to Rs.1,40,279 crore in the General Budget 2009-10. The additionality in non-tax revenue has compensated the reduction in tax revenues and thereby the Revenue Receipts (net) to Centre is estimated to increase marginally from Rs.6,09,551 crore in the Interim Budget 2009-10 to Rs.6,14,497 crore in the General Budget 2009-10. Even in a difficult year like this, the revenue receipts are showing a growth of 12.8 per cent over the provisional accounts of 2008-09. In anticipation of economic revival, the gross tax to GDP ratio is projected to increase to 11.9 per cent and 12.4 per cent in 2010-11 and 2011-12 respectively.

5. Total expenditure of the Central Government is estimated to increase from Rs.9,53,231 crore in the Interim Budget 2009-10 to Rs.10,20,838 crore in the General Budget 2009-10 at 17.4 per cent of GDP. The increased expenditure is primarily on account of higher plan outlay to boost demand and increased food subsidy. The revenue deficit and fiscal deficit at 4.8 per cent & 6.8 per cent of GDP respectively in General Budget 2009-10 show worsening of position compared to the provisional accounts for 2008-09. While these do not reflect achievement of mandated targets for fiscal deficit as well as revenue deficit, with improvement in prevailing conditions, the process of fiscal consolidation is expected to be back on track in the next two years. The emerging situation will be reviewed and further necessary steps taken in this regard in the medium term.

B. ASSUMPTIONS UNDERLYING THE FISCAL INDICATORS

1. Revenue Receipts

(a) Tax-Revenue

6. The Gross Tax Revenue as a percentage of GDP increased from 9.2 in 2003-04 to 12.6 in 2007-08 during the FRBM Act regime. It was estimated to further improve at 13 per cent in B.E.2008-09. The first half of the fiscal year 2008-09 witnessed growth of 25.3 per cent in gross tax receipts over the same period in the previous financial year 2007-08. However, due to the moderation in growth in the economy and post budget tax/duty rate cuts, during the second half of 2008-09 the gross tax receipts were 10.8 per cent lower than H2 of 2007-08. This has brought down the overall tax receipts growth to 2.5 per cent during 2008-09 (Provisional). After accounting for assignment to States and surcharge for financing NCCF, the net tax revenue to Centre stands at Rs.4,47,726 crore.

7. In view of the prevailing uncertainty in the world economy and its impact on Indian economy during 2009-10, the gross tax revenue is estimated to show lower buoyancy and is estimated at Rs.6,41,079 crore in the General Budget 2009-10 amounting to 10.9 per cent of GDP. This represents a growth of 5.2 per cent over the provisional accounts of 2008-09.

8. Direct tax receipts are estimated at Rs.3,70,000 crore in B.E. 2009-10 showing a growth of 9.1 per cent over 2008-09 (Provisional Accounts) and amounting to 6.3 per cent of GDP. Indirect tax receipts are estimated at Rs.2,71,079 crore in B.E.2009-10 almost same as provisional accounts of 2008-09 amounting to 4.6 per cent of GDP. The gross tax to GDP ratio is projected to improve in 2010-11 to 11.9 per cent and 2011-2012 to 12.4 per cent on the expectation that the economy will start showing signs of revival.

9. Assignment to States and net Tax Revenue of Centre in B.E.2009-10 are placed at Rs.1,64,361 crore, and Rs.4,74,218 crore respectively.

10. The fiscal indicators shown in Table in paragraph A for BE 2009-10 are based on new Budget proposals.

(b) Non-tax-revenue

11. Non-tax revenue (NTR) is estimated to increase from Rs.1,11,955 crore in the Interim B.E. 2009-10 to Rs.1,40,279 crore in the General B.E. 2009-10. This is 44.7 per cent higher than the provisional accounts 2008-09 for non-tax revenue. The increase is primarily on account of anticipated receipts from the telecommunication sector vide auction of 3G spectrum. Also, the dividend receipts from Banks and CPSUs and transfer of surplus from RBI is estimated to increase from the levels indicated in the Interim Budget 2009-10. Receipts from dividends and profits which constitute the largest component of NTR are estimated at Rs.49,750 crore in B.E. 2009-10 as compared to Rs.43,204 crore in BE 2008-09.

12. Interest receipts from States are likely to decline in the medium term, mainly due to Centre's disengagement from financial intermediation on the recommendation of the Twelfth Finance Commission on lending to States, except for loans under externally aided projects. Also the incentive linked restructuring of State Government debt at 7.5 per cent interest will result in downward trend in interest receipts for some more time. In the medium term, NTR is expected to marginally improve in absolute terms but will show a progressively declining trend as a proportion of GDP, as the GDP increases.

(c) Devolution to States

13. Twelfth Finance Commission (TFC) award with regard to incentive to promote fiscal reforms, are enabling the State Governments to actively undertake fiscal correction with taxation reforms and expenditure management. Twenty six States have enacted their own FRBM laws. TFC has also recommended that 30.5 per cent of gross tax revenue from Central Taxes/Duties including Additional Excise Duty (AED) on sugar, tobacco and textiles in lieu of Sales Tax but excluding cesses, surcharges and cost of tax collection shall devolve to States. Tobacco is now taken out of AED list and States are permitted to levy VAT on it. TFC has also recommended that if the rental arrangement in respect of Additional duties in lieu of sales tax is terminated and States are allowed to levy sales tax (or VAT) on these commodities without any prescribed limit, the share of the States in net proceeds of shareable central taxes shall be reduced to 29.5 per cent. States share of Taxes and Duties is estimated at Rs.1,64,361 crore in B.E. 2009-10 reflecting 2.6 per cent increase over RE 2008-09. The Twelfth Finance Commission award period is coming to an end in 2009-2010. Devolution to States of their share in the Central Taxes/Duties for the period 2010-2015 will be governed by the recommendations of the Thirteenth Finance Commission and decision of the Government thereon. The report of the Thirteenth Finance Commission is expected to be received by October 2009.

2. Capital receipts

(a) Recovery of loans and advances

14. Repayment of loans extended to States earlier are estimated to decline over a period of time on account of (i) gradual disintermediation by Central Government and (ii) the debt consolidation and debt waiver scheme based on the Twelfth Finance Commission (TFC) recommendations. Over time, State Governments and Central Public Sector Undertakings have been encouraged to borrow directly from the market and not from the Central Government. In addition, State Governments have been allowed to prepay their high cost loans. In respect of

Central Government loans, TFC has awarded relief to State Governments in the form of debt consolidation and waiver subject to enactment of fiscal responsibility legislation and achievement of specified targets relating thereto. The repayment of loans from PSEs is also impacted on account of defaults from PSEs that are either sick or under revival through BIFR. Recovery of loans and advances is estimated at Rs.4,225 crore in B.E.2009-10 as against Rs.6,158 crore in the provisional accounts of 2008-09.

(b) Other non-debt capital receipts

15. Disinvestment proceeds through sale of Government stake in Central Public Sector Undertakings etc. had been the main source of receipts under this head. However, with the setting up of National Investment Fund (NIF) and the decision on not utilising the sale proceeds of Government equity in PSUs to finance the fiscal deficit, there is not much scope for regular non-debt capital receipts in future. The NIF is in Public Account and funds are being invested through professionally managed select Public Sector Mutual Funds to provide sustainable returns without depleting the corpus. The returns from the investment are being employed to meet capital investment requirement of profitable and revivable CPSEs and to finance selected social sector schemes which promote education, health and employment. Disinvestment proceeds are estimated at Rs.1,120 crore in B.E. 2009-10.

(c) Borrowings – Public Debt and Other Liabilities

16. The borrowing requirement of the Government is determined by the level of fiscal deficit, which essentially reflects the uncovered gap between total expenditure and total non-debt capital receipts and revenue receipts of the Central Government. This deficit is financed largely through domestic public debt and to a smaller extent through external debt and other internal liabilities or through cash draw down. Government is financing major part of its deficit through resources raised at market determined interest rates.

17. Two other items included in the domestic debt/liabilities of the Central Government are Net accretions to NSSF and Borrowings under Market Stabilization Scheme (MSS). Net accretion to the National Small Savings Fund, to the extent of 80 per cent to 100 per cent is transferred to State Governments as per their option with effect from 1.4.2007, through investment in State Government special securities issued for the purpose. However, these are liabilities of the Central Government and are therefore, included as such. Borrowings under Market Stabilization Scheme are raised within the overall ceiling fixed in terms of the MOU signed between the Government of India and Reserve Bank of India (RBI), to assist in mopping up of excess liquidity in the market arising largely from significant forex inflows. Starting with the second half of the financial year 2008-09, MSS unwinding has been taking place in view of the evolving monetary and financial market conditions. The details on sources of financing of deficit are shown in the Receipts Budget.

3. Total expenditure

(A) Revenue account

(i) Plan Revenue expenditure

18. The problems arising out of the global financial crisis started to show their impact on the Indian economy in the second half of the fiscal year 2008-09. In order to negate the impact of global slowdown on Indian economy and put it back on higher growth trajectory, the Government announced series of fiscal measures in the form of three fiscal stimuli. Stepping up of plan expenditure for boosting demand and investment in infrastructure sector were part of these measures. Accordingly, plan revenue expenditure estimates were increased from Rs.2,09,767 crore in B.E.2008-09 to Rs.2,41,656 crore in R.E.2008-09. The provisional accounts 2008-09 show plan revenue expenditure of Rs.2,35,176 crore which is 35.5 per cent higher than the plan revenue expenditure in 2007-08.

19. In order to continue the momentum of growth, it is a conscious decision of the Government to further increase the public expenditure in select sectors during 2009-10. Therefore, the plan revenue expenditure has been further increased from Rs.2,48,349 crore in the Interim B.E.2009-10 to Rs.2,78,398 crore in the General Budget 2009-10. The estimates of plan revenue expenditure in B.E.2009-10 show increase of 32.7 per cent over that of B.E.2008-09 and about 60 per cent increase over actuals of 2007-08. With this significant increase in outlay over the last two years, the focus now should shift on ensuring effective implementation and outcomes from financial outlays. The increase in plan expenditure is primarily accounted for by higher

allocations to the social sector along with urban and rural infrastructure. Notwithstanding decline in revenue and higher liabilities on specific components of non-plan expenditure including inter alia, for meeting salary commitments, interest obligations, subsidy, defence establishment and capital acquisitions, internal security, pensions, etc. adequate provisions have been ensured for all important developmental schemes particularly those benefiting the common man and disadvantaged sections of society.

(ii) Non Plan Revenue expenditure

20. Majority of constituents of non-plan revenue expenditure are rigid in nature and inelastic in the short term. However, sharp increase in the non-plan expenditure witnessed during 2008-09 which continues in the current financial year also highlights the concerns of sustainability of the pace of growth of this component of expenditure. Non-plan revenue expenditure which was estimated to increase from Rs.4,48,352 crore in B.E.2008-09 to Rs.5,61,790 crore in R.E.2008-09, is at Rs.5,56,521 crore as per the provisional accounts of 2008-09. This shows growth of 32.2 per cent over non-plan revenue expenditure in 2007-08. This is further estimated to increase from Rs.5,99,736 crore in the Interim B.E.2009-10 to Rs.6,18,834 crore in the General Budget 2009-10 (showing increase of 38 per cent over B.E.2008-09). The increase is mainly on account of higher salary and pension bills due to the implementation of the Sixth Central Pay Commission recommendations, increased food subsidy and higher interest payments arising out of larger fiscal deficit in 2008-09. The major items of non-plan expenditure are detailed below.

(a) Interest payments

21. Due to the fiscal consolidation in the last four years, interest payments as percentage of total revenue receipts (net) of the Central Government has shown a significant improvement from 47 per cent in 2003-04 to 31.6 per cent in 2007-08. However, due to increased deficit and hardening of interest rates during 2008-09, this ratio has deteriorated to 35 per cent in 2008-09 provisional accounts. This ratio is further estimated to deteriorate to 36.7 per cent in B.E.2009-10. Interest payments are estimated at Rs.2,25,511 crore constituting about 36.4 per cent of non-plan revenue expenditure in B.E.2009-10. The increase is primarily on account of the higher borrowings resorted to during 2008-09 to finance the higher deficit and interest on Special Securities issued to Oil Marketing Companies and Fertilizer Companies. It is the endeavour of the Government to bring the interest payment as percentage of total revenue receipts to a sustainable level.

(b) Defence Services

22. Defence Services expenditure in revenue account is budgeted to increase from Rs.57,593 crore in B.E. 2008-09 to Rs.86,879 crore in B.E.2009-10 due to the implementation of the Sixth Central Pay Commission recommendations.

(c) Major subsidies

23. The financial year 2008-09 had witnessed unprecedented rise in the subsidy bill of the Government. Provision for major subsidies on food, fertiliser and petroleum products were Rs.66,537 crore in B.E.2008-09 was equivalent to 11 per cent of net revenue receipt of the Government. However, post budget developments in the world commodity market resulted in higher economic cost of petroleum products and fertilisers. With the objective of insulating the consumer from unprecedented rise in the cost of these products, the subsidy component provisions were increased substantially. Subsidy provisions for fertilisers were increased from Rs.30,986 crore in B.E.2008-09 to Rs.75,849 crore in R.E.2008-09. Provisional accounts 2008-09 for fertiliser subsidy stands at Rs.76,606 crore. In addition Special Securities amounting to Rs.20,000 crore were issued in lieu of subsidy to Fertiliser companies during 2008-09. Thus, the total outgo for fertiliser subsidies stood at Rs.96,606 crore. Similarly, factoring in the provision of Rs.75,942 crore for issue of securities to Oil Marketing Companies against under recoveries on the sale of sensitive petroleum products, the total provision for petroleum subsidy has increased from Rs.2,884 crore in B.E.2008-09 to Rs.78,794 crore in the provisional accounts 2008-09. The enhanced minimum support price for wheat and rice was one of the factors contributing to the increase in the food subsidy bill from Rs.31,328 crore in 2007-08 to Rs.44,182 crore in 2008-09. Thus total provision for subsidies on these three items, including Rs.95,942 crore of Special Securities, has gone up from Rs.66,537 crore in B.E.2008-09 to Rs.2,19,582 crore in 2008-09 (provisional accounts) amounting to about 40.3 per cent of net revenue receipt of the Government and 4.1 per cent of GDP.

24. On the assumption that current price level may prevail during 2009-10 in the world commodity markets, provision for fertiliser subsidy has been kept at Rs.49,980 crore in B.E.2009-10. Food subsidy is estimated at Rs.52,490 crore in B.E.2009-10. The increase in food subsidy is to ensure food security for BPL families. However, compared to the provisional accounts of 2008-09, the total of major subsidies (cash component) is estimated to decline to Rs.1,05,579 crore amounting to 1.8 per cent of GDP in B.E.2009-10. Also provision for Rs.10,306 crore has been made in BE 2009-10 for payment to Oil Marketing Companies in form of special securities in lieu of subsidies to compensate them for under recovery. Thus total provision for major subsidies in BE 2009-10 will be Rs.1,15,885 crore amounting to about 2 per cent of GDP. The present level of subsidy outgo is not sustainable in medium to long term. There is a need to focus on measures and means to cap this expenditure to create further fiscal space for increased investment in physical and social infrastructure.

(d) Non-Plan Grants to States

25. The Non-Plan Grants to States/UTs is estimated at Rs.48,570 crore in B.E.2009-10, up from Rs.43,294 crore in B.E.2008-09. The Central Government continues its commitment to compensate the State/UT Governments for loss of revenue that may arise on account of phasing out of Central Sales Tax (CST) and introduction of Value Added Tax (VAT). A provision of Rs.6,001 crore and Rs.3020.50 crore has been made in B.E.2009-10 for these purposes as against Rs.2,500 crore and Rs.3292.50 crore respectively in B.E. 2008-09.

(B) Capital accounts

(i) Loans and advances

26. Loans and advances to State Governments had earlier constituted major component of loans and advances extended by Central Government. The Twelfth Finance Commission has recommended disintermediation by Central Government in the matter of loans to State Government, albeit with support to fiscally weak states, which are unable to raise resources directly. States now raise loans directly from the market. External loans however continue to pass-through the Central Government. Non-Plan loans are also extended to CPSUs for various purposes, including budgetary support for investments, restructuring/revival and Voluntary Retirement Scheme/Voluntary Separation Scheme.

(ii) Capital outlay

27. The total expenditure on capital outlay is set to increase from Rs.92,765 crore in B.E. 2008-09 to Rs.1,23,606 crore in B.E. 2009-10. Of this, total non-plan capital expenditure is Rs.76,855 crore in B.E.2009-10. Defence Capital Outlay constitutes the largest component of non-plan capital expenditure and it is estimated at Rs.54,824 crore in B.E.2009-10.

28. The plan capital outlay is estimated to increase from Rs.33,619 crore in B.E.2008-09 to Rs.46,751 crore in B.E.2009-10. In the current scenario when capital market has become deep and robust and when many of the capacity addition in form of capital expenditure is taking place under the Public Private Partnership mode, Central Public Sector Undertakings (CPSUs) have been meeting a large part of their capital expenditure through Internal and Extra Budgetary Resources (IEBR). The IEBR of CPSUs (including Railways) is estimated to increase by 6.4 per cent from Rs.1,95,531 crore in B.E. 2008-09 to Rs.2,08,081 crore in B.E. 2009-10.

4. GDP Growth

29. During the year 2008-09 annual real GDP growth (at constant 1999-2000 prices) has moderated to 6.7 per cent as compared to the growth rate of 9.0 per cent during 2007-08 (Quick Estimates). The nominal growth rates of GDP at current market prices during the respective years are 12.7 per cent and 14.4 per cent. As such the GDP at current market prices for the year 2008-09 stands at Rs.53,21,753 crore as against Rs.47,23,400 crore in 2007-08. Due to the prevailing uncertainty in the world economy, the real GDP growth has been estimated at 6.51 per cent in 2009-10. After factoring in inflation expectation, the GDP growth (at current market prices) for 2009-10 is estimated at 10.05 per cent. Thus the GDP for the year 2009-10 (at current market prices) is set at Rs.58,56,569 crore. In the following two years, with the assumption that economy will start showing signs of revival, the real GDP growth has been assumed at 8 and 9 per cent respectively. After factoring in medium term inflation expectation, the GDP growth at current market prices is projected at 12.4 per cent and 13 per cent respectively for 2010-11 and 2011-12.

C. Assessment of sustainability relating to

(i) The balance between Revenue Receipts and Revenue Expenditure

30. While the economy was riding on high growth trajectory during 2004-08, the growth in revenue receipts has exceeded the growth in revenue expenditure. This resulted in achieving significant correction in the ratio of revenue deficit to GDP from 3.6 per cent in 2003-04 to 1.1 per cent in 2007-08. However, in a reversal of the trend of the previous three years, growth in Revenue Receipts has been outpaced by the growth in Revenue Expenditure resulting in worsening of revenue deficit in 2008-09. Due to the measures taken to reduce the impact of global financial crisis in the form of reduction in tax/duty rates and increase in public expenditure commitments coupled with lower growth rate of GDP, the total revenue receipts (net) to centre has increased merely by 0.5 per cent in 2008-09 over 2007-08 whereas the revenue expenditure has increased substantially in 2008-09 (Provisional Accounts) by 33.1 per cent over 2007-08. The revenue deficit has worsened to 4.6 per cent of GDP in 2008-09. This deterioration is mainly attributed to the increased subsidy bill, increased salary bill due to the implementation of Sixth Central Pay Commission recommendations and additional expenditure commitments arising out of the fiscal stimulus package aimed at boosting demand and maintaining the pace of economic growth. The level of fiscal expansion undertaken during the crisis period may not be sustainable in the long term; however, the brighter side of the picture is that these measures have started showing results. In a difficult year like 2008-09, when most of the economies struggled to stay afloat, India has recorded 6.7 per cent rate of GDP growth and is the second fastest growing economy in the world.

31. While the outlook of world economy for 2009-10 is also bleak, India’s gross tax to GDP ratio is not likely to improve during 2009-10. Coupled with higher expenditure commitments in the form of continuing higher plan outlay as part of further stimulus measure and increased salary bill, the revenue deficit is estimated in B.E. 2009-10 at 4.8 per cent of GDP. Total expenditure in B.E. 2009-10 is estimated at 17.4 per cent of GDP whereas the Revenue receipts are likely to fall to 10.5 per cent of GDP. As any reduction in plan outlay would have led to further moderation in the growth of economy and it would also have exposed the vulnerable sections of society to the impact of economic slowdown, the government has taken a conscious decision to continue with the temporary shift in fiscal stance to accommodate a higher fiscal deficit for 2009-10 than the mandated three per cent target under the FRBM Rules. On the assumption that the economy would start reviving, the estimates for 2010-11 and 2011-12 of the fiscal deficit is envisaged to be brought down closer to the mandated level under FRBM Rules.

(ii) The use of capital receipts including market borrowings for generating Productive Assets.

32. Non-plan expenditure of Rs.6,06,019 crore during 2008-09 (Provisional Accounts) has exceeded non debt receipt of Rs.5,51,355 crore (comprising of Rs.5,44,651 crore of Revenue Receipts and Rs.6,704 crore of non-debt capital receipt), reversing the trend of previous financial year. This trend is estimated to continue in B.E.2009-10 also. It shows that the government has to resort to borrowings for even meeting non-plan expenditure commitments. This brings us back to the issue of structural problems in the composition of expenditure which, if not addressed, will further squeeze out the fiscal space for undertaking developmental works. The Government will address these issues in right earnest.

33. In B.E.2009-10 the total Plan expenditure of Rs.3,25,149 crore is about 81.08 per cent of the Fiscal deficit estimated at Rs.4,00,996 crore. It indicates that about 19 per cent of the net borrowings during the year 2009-10 is going to finance non-plan expenditure. This also shows that the dependency on borrowing for financing developmental expenditure will continue in the medium term. However, the Government will make efforts for not using debt receipts for financing non-plan expenditure particularly non-plan revenue expenditure. The endeavour is to bring down the ratio of debt to GDP gradually to a sustainable level.

34. The task ahead in order to continue the process of fiscal consolidation is admittedly more challenging, especially with regard to the elimination of revenue deficit. The Thirteenth Finance Commission through an additional Term of Reference has been mandated to review the roadmap for fiscal adjustment and suggest a suitably revised roadmap to maintain the gains of fiscal consolidation through 2010 to 2015, particularly keeping in view the need to bring in the liabilities of the Central Government on account of oil, food and fertiliser bonds into the fiscal accounting, and the impact of various other obligations of the Central Government on the deficit targets. Primarily the fiscal consolidation during the period 2004-08 was revenue driven, and therefore it has created a stress when the revenue buoyancy has fallen on account of moderation in economic growth. The focus now should also be on expenditure reform in order to make the fiscal consolidation process sustainable and bring in inter-generational equity in fiscal management.