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Preface

The Madhya Pradesh Rajkoshiya Uttardayitva Avam Budget Prabandhan Adhiniyam 2005, and the Madhya Pradesh Rajkoshiya Uttardayitva Avam Budget Prabandhan Niyam, 2006 made under Section 12 of the Adhiniyam have come into force on 1st January 2006 and 30th January 2006 respectively.

Under Section 5 of the Adhiniyam read with Rules 3, 4, 5 and 7 the State Government is required to lay before the Assembly Macro-Economic Framework Statement, Medium Term Fiscal Policy Statement, Fiscal Policy Strategy Statement and Disclosure Statements along with the Annual Financial Statement and Demands for Grants.

This Statement containing the four Statements referred to above is therefore laid before the Assembly in compliance with the above statutory requirements.

Form F-1

[see Rule 3]

MACRO-ECONOMIC FRAMEWORK STATEMENT

1. **Overview of the State Economy**:

1.1 The size, composition and growth of the economy determine the revenue potential of the State and thus the size of the budget. On the other hand, the size of the budget determines the level of public expenditure and thus the size and the growth of the economy. The economy is measured in terms of Gross State Domestic Product (GSDP) both at current and constant prices. The GSDP for the year 2004-05 of Madhya Pradesh, as per the quick estimates, at current prices was Rs. 1,03,057 crore and at constant prices was Rs. 60,324 crore. The per capita income (GSDP) was Rs. 9382 at constant prices.

1.2 The State of Madhya Pradesh contributed 4.86 percent of the national domestic product in the year 1993-94 and by the year 2003-04 this contribution had gone down to 4.19 percent. This is mainly because the national economy is growing at a higher rate than that of the economy of the State. The fiscal policy attempts to bridge this gap by increasing public investment and encouraging private investment.

1.3 The economy of Madhya Pradesh can be characterised as an agrarian economy. The sectoral composition for the years 1993-94 and 2003-04 is presented in the Table 1.1 characterising the structure of the economy and its changing nature. For the purpose of analysis, the year 1993-94 is taken as new series of GSDP started from this year as per the direction of the Central Statistical Organisation (C.S.O). The agriculture sector includes animal husbandry, forestry, fishing and mining. The industrial sector consists of registered manufacturing, unregistered manufacturing, construction, electricity, gas and water supply. The service sector represents railways, other transport, storage, communications, trade, hotels, banking, insurance, real estate, public administration and other services.

Table 1.1
Comparative Structure of the Economy

Sector/Year	1993-94	2003-04
Agriculture	43.19 (33.54)	33.96 (24.03)
Industry	21.15 (23.69)	26.71 (24.54)
Services	35.66 (42.77)	39.34 (51.43)

Note: All figures are in percentages. The figures in the brackets are of All-India. In this statement, wherever comparison with data of national GDP or GSDP of the States has been made, the Quick Estimates of 2003-04 have been considered.

1.4 During the year 2003-04, agriculture contributed 33.96 percent of the Gross State Domestic Product (GSDP) and 71.5 per cent of the total workers were dependent on agriculture as per Census 2001. On the other hand, agriculture contributed 24.03 per cent of the Gross Domestic Product (GDP) of the nation and 58.2 per cent of the total workers were dependent on agriculture. Madhya Pradesh had a very high share of agriculture in GDP to begin with but by 2003-04, the share of agriculture has fallen to 33.96 per cent and is above the national average of 24.03 per cent. Table 1.2 indicates the structure of the economy in MP and some comparable states.

Table 1.2
Comparative Structure of the Economy

(Figures in Percentage)

Sector/ Year	Agriculture		Industry		Services	
	1993-94	2003-04	1993-94	2003-04	1993-94	2003-04
MP	**43.19**	**33.96**	**21.15**	**26.17**	**35.66**	**39.34**
UP	39.80	35.11	21.45	20.97	38.75	43.91
Bihar	48.78	36.35	9.93	9.28	41.29	54.37
Orissa	44.95	38.85	19.78	19.17	35.27	40.98
Rajasthan	36.27	30.50	24.96	25.06	38.77	44.44

1.5 Madhya Pradesh witnessed a sharp increase in the share of industry during this period. The share of industry in MP during 2003-04 was not just highest amongst the states given above but also significantly above the national average. The share of services sector has also gone up, however it still remained significantly below the national average of 51.43 per cent. The most striking aspect of the changing economic structure of MP is that it has the fastest pace of industrialization amongst the comparable states.

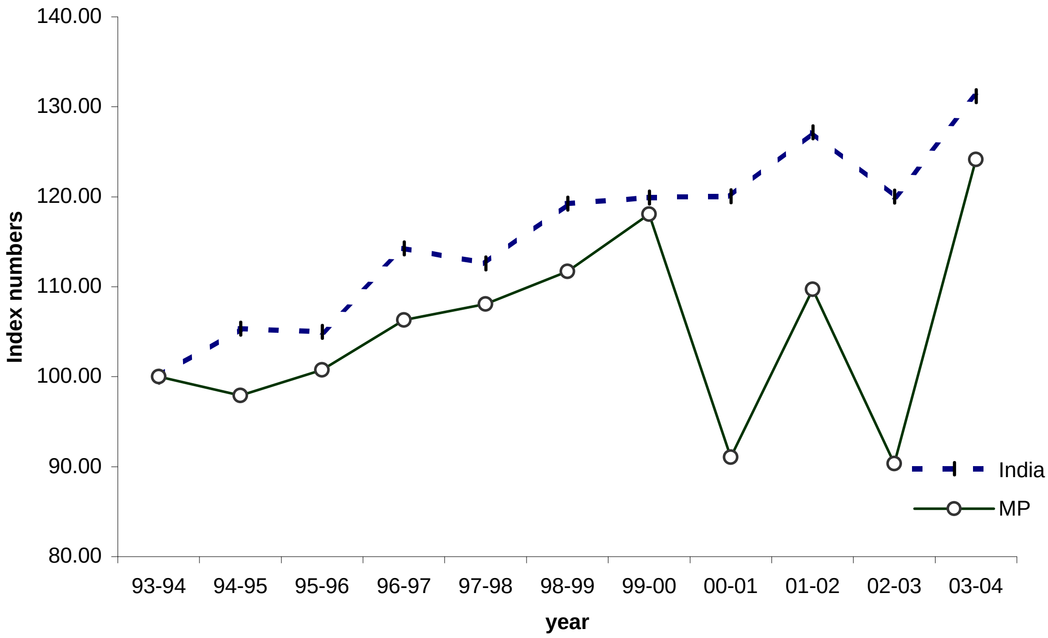
2. GSDP Growth

2.1 During the period 1993-94 to 2003-04, at constant prices the GSDP grew at an annual rate of 4.06 per cent (calculated using trend line), which is much below the national average of 5.83 per cent. This is mainly due to the severe drought for three years in the years 2000, 2001 and 2002. Till the drought hit the State the MP economy grew at an annual rate of 5.97 per cent as against the national average of 6.39 per cent during the period 1993-94 to 1999-2000. Thus, the drought adversely affects the GSDP and thereby distorts all fiscal parameters that are standardised by GSDP. In terms of sectoral growth, agriculture grew at an annual rate of 1.13 per cent industry at 5.68 per cent and service sector at 5.52 per cent during the period 1993-94 to 2004-05.

2.2 The comparative sectoral growth of Madhya Pradesh and All-India was shown in Figures 1.11.2, 1.3. The major crops that are grown in Madhya Pradesh are oil-seeds, pulses, wheat and paddy. During the year 2003-04, 27 per cent of the gross sown area was under oil-seeds, 23 per cent under pulses, 21 per cent under wheat and 9 per cent was under paddy.

Figure 1.1

Comparative Growth of Agriculture

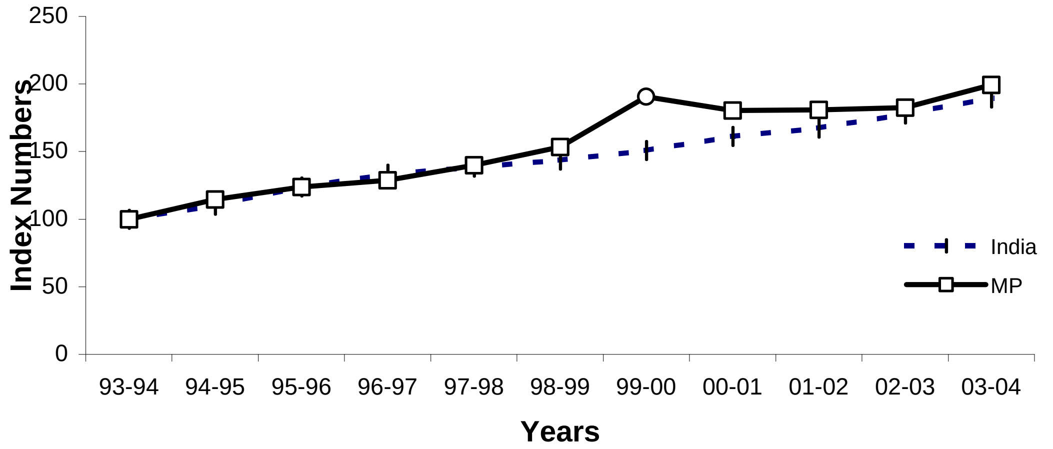


2.3 Agriculture in the state is still traditional. It is mostly rain-fed. Only a quarter of the total cropped area in the state has irrigation cover, thus making agriculture highly dependent on the vagaries of monsoons. As a large proportion of workers (28.7 per cent) are agricultural labourers, a failure of monsoon and consequent adverse effect on agriculture tends to make agricultural labour unemployed.

2.4 One redeeming feature of the MP economy has been the growth of industrial sector at a much faster rate than the overall industrial growth at the national level. It has been fastest growing sector of the economy. Construction activity has significantly contributed to this growth. During the period 1993-94 to 2002-03, the industrial trend growth in MP was 7.9 per cent as against the national growth of 5.9 per cent. The major industries are textiles, basic chemicals, non-metallic, metals & machinery and food & beverages. During the year 2000-01, textiles contributed 19.16 per cent, basic chemicals contributed 15.95 per cent, non-metallic contributed 16.34 per cent, metals & machinery contributed 15.95 per cent and food & beverages contributed 12.74 per cent to the Gross Value Added of the registered-manufacturing sector. Out of these sectors textiles contributed, 28.86 per cent of the employment, highest of all in the registered sector.

Figure 1.2

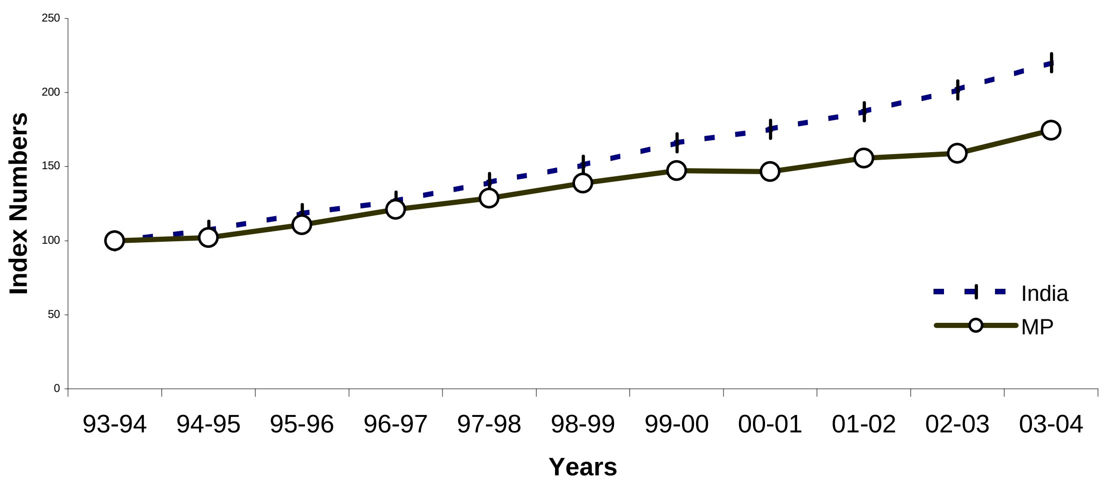
Comparative Growth of Industrial Sector



2.5 The service sector of the MP economy has been sluggish and growing much slower than All-India growth rate. During the period 1993-94 to 2003-04, the service sector trend growth in MP was 5.5 per cent as against the national growth 6.8 per cent. Lack of physical infrastructure is one of main reasons for low level as well as sluggish growth of service sector in the State. During the year 2003-04, railways, other transport, storage, communications, trade, hotels and restaurants contributed 17.97 per cent of the GSDP as against the national average of 25.55 per cent. Similarly, banking, insurance and real estate contributed 10.35 per cent of the GSDP as against the national average of 12.84 per cent. Thus, it is imperative that the level and quality of physical infrastructure has to be improved.

Figure 1.3

Comparative Growth of Service sector



2.6 The level of development of a State is generally measured in terms of per capita income. As compared to national average of Rs. 11,799, the per capita income (Net Domestic Product) of MP, Rs. 8284 is much lower in the year 2003-04. Another disturbing feature is that even the annual average compound growth rate during 1993-94 and 2003-04 is lower than the national average thus accentuating the unequal levels of development. However, MP has performed better compared to the other comparable States like UP, Bihar and Orissa with the exception of Rajasthan.

Table 1.3

Per Capita Income of Major States

(Figures in Rs)

State	1993-94	2003-2004	Growth Rate
Andhra Pradesh	7416	11333	4.33
Bihar	3037	3557	1.59
Jharkhand	5897	8247	3.41
Gujarat	9796	16779	5.53
Haryana	11079	15721	3.56
Himachal Pradesh	7870	12302	4.57
Karnataka	7838	13141	5.30
Kerala	7983	12328	4.44
Madhya Pradesh	**6584**	**8284**	**2.32**
Chattisgarh	6539	8383	2.52
Maharashtra	12183	16479	3.07
Orissa	4896	6487	2.85
Punjab	12710	15800	2.20
Rajasthan	6182	9685	4.59
Tamil Nadu	8955	12976	3.78
Uttar Pradesh	5066	5702	1.19
West Bengal	6756	11612	5.57
All-India	**7690**	**11799**	**4.37**

Growth is calculated as annual average compound rate
Source: CSO. Government of India.

3. Overview of State Government Finances

Receipts

3.1 The fiscal base and fiscal health of a State are directly related to the development of the State. Public investments in the infrastructure would expand the productive capacity of the economy and thus expand the revenue generating potential of the state. The fiscal base is determined by the size of the economy, which can be expanded in the long run. Thus, in the medium term, the fiscal health of the State has to be improved so that the Government can increase the development expenditure to expand the economic base.

3.2 The total receipts of the Government constitute the Consolidated Fund of the State and balances from the Public Account. The Consolidated Fund of the State comprises of revenue receipts, public debt and recovery of loans. The proportion of revenue receipts in the total receipts during 2001-02 and 2004-05 has been varying between 64.66 per cent and 78.56 per cent (Table 1.4). This is mainly due to variations in the public debt and public account. During the year 2003-04, about Rs.2750 crore bonds were raised to repay the Madhya Pradesh State Electricity Board (MPSEB) liabilities to Central Public Sector Undertakings under Monteksingh Ahluwalia agreement and the same was given to MPSEB as a grant. However, MPSEB returned the grant toward the end of the financial year due to accounting problems. The returned grant has been shown as non-tax receipt during the year 2004-05 and thus the revenue receipts during this year shown a big jump.

Table 1.4
Total Receipts of the State Government

(Rs. in crore)

Year	Revenue Receipts (RR)	Public Debt	Recovery of loans	Consolidated Fund (C F)	Net Public Account	Total	RR as % of CF	R R as % of Total
2001-02	11200.98	2759.32	1590.61	15550.91	1770.66	17321.57	72.03	64.66
2002-03	13390.40	3455.68	42.71	16888.79	155.40	17044.19	79.29	78.56
2003-04	14288.96	7663.35	35.84	21988.15	-124.24	21863.91	64.98	65.35
2004-05	19743.25	5457.62	53.20	25254.07	993.72	26247.79	78.18	75.22

3.3 Revenue receipts comprise of State's own revenue receipts and Central devolutions. The Central tax devolutions are determined by the Finance Commission award. The Twelfth Finance Commission (TFC) awarded 6.711 per cent of sharable tax excluding service tax and 6.799 per cent of the sharable service tax to MP as against the Eleventh Finance Commission award of 6.543 per cent and 6.535 per cent respectively. Higher the proportion of Central devolutions in the total receipts greater the dependency of the State on the Centre and thus any decrease in the revenue receipts of the Centre would adversely affect the development activities of the State. During the period of Eleventh Finance Commission, the State got Rs. 4950 crore less than the projected devolutions of the Commission. Nearly 40-45 per cent of the revenue receipts come from the Centre (Table 1.5). Thus, the fiscal stability of the State is vulnerable to the Central transfers. While evaluating the fiscal performance of the State it is necessary to exclude any shortfall in the Central tax devolutions in relation to the projected devolutions of the TFC and the Budget Estimates of the Centre. A specific provision to this effect has been included under the clause 9(1) of the Madhya Pradesh Rajkoshiya Uttardayitva Avam Budget Prabhandhan Adhiniyam, 2005.

Table 1.5
Composition of the Revenue Receipts

(Rs. in Crore)

Year	State Own Revenue Receipts (S O R R)			Central Devolutions			Proportion of S O R R in the Total Revenues
	Tax	Growth Rate (%)	Non-tax	Tax	Growth Rate (%)	Grants	
2001-02	4668.88		1601.68	3439.30		1491.12	55.98
2002-03	6189.48	32.57	1635.48	3703.81	07.69	1861.63	58.44
2003-04	6805.10	09.95	1479.82	4230.90	14.23	1773.14	57.98
2004-05	7769.91	14.18	4461.86	5079.74	20.06	2431.74	61.95

State's Own Tax Revenues:

3.4 The tax revenues of the state have shown good buoyancy during the last three years. It grew at an annual average compound growth rate of 19 per cent. The TFC has projected State tax revenues to grow at 14.4 per cent for the period 2005-06 to 2009-10. The elasticity of state tax revenue with respect to GSDP with one-year lag is 1.32 during 1993-94 to 2004-05. It implies a growth of ten percent of GSDP would result in 13.2 per cent growth in tax revenues.

Table 1.6
Twelfth Finance Commission Projections

(Rs.in Crore)

Year	State own Tax Revenue (in Rs.)	Growth rate (%)	Non-tax Revenue (in Rs.)	Growth rate (%)
2005-06	9034.17		2136.67	
2006-07	10335.09	14.40	2374.97	11.15
2007-08	11823.34	14.40	2645.92	11.41
2008-09	13525.90	14.40	2956.56	11.74
2009-10	15473.63	14.40	3315.51	12.14
Total	60192.13		13429.63	

3.5 The State's own tax revenues have been growing at a healthy rate as seen in the Table 1.7 below. If the State can keep up this trend, the fiscal restructuring programme would be easier. A surplus on the revenue account should facilitate greater productive public investment, which would put the state economy on the high growth path. The State has deferred the implementation of VAT in the year 2005-06 pending resolution of certain issues by the Empowered Committee. The abolition of CST (Central Sales Tax) is also a bone of contention between the State and the Centre. The delay in implementation of VAT is leading to loss of revenue as VAT captures the Central Excise leakages.

Table 1.7
Growth of State's Tax revenues

(Rs. in crore)

Own Tax Revenues	2001-02	2002-03	2003-04	2004-05	Growth Rate (%)
Professional Tax	178.75	193.13	188.79	149.86	-5.71
Land Revenue	48.21	40.44	43.63	46.79	-0.99
Stamps & Registration	444.96	535.05	614.49	788.71	21.02
State Excise	704.68	890.32	1085.89	1192.36	19.16
Commercial Tax	2360.74	2906.21	3293.26	3912.00	18.34
M V Tax	393.33	428.64	454.92	488.65	7.50
Entry Tax	262.40	351.20	390.99	468.07	21.28
Electricity Duty	268.19	801.26	697.06	707.18	38.15
Other Tax	7.62	43.23	36.07	16.29	28.82
Own Tax Revenues	4668.88	6189.48	6805.10	7769.91	18.50

Note: Growth is annual average compound growth rate

3.6 Among the State tax revenues, Commercial tax is the highest earner at 50.23 per cent of the total. Commercial taxes have grown steadily in the last four years from 2001-02 to 2004-05 (Accounts) at a trend growth rate of 18.34 per cent.

Entry Tax, which is linked to Commercial Tax, also grew at a steady rate of 21.02 per cent. Stamps and Registration has shown growth of 28.35 per cent for the year 2004-05. Electricity Duty increased by Rs. 533.07 crore from 2001-02 to 2002-03 mainly due to the receipt arrears of Electricity Duty. The reduction in professional tax in the year 2004-05 has been due to the increasing of exemption limit to Rs. 75000 per annum. Tax buoyancy observed in the commercial sectors of the State has not been replicated in the Transport sector because of which Motor Vehicle Tax has grown only at 7.50 per cent. This is an untapped area and has potential for future growth.

State's Non-Tax Revenues

3.7 Non-tax revenues of the State have shown volatility (Table 1.8) and are an area of concern. There was negative growth observed in the year 2003-04. Non-Tax Revenue Receipts of 2004-05 include Rs 2749.36 crore of earlier grant returned back by MPSEB. If this is discounted, the trend growth rate is abysmal at 0.81 per cent. Revenues from mining have grown steadily. Forest revenues have shown a steady growth mainly due to the sale of timber arising out of the felling of trees in submergence areas. As all major irrigation projects are nearing completion, this trend is unlikely to continue. The receipts from irrigation have shown a marginal growth and do not cover the maintenance charges.

Table 1.8

Composition of State's Non Tax Revenues

(Rs. in Crore)

Non Tax Revenue	2001-02	2002-03	2003-04	2004-05
Forest	306.45	497.30	496.75	559.11
Irrigation	39.15	35.22	45.02	45.23
Mining	528.39	590.69	646.71	733.72
Other NTR	727.69	512.27	291.34	3123.80
Non Tax Revenue	1601.68	1635.48	1479.82	4461.86

3.8 As mentioned above, the growth of non-tax revenues is an area of concern. The Finance Commission has prescribed non-tax revenues to grow at 11 per cent per annum. This is a tall order given the present level of growth. Non-tax revenues cannot possibly grow at 11-12 per cent as the major proportion of the non-tax revenues is from forestry and mining, which are exogenous to State policy. It would be far more reasonable to assume that the State would be able to achieve a growth rate of 5 per cent.

3.9 The State Government has been pleading with the Government of India to compensate for conservation and maintenance of the forest cover above national average. The mid-term appraisal of the Tenth Plan by the Planning Commission emphasized the need to examine the compensation issue seriously. The State Government has to pursue this matter till it succeeds. The environmental conservation as a special problem for certain category of states having above national average forest cover and the compensation to be paid to these states has not been addressed so far. However, the judgement dated 22-9-2000 and 22-9-

2005 of the Hon'ble Supreme Court (WP No. 202/1995) regarding compensation to States having above national average forest cover is a significant step towards maintaining the ecological balance and the costs thereof. The extent of forest cover in a State and the cost of maintenance of the same must be compensated. Madhya Pradesh is the second largest state in the country. Of the 3,08,245 sq. kms geographical area of the state, 94,689 sq. kms (30.7 per cent) is the forest area as against national average of 23.57 per cent. The State harbours 12.4 per cent of the country's forest area, which is the highest amongst the States.

3.10 States like Madhya Pradesh are required to retain a large area under forests and also bear the cost of maintenance of this forest cover. There is however no return on such investment as "conservation" and not the "exploitation" is the objective as well as legal imperative. The people of the country share the benefits. An equitable arrangement would be to calculate the cost of forest assets by capitalising the stock, attributing it a value and making incremental return available to the state as a rate of return. For calculating the capital cost of stock, the recent judgment of Hon'ble Supreme Court (WP No 202/1995) suggestion of a Net Present Value (NPV) of Rs 5.80 to 9.20 lakh per hectare of forest land could be taken. MP has 22,036 sq.km of forest in excess of all India average. In Madhya Pradesh about 11,000 sq.km area under revenue Department has been classified as ' Chotte Bade Jhad Ka Jungle' and as per the directions of the Hon'ble Supreme Court this land cannot be used for any developmental activity without obtaining prior concurrence of the Government of India. Thus, in actual sense the forest area over above national average is 33,036 sq.km. Assuming Rs.5.8 lakh NPV per hectare, the excess forest would be equal to Rs. 1,91,608 crore of capital stock. This capital stock would yield an annual return of Rs. 5748 crore at 3 per cent rate of interest.

3.11 A similar situation exists in case of mining also, which is another main source of non-tax revenue. In the increasingly market-driven economy that India has moved into, the presence of mineral resources like coal ought to have been a major growth engine for these States. It is an ironic situation that coal-bearing States figure among the poorer States of India. This is on account of the restrictive legal and policy framework that prevails in this sector. Governments of coal-bearing States have been questioning the current regime of royalty and pleading for an *ad valorem* based dispensation. Both the Planning Commission and also Finance Commission have supported these demands for enhanced compensation. However the administrative Ministry and Central Public Sector Undertakings have always been able to thwart a final decision in favour of *ad valorem* on the ground that consumer interests will be compromised.

3.12 During the year 1991-92, when the Government of India revised the coal royalty based on tonnage, the quantum of royalty fixed on *ad valorem* basis works out to 23.40 per cent of the coal price. As the price of coal has been increasing and the royalty continues to be paid on tonnage, the amount of royalty as a proportion of its price has steadily been decreasing. Had the GOI fixed the rate of royalty on *ad valorem* basis since then, the State of Madhya Pradesh would have got Rs. 8269 crore more from royalty on coal (assuming the rate of royalty at 25 per cent of sale price since the year 1991 -92.)

3.13 In the absence coal of royalties on *ad valorem* basis, a tax on mineral bearing land has been imposed for the development of roads, education, and health in the backward areas and mining areas. To this effect Madhya Pradesh Gramin Adhovdsanrachna Tatha Sadak Vikas Adhiniyam, 2005 has been enacted. An amount of Rs.50 crore of revenue is estimated during 2005-06. In case of Orissa, which has also enacted a similar legislation, the Hon'ble High Court has struck down the provision and the matter is now before the Hon'ble Supreme Court. Thus, there is an uncertainty regarding regulation of this Cess. The State has to relentlessly pursue the case of coal royalty on *ad valorem* basis.

Receipts from Irrigation

The Twelfth Finance Commission observed that the receipts from irrigation are very low across the country. Without higher rates of cost recovery, the maintenance of irrigation network would suffer seriously. Accordingly, in the assessment of irrigation receipts, cost recovery rates of 50 per cent in 2005-06, 60 per cent in 2006-07, 70 per cent in 2007- 08, 80 per cent in 2008-09 and 90 per cent in 2009-10 have been prescribed in relation to the maintenance expenditure on utilised potential projected for the major, medium and minor irrigation projects. In Madhya Pradesh, the percentage of irrigation receipts as proportion of maintenance expenditure is 30 per cent.

3.14 Growth in non-tax revenues is linked to user charges in areas such as Irrigation, Higher Education, Technical Education, Water Supply, etc. Moreover, better collection of such user charges by local bodies and autonomous institution would ease the pressure on subsidies from the State Budget. Generally, user charges are one of the important resources of non-tax revenues. Equity and ability to pay should be the guiding principles in fixing the user charges. Now that the price fixation of the electricity is taken care by the State Electricity Regulatory Authority, the State Government should periodically review the other user charges. Similarly there are many like license fees, application fees and others charges, which were fixed ages back but never revised. A fresh look at these would yield additional revenues.

Expenditure

3.15 Public expenditure is an instrument through which the Government provides social and physical infrastructure for the development of State. Thus, the size, composition and productivity of public expenditure are important parameters to assess the effectiveness of public expenditure in accelerating growth impulses of the economy. The basic categorization of public expenditure is plan and non-plan. It is generally surmised that the plan expenditure propels growth of economy. Though the distinction of plan and non-plan has been questioned in many quarters, the sanctity is still maintained. There is a need to review the plan schemes periodically to assess their effectiveness. At the end of every Five-year Plan, the revenue expenditure of the completed plan schemes should normally be transferred to non-plan. During the year 2005-06 Rs. 345 crore of plan expenditure has been shifted to non-plan in respect of education, health, roads and buildings.

An exercise will be taken up with the Departments for the forthcoming Eleventh Five-Year Plan.

3.16 Plan expenditure has grown at an annual compound growth rate of 16.02 per cent (Table 1.9). The decline in plan expenditure during the year 2003-04 was mainly due to the reduction in revenue expenditure from the previous year (2002-03) where power subsidy was classified under plan. It should be kept in mind that the plan expenditure is to initiate a development activity and non-plan expenditure is to maintain that activity. Keeping this basic distinction in mind it is necessary to arrive at an appropriate composition of plan and non-plan expenditure.

Table 1.9
Plan and Non-plan Expenditure

(Rs. in crore)

Year	Plan	Growth (%)	Non-plan	Growth (%)	%of plan to total Exp
2001-02	4311.35		12126.65		26.23
2002-03	6433.20	49.22	11062.20	-8.78	36.77
2003-04	5684.73	-11.63	15962.99	44.30	26.26
2004-05	7269.38	27.88	19018.84	19.14	27.65
Compound growth Rate		19.02		16.18	

3.17 A more appropriate classification of the public expenditure is capital and revenue expenditure. The level of capital expenditure indicates the level of public investment, which not only creates public assets but also accelerates private investment. As the State Government face hard budget constraints, it is important to reduce the revenue expenditure and increase the capital expenditure. The plan capital expenditure, which does not include any MPSEB liabilities, grew by 34 per cent during 2003-04 and 2004-05(RE).

3.18 Non-Plan Revenue Expenditure is the area where State Government is focusing its attention to find ways of controlling it. Salaries, Pensions, interest payments and subsidies are the broad categories under which revenue expenditure can be classified for analysis (Table 1.10). During the year 2004-05 non-plan salaries formed 36 per cent of Non Plan Revenue Expenditure and have been growing at 8.57 per cent. Expenditure on salaries has been contained mainly due to a ban on recruitment and lower level of dearness allowance as compared with the Central Government. It should be mentioned here, the salaries of teachers, doctors and para-medical staff is also classified as revenue expenditure. However, looking from development perspective, this expenditure cannot be treated as unproductive. Pensions have grown at a steady rate of 9.58 per cent despite lower dearness relief. This is mainly because of high attrition rate and increasing life expectancy. Interest payments have also grown at a steady rate of 17.56 per cent but interest as a percentage of Total Revenue Receipts has slowed down mainly due to debt swap. Energy subsidy has seen a major jump in the year 2003-04 mainly due to the one-time grant of Rs 2749.36 crore given to MPSEB for payment of dues to Central PSUs. The State Government has also paid Rs 500 crore in 2004-05 towards waiving of power bills in the agriculture sector for the period of 1st January 2001 to 31st December 2003. The high levels of power subsidies clearly need to be brought down to sustainable levels.

Table 1.10

Composition of Non-Plan Revenue Expenditure

(Rs. in crore)

	2001-02	2002-03	2003-04	2004-05	Growth Rate %
1	2	3	4	5	6
Non Plan Revenue Expenditure	11852.71	11039.50	15944.58	14861.20	7.83
Salaries	4180.58	4561.81	4423.12	5349.79	8.57
Pension	1010.76	1082.67	1197.26	1329.89	9.58
Interest	2253.67	2502.31	3206.50	3661.14	17.56
Subsidies of which	2775.47	1386.85	4982.91	2840.03	0.77
-Energy	1999.06	70.00	3662.29	1424.55	-10.68
-Urban Administration	389.49	437.20	636.29	737.15	23.70
-Other Subsidies	746.34	1204.95	1226.52	1336.00	21.42
Others	1632.23	1505.86	2134.79	1680.35	0.97

Note: Growth is annual average compound growth rate

3.19 Subsidies to urban bodies need to be contained with a reward scheme, linking grant with collection efficiency. As per the information provided by the TFC, the ratio of tax revenue to the total revenues of the urban local bodies in the State was 37 per cent in the year 1998-99 as compared to the national average of 41 per cent. This ratio has slightly improved to reach 38 per cent by the year 2002-03 but is still below the national average. In case of rural local bodies, the State of MP has assigned wide taxation powers to them and thus the ratio of tax revenue to the total revenues in the year 2002-03 was 32 per cent which is much higher than the national average. The recommendation of the TFC with regard to local bodies should be taken into consideration in formulating policies of resource distribution and resource generation of local bodies.

Public Debt

3.20 Increasing public debt raises not only the question of sustainability, but also inter-generational equity. As on 31st March 2006, the gross public debt of the State is estimated to be Rs. 47128.53 crore, which comes to 41.57 per cent of the GSDP. The composition of the gross public debt is shown in the Table 1.11 below.

Table 1.11
Composition of Public Debt

(Rs. in Crores)

Source/ Year	As on 31st March, 2005 (Acc)	% to total	As on 31st March. 2005 (RE)	% to total	As on 31st March. 2006 (BE)	% to total
Market Borrowing	7848.46	22.64	9321.16	22.54	10111.57	21.46
Centre	9208.75	26.56	9292.80	22.47	11009.09	23.36
Financial Institutions	4389.86	12.66	6165.56	14.91	6645.12	14.10
Small Savings	6363.57	18.35	9133.57	22.08	11797.12	25.03
Others	6861.33	19.79	7446.38	18.00	7565.63	16.05
Total	34671.97	100.00	41359.50	100.00	47128.53	100.00

3.21 The TFC has recommended that central loans contracted till 31.3.04 and outstanding on 31.03.05 will be consolidated and rescheduled for a fresh term of 20 years resulting in repayments in 20 equal installments at an interest rate of 7.5 per cent. Central government loans outstanding on March 31, 2005 stood at Rs. 9292.80 crore. This is about 22.47 per cent of the total stock of state debt and this also happens to be among the costliest sources of debt. The average interest rate on the central loan outstanding on 31.3.2005 works out at 11.8 per cent. Lowering of average interest rate to 7.5 per cent should provide significant relief to Madhya Pradesh. In the debt consolidation exercise, the Finance Commission has not taken into account the fresh loans to be granted by the Centre in the year 2004-05, as state-wise details of such loans were not available. The Central Government has, however, lowered the rate of interest on loans to states from 10.5 per cent to 9 per cent in 2004-05. This general debt relief comprising consolidation, rescheduling and lowering of interest rate to 7.5 per cent shall be available to all States with effect from the year they enact the fiscal responsibility legislation. A sum of Rs 7256 crore has been rescheduled for Madhya Pradesh under this scheme. The total savings on account of debt repayment and interest payment are estimated at Rs 1927.60 crore over a period of five years.

3.22 Based on the recommendations of the TFC, the Ministry of Finance, Government of India formulated a Scheme of States' Debt Consolidation & Relief Facility (DCRF)- 2005-06 to 2009-10. The State of Madhya Pradesh has enacted the Fiscal Responsibility legislation in the month of August 2005 and it came into force with effect from 1st January 2006 . The main features of the MP Rajkoshiya Uttardayitva Avam Budget Prabandhan Adhiniyam 2005, (henceforth called Act), inter alia, are

- Eliminating revenue deficit by 2008-09
- Reducing fiscal deficit to 3 per cent of GSDP by 2008-09
- Bringing out annual reduction targets of revenue and fiscal deficits through Medium Term Fiscal Policy (MTFP) to be laid before the legislature
- Bringing out annual statement giving prospects for the State's economy and related fiscal strategy

- Bringing out special reports along with the budget giving details of number of employees in government, public sector and aided institutions and related salaries.

3.23 In order to achieve the targets set out by the Act, a fiscal correction path has been drawn up. Given the federal fiscal structure, the fiscal correction path can be achieved by a joint effort of both Centre and the State.

3.24 The Act prescribes a revenue surplus by the year 2008-09. However, the fiscal deficit condition set by the DCRF to bring down fiscal deficit as proportion of GSDP to 3 per cent by 2008-09 imposes a sever constraint in increasing the capital expenditure. From a developmental perspective, States should have been allowed a time lag between achieving the revenue surplus and achieving the target of bringing the fiscal deficit down to 3 per cent of the GSDP. The State Government following the DCRF directions has incorporated the fiscal deficit condition in the Act. It must be emphasized here that the task of increasing the capital expenditure and reducing the fiscal deficit is walking on a tight rope for the State Government.

Debt Swap

3.25 The average cost of debt for Madhya Pradesh will reduce from 8.93 percent in the year 2004-05 to 8.07 percent in the year 2005-06. On account of lowering of interest on Central loans, low interest regime in the economy and various measures of debt swap undertaken. An amount of Rs. 587.55 crore at 14.5 per cent of the GOI loan was swapped in 2002 – 03. In the year 2003 – 04 an amount of Rs. 1507.17 crore was swapped from the range of 13.00 per cent to 14.5 per cent. Similarly, Rs. 732 crore. of NABARD loan was also swapped in 2004-05. The interest relief due to Debt–Swap in these three years is about Rs. 225 crore. This relief would gradually taper off depending on the repayment

The Debt write-off Scheme

3.26 In addition to providing general debt relief by consolidating and rescheduling at substantially reduced rates of interest the central loans granted to States before 31.3.04 and outstanding as on 31.3.05, the DCRF provides for a scheme of debt write-off based on fiscal performance. It is linked to the reduction of revenue deficit of States. Under the scheme, the repayments due on central loans from 2005-06 to 2009-10 after consolidation and rescheduling will be eligible for write-off. The quantum of write-off of repayment will be linked to the absolute amount by which the revenue deficit is reduced in each successive year during our award period. In effect, if the revenue deficit is brought down to zero, the entire repayments during the period will be written-off. The scheme of write-off shall be available for all states from the year they have qualified for the general debt relief by enacting the fiscal responsibility legislation.

3.27 Looking at the necessity of containing the fiscal deficit, the TFC further recommended that the benefit of write-off would be available only if the fiscal deficit of the state is contained to the level of 2004-05. If, in any year, the fiscal deficit exceeds this level, the benefit of write-off, even if eligible otherwise, would not be given. Madhya Pradesh would get a benefit of debt write off of Rs 1815 crore over the coming five years if the State achieves the fiscal targets.

3.28 The Finance Commission had suggested certain fiscal measures that are important not only to get the debt relief benefits but also essential to accelerate the development process. Given the fact that all the plan borrowings have to be raised from the market, these fiscal measures assume greater significance. It would not be possible for the State to raise borrowing from the market in the absence of fiscal reforms. The MP Rajkoshiya Uttardayitva Avam Budget Prabandhan Adhiniyam 2005 would bind the Government to the fiscal measures it has announced. The following fiscal measures, suggested by the Finance Commission would be useful while formulating the medium term fiscal policy.

(i) The State own tax revenues should be 6.8 per cent of the GSDP. During the year 2004-05 the State own tax revenues as a percentage of GSDP were 7.54 per cent and the ratio has to be improved to have increased capital investment.

(ii) The non-tax revenues are assumed to grow at 11 per cent per annum, which is of tall order given the constraints outlined earlier in this statement. This is very reason that tax revenues have to grow at a higher level than prescribed by the Finance Commission.

(iii) The State's total revenue receipts as percentage of GSDP have to reach 13.2 per cent by the year 2009-10. During year 2004-05, this ratio was 11.10 per cent. In order to achieve this target it is necessary to improve the non-tax revenues. The recent legislation levying Cess on mining land is a move in this direction. However, the pending decision on coal royalty at *ad valorem* is really critical for the State. It is also necessary to review the user-charges periodically to ensure that reasonable economic returns are ensured on the capital invested.

(iv) The interest payments relative to total revenue receipts should reach 15 per cent. During year 2004-05, this ratio was above 17 per cent. The interest payments depend on the debt stock, debt portfolio and rate of interest.

4. **Prospects**

4.1 The economy of MP is highly vulnerable to vagaries of weather. During the year 2003-04 the GSDP at nominal prices grew at 20.34 per cent. This phenomenal growth is mainly due to the low base in the year 2002-03, which was a drought year. The GSDP (quick estimates) for the year 2004-05 of Madhya Pradesh at current prices was Rs. 1,03,056.74 crore. The GSDP has grown at 5.03 per cent nominal terms. Agriculture registered a negative growth of 0.60 per cent, industry of 10.13 per cent and services of 7.27 per cent at nominal prices. Though the year 2004-05 was not a drought year, the distribution of rainfall across time and regions did adversely affect agricultural production. However, agriculture appears to have recovered during 2005-06 and the production of commercial crops has increased as per the latest available information. The increased public investments in irrigation are expected to make agriculture more stable. During the year 2004-05 the plan outlay for irrigation was Rs. 1652 crore and was increased to Rs. 1758 crore during the year 2005-06 and the budget estimates for the year 2006-07 provide Rs. 1910 crore. During first three years of the Tenth Five-Year Plan 3.40 lakh hectares of additional irrigational potential was created and during 2005-06 1.38 lakh hectares of irrigational potential would be created. The plan capital outlay was Rs. 2672.65 crore during the year 2003-04 and increased to Rs. 4491.27 crore during 2005-06. The improved physical infrastructure and the changes in the investment climate would bring the economy to normal growth path. During the year 2005-06, there are many private investment proposals in the industrial and service sector.

4.2 As against the estimated own tax revenues of Rs. 7797.20 crore for the year 2004-05, the State collected Rs. 72/18/2006 2:36:26 PM769.91 crore, thus fulfilling the target by 99.65 per cent. Similarly, the revised estimates for the year 2005-06, the targets of own tax revenues set in the budget would be realised. Thus, it is reasonable to assume that the revenue targets set for the year 2006-07 would be met.

B. Trends in Select Fiscal Indicators

(Rs in crore)

S.No.	Fiscal Indicators	Previous Year	Current Year	Ensuing Year	% change in Current Year over Previous Year	% change in Ensuing Year over Current Year
		2004-05 A/C	2005-06 R.E	2006-07 B.E.		
	(1)	(2)	(3)	(4)	(5)	(6)
1	Revenue Receipts (2 +3+4)	19743.25	21344.41	23480.19	8.11	10.01
2	Tax Revenue (2.1+2.2)	12849.65	15310.67	17044.63	19.15	11.33
2.1	State Tax	7769.91	8933.34	10029.46	14.97	12.27
2.2	Share in Central Taxes	5079.74	6377.33	7015.17	25.54	10.00
3	Non-Tax Revenue	4461.86	2239.16	2059.08	-49.82	-8.04
4	Grant-in-aid from Central Govt.	2431.74	3794.58	4376.48	56.04	15.34
5	Capital Receipts (6+7+8)	6504.54	7271.34	5137.52	11.79	-29.35
6	Recovery of loans and advances	53.20	2796.04	43.69	5155.71	-98.44
7	Net public debt	5457.62	4565.69	5169.58	-16.34	13.23
8	Net Receipts from Public Account	993.72	-90.39	-75.75	-109.10	-16.20
9	Total Receipts (1+5)	26247.79	28615.75	28617.71	9.02	0.01
10	Revenue Expenditure (10.1+10.2)	18026.38	21369.90	22509.97	18.55	5.33
10.1	Non-Plan Revenue Expenditure	14861.20	16563.71	17347.08	11.46	4.73
10.2	Plan Revenue Expenditure	3165.18	4806.19	5162.89	51.85	7.42

S.No.	Fiscal Indicators	Previous Year 2004-05 A/C	Current Year 2005-06 R.E	Ensuing Year 2006-07 B.E.	% change in Current Year over Previous Year	% change in Ensuing Year over Current Year
	(1)	(2)	(3)	(4)	(5)	(6)
10.3	Revenue Expenditure *Of which:*					
10.3.1	Interest payments	3661.14	3685.97	4145.03	0.68	12.45
10.3.2	Subsidies	4676.65	6731.72	6063.78	43.94	-9.92
10.3.3	Wages & Salaries	6090.16	6376.01	7040.42	4.69	10.42
10.3.4	Pension Payments	1329.89	1548.07	1766.37	16.41	14.10
11	Capital Expenditure (11.1+11.2)	4950.98	6852.95	5168.54	38.42	-24.58
11.1	Non-Plan Capital Expenditure	1382.99	2361.68	383.46	70.77	-83.76
11.2	Plan Capital Expenditure	3567.99	4491.27	4785.08	25.88	6.54
12	Loans and advances (12.1+12.2)	3310.86	686.50	719.04	-79.27	4.74
12.1	Non Plan Loans and advances	2774.65	378.44	269.27	-86.36	-28.85
12.2	Plan Loans and advances	536.21	308.06	449.77	-42.55	46.00
13	Total Expenditure	26288.22	28909.35	28397.55	9.97	-1.77
13.1	Non Plan Expenditure (10.1+11.1+12.1)	19018.84	19303.83	17999.81	1.50	-6.76
13.2	Plan Expenditure (10.2+11.2+12.2)	7269.38	9605.52	10397.74	32.14	8.25
14	Revenue Deficit (1-10)	1716.87	-25.49	970.22	-101.48	-3906.28
15	Fiscal Deficit (1+6-13)	-6491.77	-4768.90	-4873.67	-26.54	2.20
16	Primary Deficit [1+6-(13-10.3.1)]	-2830.63	-1082.93	-728.64	-61.74	-32.72

Form F-2

[see Rule 4]

MEDIUM TERM FISCAL POLICY STATEMENT

A. Fiscal Indicators - Rolling Targets

Fiscal Indicators	Accounts 2004-05	Revised Estimates (RE) 2005-06	Budget Estimates (BE) 2006-07	Targets for next Three Years		
				2007-08	2008-09	2009-10
(1)	(2)	(4)	(5)	(6)	(7)	(8)
1. Revenue Deficit as percentage of GSDP	1.67*	-0.02	0.77	1.06	1.36	1.69
2. Fiscal Deficit as percentage of GSDP	-6.30	-4.21	-3.87	-3.44	-3.00	-2.54
3. Total outstanding Liabilities as percentage of GSDP	50.09	52.35	52.19	50.96	49.43	47.59

* There was revenue surplus of Rs. 1716.87 crore during the year 2004-05. This was mainly due to the grant of Rs. 2749.36 crore returned by the MPSEB to the State Government. This has increased the non-tax revenue receipts. Without taking this transfer into account the revenue deficit would be Rs. 1032.49 crore.

B. Assumptions underlying the Fiscal Indicators

(1) Revenue receipts: Revenue receipts comprise tax revenue and non-tax revenue. A part of both tax and non-tax revenue come from the Centre.

a) **Tax-revenue** - Tax revenue consists of state own tax revenue and Central tax devolutions. The Central tax devolutions for the year 2005-06 are taken from the budget estimate of the Union Government. For later years, the Twelfth Finance Commission projections have been taken. For the ensuing year the tax devolutions have been calculated on the basis of a 10 per cent increase over the current year 2005-06. The State's own tax revenues, Rs. 10029.46 crore for the year 2006-07(BE) are based on the assessment of the respective tax collecting Departments. For later years, it is assumed to grow at 13.5 per cent from the budget estimates of 2006-07.

b) **Non-Tax Revenue** - Non-tax revenue comprises of state own non- tax revenue and plan and non-plan grants from Centre. The state own-non-tax revenues for the year 2006-07 (BE) are estimated Rs. 2059.08 crore, based on departmental projections and are assumed to grow at 5 per cent from the base year of 2006-07. The plan grants are assumed to grow at 10 per cent from the base year of 2006-07. The non-plan grants, include the specific TFC grants as given in the report.

c) **Devolutions to Local Bodies** - These include TFC grants to local bodies and the grants recommended by the Second State Finance Commission. The Third State Finance Commission has recently been constituted and the recommendations are awaited.

d) **Share of own tax revenues to total revenue receipts** – The share of own tax revenues to the total revenue receipts is 41.85 per cent in the year 2005-06 (RE) and is expected to reach 44.09 per cent by 2009-10.

e) **Share of own non-tax revenues to total revenue receipts** – The share of own non-tax revenues to the total revenue receipts is 10.49 per cent in the year 2005-06 (RE) and is expected to be 7.17 per cent by 2009-10. This proportion is going down as tax revenues are growing at a higher rate than in non-tax revenues.

(2) Capital receipts - The gross debt is derived keeping in view the fiscal targets to be achieved by year 2008-09 as envisaged in the Madhya Pradesh Rajkoshiya Uttardayitva Avam Budget Prabandhan Adhiniyam, 2005. As the State would be fulfilling the conditions of the Debt Consolidation and Relief Facility (DCRF) scheme, the benefits of debt consolidation and debt write-off are taken into consideration. All due repayments during this period have been accounted for. The portfolio of the fresh loans is to be worked out on a yearly basis depending on the availability from different sources and rate of interest.

a) **Loans and advances from the Centre** – Based on the recommendations of the TFC, the Government of India has stopped giving plan loans, except in case of on-going externally aided projects (EAP), to the State from the year 2005-06 and thus, for the later years the loans and advances from the Centre include only loans for on-going EAP.

b) Special securities issued to the NSSF – At present NSSF is the most expensive source of financing and at the same time it is an important source of plan financing. Depending on the availability of funds from other sources NSSF would be cautiously used.

c) Recovery of loans and advances - As per the RE of the year 2005-06, Rs. 3756.55 crore of loans and advances are outstanding. The recovery of remaining loans and advances are projected to grow at 25 per cent average annual growth rate from the budget estimates of the year 2006-07.

d) **Borrowings from financial institutions –** The borrowings from other institutions like NABARD, HUDCO, LIC are project based and are part of the overall borrowing programme. Since, NABARD assistance is a relatively low cost resource, the State would try to maximise the utilisation of these funds.

This is a source of borrowing from public account outside the Consolidated Fund of the State. This is to be used as a gap-filling instrument. Whenever there is gap between availability of borrowing from other sources and the need for capital outlay within the fiscal deficit parameters, loans from public account are to be used. However, for the years 2007-08 onwards, these receipts are assumed to be zero.

f) **Outstanding Liabilities - Internal Debt and Other Liabilities –** As per the RE of the year 2005-06 the gross debt at the end of March 2006 is Rs. 45,652.71 crore and estimated to be Rs 50887.29 crore at the end of March 2007. The gross debt would be increasing at an average growth rate of 7.5 per cent per annum. The total State Government guarantees at end of the year 2005-06 are Rs. 13692 crore and are assume to grow at 8 per cent. It would be ensured that these guarantees are within the limits imposed by the Act.

(3) **Total expenditure -** The total expenditure is classified into revenue and capital account. The revenue account consists of plan and non-plan expenditure. Plan Revenue Expenditure for the year 2007-08 onwards is projected at a growth rate of 10 per cent. Non-Plan Revenue Expenditure includes TFC non-plan revenue expenditure grants and is projected at a growth rate of 9 per cent. These projections include interest relief under DCRF scheme.

(a) **Revenue account** : The revenue account mainly consists of salaries, pensions, interest payments and subsidies.

I. Interest payments : For the year 2006-07, an average cost of borrowing is estimated to be 8.64 per cent and the same has been used for projections.

II. Major subsidies : The growth rate assumed on General Subsidies is 10 per cent. Power Subsidies in 2005-06 include a one-time payment of Rs 1320 crore. Hence the power subsidy for 2006-07 is lower. For later year, the power subsidy would be rationalised and subsumed in the other subsidies.

III. Salaries : Salaries are projected at 7.5 per cent from the years 2007-08 onwards.

IV. Pensions : Pensions are projected at 9.66 per cent growth rate from the years 2007-08 onwards.

(b) **Capital account :**

I. Loans and advances: Loans and advances are assumed to grow at 6 per cent annually.

II. Capital Outlay: Capital Expenditure would be growing at an average annual rate of 8 per cent.

(4) GSDP Growth – As mentioned earlier, GSDP is an important economic variable in state finances. It determines the taxable capacity of the State and thus largely determines the size of the Budget. In order to make comparative assessment of the fiscal performance across time and space, all fiscal parameters are presented as a proportion of GSDP. The DCRF guidelines suggested a growth rate of 12 per cent for projecting the GSDP with 2004-05 as the base year. The suggested GSDP by the DCRF guidelines for the year 2004-05 was Rs.100521 crore. As per the quick estimate for the year 2004-05, the GSDP at nominal prices was Rs.103056 crore. Thus, it is proposed to adopt the GSDP for the year 2004-05 from the quick estimate made available by the Department of Planning, Economics and Statistics. The suggested growth rate of 12 per cent by the DCRF guidelines is on the higher side and thus it is assumed that the annual growth rate of GSDP would be 10 per cent for year 2005-06 and 11 per cent for the remaining four years (2006-07,2007-08, 2008-09 and 2009-10). A slightly higher growth rate is assumed for these years as the increased capital expenditure during the year 2004-05 and 2005-06 is expected to trigger growth rate impulses in the economy of the state.

C. Assessment of sustainability

(1) The balance between receipts and expenditure in general and revenue receipts and revenue expenditure in particular: In order to achieve the revenue deficit and fiscal deficit target envisaged in the Act, it is necessary for the receipts to grow at a faster rate than the total expenditure in general and revenue expenditure in particular. The tax-GSDP ratio is 13.5 per cent in the year 2005-06 and is expected to go upto 14.73 per cent by the year 2009-10, of which the own tax-GSDP ratio is 7.88 per cent and would reach 8.52 per cent in the terminal year. State's share in Central tax – GSDP ratio for the current year is 5.62 per cent and would reach 6.21 per cent in the terminal year. In order to increase the non-tax revenues user charges would be reviewed periodically with a view to make them sustainable. Expenditure on non-plan revenue account would be contained to 9 per cent annual growth and plan revenue expenditure would grow at 10 per cent to accelerate the development efforts. The expenditure on salaries and pension is one of key parameter in achieving the fiscal targets. This expenditure should not grow more than 7.5 per cent on salaries and 9.66 per cent on pensions. The subsidies especially on power sector have to be kept at rational levels. The debt consolidation facility did bring interest relief and further borrowings would be made prudentially to further bring down the interest payments. The fiscal deficit targets would set the limit to capital receipts through borrowings. The contingent liabilities would be kept in the limits set by the Act. While the DCRF has assumed 12 per cent growth for the State GSDP, in the Medium Term Fiscal Policy Statement the GSDP is assumed to grow at 10 per cent in nominal terms during 2005-06 and at 11 per cent during the remaining four years. During the period 1993-94 to 2003-04, the GSDP at current prices grew at an annual rate of 9.07 per cent (calculated using trend line). Thus it is reasonable to assume 10 per cent growth in nominal terms during 2005-06 and at 11 per cent during the remaining four years. However, failure of monsoon could adversely affect these projections in any given year.

(2) **The use of capital receipts including market borrowings for generating productive assets**. As the State would be achieving the revenue surplus by the

year 2006-07, all the capital receipts would be used for capital formation in irrigation, power, roads and bridges as per the priorities of the Government. The plan capital outlays in the ensuing budget for irrigation, power and roads&bridges are Rs. 1908 crore, Rs. 1233 crore and Rs. 990 crore, respectively.

(3) **The estimated yearly pension liabilities worked out for the next ten years.** The estimated pension liabilities by making forecasts on the basis of trend growth rates (i.e. average rate of growth of actual pension payments during the last three years for which data are available) are as given below.

Projections of Pension Liability

Year	Rs. crore
1998-99	843.95
1999-00	882.88
2000-01	855.89
2001-02	1010.75
2002-03	1082.67
2003-04	1197.26
2004-05	1329.89
2005-06	1548.07
2006-07	1766.37
2007-08	1937.00
2008-09	2124.12
2009-10	2329.31
2010-11	2554.32
2011-12	2801.06
2012-13	3071.65
2013-14	3368.37
2014-15	3693.75
2015-16	4050.57

Data for the 1998-99 to 2004-05 are Actuals, 2005-06 are Revised Estimates, 2006-07 are Budget Estimates and 2007-08 onwards are projected at 9.66 per cent average growth rate.

Form F – 3

[see Rule 5]

FISCAL POLICY STRATEGY STATEMENT

1. Fiscal Policy Overview: The fiscal policy of the State is aimed at increasing the capital expenditure so as to ensure investment in social and physical infrastructure. This would expand the productive base of the State's economy. In order to achieve this objective, it is necessary to increase revenue and decrease the growth of non-plan revenue expenditure. The fiscal stress, which had peaked in the aftermath of the Fifth Central Pay Commission and the economic slowdown, has since eased, mainly due to improvement in tax collections and softening of interest rates. In an attempt to remove the fiscal drag on the economy, the government has been attempting to increase the tax base and improve tax collections. The revenue receipts of the State are estimated to grow at 25.55 per cent in the year 2005-06 after adjusting the transfer entry made in case of MPSEB from the non-tax revenue in the year 2004-05. The state tax revenues grew at 14.16 per cent during the year 2004-05 and are expected to grow at 14.97 per cent during the year 2005-06. The non-plan revenue expenditure grew at 12.6 per cent in the year 2004-05 after adjusting for the transfer entry made in case of MPSEB from the non-plan revenue expenditure during 2003-04. In the current year the non-plan revenue expenditure is estimated to grow at 11.4 per cent. As a result of these fiscal measures the revenue deficit has come down from Rs. 1726.40 crore in 2003-04 to Rs. 1032.49 crore in 2004-05 and is expected to come down further to Rs. 25.49 crore in 2005-06.

2. Fiscal policy for the ensuing year: As the present fiscal policy is showing good results, the Government would continue to pursue the same policy of increasing revenues and decreasing the growth of non-plan revenue expenditure.

2.1 Tax Policy: The Government endeavors to increase the revenues without hurting the growth momentum. It is Government's intention to undertake major tax reforms to improve the tax to GSDP ratio, expand the tax base, increase tax compliance and make tax administration more efficient. In case of sales tax the Government would introduce VAT from the 1st of April 2006. In case of other taxes, Government is moving to a tax system that is based on moderate rates and wider base through rationalisation of exemptions. The State Government would be further strengthening Information Technology initiative in tax collecting departments.

2.2 Expenditure Policy: Outlays do not necessarily mean outcomes. We need to reorient expenditure to extract better value for money. There is imperative need to improve the quality of implementation and enhance the efficiency and accountability of the delivery mechanism. During the course of the year, a mechanism is sought to be put in place to measure the development outcomes for all major programmes. The financial decision making process would be made more transparent and objective based on agreed norms. Expenditure in excess of the ceilings will require clearance from the Department of Finance. In a bid to improve transparency and accountability, special drive will be taken up to clear arrears by taking appropriate action on Audit Reports. Local Fund audit report will now reviewed at the divisional Commissioner level to ensure faster compliance. Economy measures will be continued in the ensuring year on certain items of expenditure. Redeployment of surplus staff would be taken up in a coordinated way to bring out expenditure efficiency.

2.3 Borrowing and Contingent liabilities: The Medium term Fiscal Policy has projected a revenue surplus from the year 2006-07 onwards. On the basis this projection, the reliance on borrowing would considerably be reduced. The fiscal deficit targets would limit the level of borrowing. The contingent liabilities would be rationalised and a Guarantee Redemption Fund has been created. All guarantee fees would continue to be kept in this Fund. Necessary budgetary provisions would be made to meet the contingent liabilities.

3. Strategic priorities for the ensuing year:

3.1 The Strategic priority of the Government is to ensure a smooth and proper implementation of VAT and also improve upon the existing tax buoyancy. The Government would strive to realise the tax potential in the Transport sector. This is done through computerised inter-state Check post and other Information Technology initiatives.

3.2 On the expenditure side, efficiency measures in terms of outcomes would be a priority. The Government is committed in ensuring required expenditure for all Antyodaya Programmes. Economy measures to curb unproductive expenditure would be continued.

3.3 The public debt management would be guided by the fiscal parameters imposed by the Act and also interest rates for different sources of funds. The objective is to minimise the interest burden.

4: Rationale for Policy changes:

4.1 Having cleared many accumulated liabilities in the previous two financial years, concerted efforts have been made in the ensuring year to reduce the burden of subsidies. Efforts have also been made to clean plan expenditure of routine and recurring nature to provide a better and correct picture of Annual State Plan. Government is committed to meet all Non-Plan Revenue Expenditure targets given by the Twelfth Finance Commission. Budget provisions necessary for reform initiatives of the state government such as MPSRTC closure have been provided.

4.2 The New Pension Scheme launched by the Government will yield result in the long term. The expenditure on pension continues to grow at 9.66 per cent.

4.3 In line with the Government of India decision to provide Additional Open Market Borrowings in lieu of Plan Block loan, the State government will plan its borrowings in a way to ensure lower cost. Looking into favourable credit market condition, the reliance on NSSF loan will be reduced by at least 20 per cent.

4.4 In the power sector, rationalisation of tariff will result in lower subsides. Dismantling of MPSRTC will marginally reduce subsidy bill of the government. Local bodies have been urged to collect user charges so that the burden of grants may be indirectly mitigated. Revenue collection targets will progressively be linked to the flow of grants.

5. Policy Evaluation:

As required by the Act, all the fiscal information has been provided. The assumptions underlying the fiscal policy are based on the past data and are thus reasonably realisable and predictable. All the necessary disclosure statements have been provided. All the borrowings and the new items of expenditure, which have financial implication for future generations, have been clearly stated at appropriate places. Thus, the present fiscal policy is within the parameters enunciated in the Act.

FORM F-4

[see Rule 7]

SELECT FISCAL INDICATORS

(Per cent)

S.No.	Item	Previous Year 2004-05 (Accounts)	Current Year 2005-06 (RE)	Ensuing Year 2006-07 (BE)
(1)	(2)	(3)	(4)	(5)
1	Gross Fiscal Deficit as Percentage of GSDP	6.30	4.21	3.87
2	Revenue Deficit as Percentage of Gross Fiscal Deficit	-26.45	0.53	-19.91
3	Revenue Deficit as Percentage of GSDP	1.67	-0.02	0.77
4	Revenue Deficit as Percentage of TRR	8.70	-0.12	4.13
5	Total Liabilities -GSDP Ratio (%)	50.09	52.35	52.19
6	Total Liabilities - Total Revenue Receipts (%)	261.47	278.03	279.70
7	Total Liabilities –State’s Tax Revenue Receipts (%)	664.39	664.31	654.82
8	State’s Tax Revenue Receipts to Revenue Expenditure (%)	43.10	41.80	44.56
9	Capital Outlay as Percentage of Gross Fiscal Deficit	76.27	143.70	106.05
10	Interest Payment as Percentage of Revenue Receipts	18.54	17.27	17.65
11	Salary Expenditure as Percentage of Revenue Receipts	31.40	30.47	30.56
12	Pension Expenditure as Percentage of Revenue Receipts	6.74	7.25	7.52

FORM F-5

[see Rule 7]

A. COMPONENTS OF STATE GOVERNMENT LIABILITIES

(Rs crore)

S. No	Category	Raised or to be raised during the Fiscal Year			Repayment/Redemption during the Fiscal Year			Outstanding Amount (as on 31st March)		
		Previous Year (Acc) 2004-05	Current Year (RE) 2005.06	Ensuing Year (BE) 2006-07	Previous Year (Acc) 2004-05	Current Year (RE) 2005.06	Ensuing Year (BE) 2006-07	Previous Year (Acc) 2004-05	Current Year (RE) 2005.06	Ensuing Year (BE) 2006-07
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1	Market Borrowings	1730.20	1551.40	2828.33	276.87	316.38	332.23	9301.79	10536.81	13032.91
2	Loans from Centre	1881.01	504.97	605.09	1977.59	432.61	431.83	9112.18	9184.54	9357.80
3	Special Securities issued to the NSSF	2765.67	2840.00	2160.00	0.00	36.45	77.13	9129.24	11932.79	14015.65
4	Borrowings from Financial Institutions/ Banks	2472.12	623..72	771.16	870.15	168.97	353.80	5725.07	6179.83	6597.19
5	WMA/OD from RBI	2234.74	0.00	0.00	2501.52	0.00	0.00	0.00	0.00	0.00
6	Public Account	1870.83	1438.18	1512.24	1194.09	1364.12	1447.24	7744.70	7818.76	7883.76
7	Other Deposits	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
8	**Total**	12954.57	6334.55	7876.82	6820.22	2318.53	2642.23	41012.98	45652.73	50887.31

B. WEIGHTED AVERAGE INTEREST RATES ON STATE GOVERNMENT LIABILITIES

(per cent)

S. No	Category	Raised during the Fiscal Year^		Outstanding Amount (as on 31st March)	
		Previous Year (Acc) 2004-05	Current Year (RE) 2005-06	Previous Year (Acc) 2004-05	Current Year (RE) 2005-06
(1)	(2)	(3)	(4)	(5)	(6)
1	Market Borrowings	6.62	7.69	7.89	7.68
2	Loans from Centre	9.00	9.00	11.67	8.74
3	Special Securities issued to the NSSF	9.50	9.50	10.47	10.38
(4)	Borrowings from Financial Institutions/ Banks	7.87	7.50	9.21	8.10
(5)	WMA/OD from RBI	7.50	7.50	0.00	0.00
(6)	Public Account	8.00	8.00	8.66	8.00
(7)	Other Deposits	-	-	-	-
(8)	Overall Average Rate *	8.40	8.71	9.62	8.64

^ Weighted average interest rate where the respective weight is the amount borrowed. This is calculated on contractual basis and then annualized.

* Weighted average interest rate where the weights are the amount of the respective components of State Government liabilities.

C. DETAILS OF SPECIAL WAYS & MEANS ADVANCE / WAYS & MEANS ADVANCE OVER-DRAFT AVAILED BY THE STATE GOVERNMENT FROM RESERVE BANK OF INDIA

S.No.	WMA/OD	Previous Year 2004-05	Current Year* 2005-06
	(1)	(2)	(3)
(1)	Average amount of WMA (Rs crore)	2234.74	0
(2)	Average amount of OD (Rs crore)	0	0
(3)	Number of days of WMA	127	0
(4)	Number of days of OD	0	0
(5)	Number of occasions of OD	0	0

* as on 31st December

FORM F-6

[see Rule 7]

CONSOLIDATED SINKING FUND (CSF)

(Rs in Crore)

Outstanding balance in CSF at the beginning of the previous year	Additions to CSF during the previous year	Withdrawals from CSF during the previous year	Outstanding balance in CSF at the end of the previous year/beginning of current year	Outstanding Stock of SLR Borrowings at the beginning of current year (%)	Additions to CSF during the current year	Withdrawals from CSF during the current year	Outstanding balance at the end of current year/ beginning of ensuing year	Outstanding Stock of SLR Borrowings at the end of current year (%)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
-Nil-	-Nil-	-Nil-	-Nil-	-Nil-	-Nil-	-Nil-	-Nil-	-Nil-

FORM F –7
[see Rule 7]

Guarantees given by the Government

Category (No. of Guarantees within bracket)	Maximum Amount Guaranteed during the year (Rs. crore)	Outstanding at the beginning of the year (Rs. crore)	Additions during the year (Rs. crore)	Reductions during the year (other than invoked during the year) (Rs. crore)	Invoked during the year (Rs. crore)		Total outstanding Guarantees (Rs. crore)	Guarantee Commission or Fee (Rs. crore)		Total outstanding Guarantees as a % of Total Revenue Receipts
					Discharged	Not discharged		Receivable	Received	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)

Note: Data for the current year is upto 31st December.

FORM F-8

[see Rule 7]

GUARANTEE REDEMPTION FUND (GRF)

(Amount in Rs. Crore)

Outstanding invoked guarantees at the end of the previous year	Outstanding Amount in GRF at the end of the previous year	Amount of Guarantees Likely to be Invoked during the current year	Addition to GRF during the current year	Withdrawal from the GRF during the current year	Outstanding Amount in GRF at the end of the current year
(1)	(2)	(3)	(4)	(5)	(6)
0	0	0	3.57	0	3.57

FORM F – 9

[see Rule 7]

STATEMENT OF FINANCIAL ASSETS

S.No.	Item	Assets at the beginning of the previous year 2004-05	Assets acquired during the previous year 2004-05	Cumulative total of assets at the end of the previous year 2004-05
		Book Value (Rs. cr.)	**Book Value (Rs. cr.)**	**Book Value (Rs. cr.)**
(1)	(2)	(3)	(4)	(5)
(1)	**Loans and advances**	**2608.42**	**3257.67**	**5866.09**
	Of which:			
	Loans to Local Bodies	697.52	31.97	729.49
	Loans to companies	0.00	0.00	0.00
	Loans to others	1910.90	3225.70	5136.60
(2)	Equity Investment Shares Bonus shares	1737.28	2414.36	4151.65
(3)	Investments in GoI dated securities/Treasury Bills	557.40	0	557.40
(4)	Investments in 14-day Intermediate Treasury Bills	0	199.65	199.65
(5)	Other financial investments	-	-	-
(6)	Total	4903.10	5871.68	10774.79

Note: Assets above the threshold value of Rupees two lakh only to be recorded.

FORM F – 10

[see Rule 7]

REVENUES RAISED BUT NOT REALISED
(principal taxes and non-taxes)

(As at the end of the year 2004-05)

Major Head	**Description**	**Amount under disputes** (Rs. crore)	**Amount not under disputes** (Rs. crore)	**Grand Total** (Rs. crore)
(1)	(2)	(3)	(4)	(5)
	Taxes on Income and Expenditure			
0023	Hotel Receipts Tax	-	-	-
0028	Other Taxes on income and expenditure	-	-	-
	Taxes on Property and capital Services			
0029	Land Revenue	93.66	38.09	131.75
0030	Stamps and Registration fees	16.08	59.09	75.17
	Taxes on Commodities and Services			
0040	Taxes on Sales, trade, etc	-	766.89	766.89
0039	State Excise	20.51	33.20	53.71
0041	Taxes on Vehicles	-	31.80	31.80
0045	Other taxes and duties on commodities and services	0.10	0.43	0.53
0043	Taxes and Duties on Electricity	23.85	4.11	27.96
0853	Non-Ferrous Mining and Metallurgical Industries	38.33	11.26	49.59
0700 0701 0702	Major Medium and Minor Irrigation	79.73	104.44	184.17
0406	Forestry and Wild life	3.24	17.28	20.52
	Other	-	-	-
	TOTAL	275.50	1066.59	1342.09

FORM F-11

[see Rule 7]

A. Employment in State Government

(As at the end of the year 2004-05)

S.No	Pay Group (in Rupees)	No. of Employees	Percentage
(1)	(2)	(3)	(4)
1.	upto 2500	4806	0.99
2.	from 2501 to 4300	166090	34.11
3.	from 4301 to 6100	162531	33.37
4.	from 6101 to 9700	131493	27.00
5.	from 9701 to 13300	14964	3.07
6.	from 13301 to 19300	6663	1.37
7.	above 19301	432	0.09
	Total	**486979**	**100.00**

B. Employment in State Public Sector Undertakings

(i) New Payscale

(As at the end of the year 2004-05)

S.No	Pay Group (in Rupees)	No. of Employees	Percentage
(1)	(2)	(3)	(4)
1.	upto 2500	1158	1.71
2.	from 2501 to 4300	12925	19.06
3.	from 4301 to 6100	28011	41.31
4.	from 6101 to 9700	20453	30.16
5.	from 9701 to 13300	3215	4.74
6.	from 13301 to 19300	1901	2.80
7.	above 19301	147	0.22
	Total	**67810**	**100.00**
(ii) Old Payscale			
1.	upto 800	1502	11.16
2.	from 801 to 1000	3965	29.45
3.	from 1001 to 1400	4458	33.12
4.	from 1401 to 2000	2357	17.51
5.	from 2001 to 3500	1055	07.84
6.	from 3501 to 5000	113	00.84
7.	above 5001	11	00.08
	Total	**13461**	**100.00**

C. Employment in Semi Government Bodies

(i) New Payscale

(As at the end of the year 2004-05)

S.No	Pay Group (in Rupees)	No. of Employees	Percentage
(1)	(2)	(3)	(4)
1.	upto 2500	778	10.98
2.	from 2501 to 4300	2658	37.51
3.	from 301 to 6100	1579	22.28
4.	from 6101 to 9700	1444	20.38
5.	from 9701 to 13300	517	7.30
6.	from 13301 to 19300	95	1.34
7.	above 19301	15	0.21
	Total	**7086**	**100.00**

(ii) Old Payscale

(As at the end of the year 2004-05)

S.No	Pay Group (in Rupees)	No. of Employees	Percentage
(1)	(2)	(3)	(4)
1.	upto 800	45	1.54
2.	from 801 to 1000	681	23.31
3.	from 1001 to 1400	502	17.19
4.	from 1401 to 2000	597	20.44
5.	from 2001 to 3500	945	32.35
6.	from 3501 to 5000	135	4.62
7.	above 5001	16	0.55
	Total	**2921**	**100.00**

D. Employment in Universities

(As at the end of the year 2004-05)

S.No	Pay Group (in Rupees)	No. of Employees	Percentage
(1)	(2)	(3)	(4)
1.	upto 2500	754	7.89
2.	2501 to 4300	5395	56.44
3.	4301 to 6100	1017	10.64
4.	6101 to 9700	965	10.10
5.	9701 to 13300	760	7.95
6.	13301 to 19300	528	5.52
7.	above 19301	140	1.46
	Total	**9559**	**100.00**

E. Employment in Urban Local Bodies

(As at the end of the year 2004-05)

S.No	Pay Group (in Rupees)	No. of Employees	Percentage
(1)	(2)	(3)	(4)
1.	upto 2500	22414	34.34
2.	2501 to 4300	35945	55.08
3.	4301 to 6100	5046	7.73
4.	6101 to 9700	1522	2.33
5.	9701 to 13300	301	0.46
6.	13301 to 19300	36	0.06
7.	above 19301	00	0.00
	Total	**65264**	**100.00**

F. Employment in Development Authorities

(As at the end of the year 2004-05)

S.No	Pay Group (in Rupees)	No. of Employees	Percentage
(1)	(2)	(3)	(4)
1.	upto 2500	329	17.11
2.	2501 to 4300	862	44.82
3.	4301 to 6100	349	18.15
4.	6101 to 9700	260	13.52
5.	9701 to 13300	94	4.89
6.	13301 to 19300	29	1.51
7.	above 19301	00	0.00
	Total	**1923**	**100.00**

G. Employment in in Rural Local Bodies

(As at the end of the year 2004-05)

S.No	Pay Group (in Rupees)	No. of Employees	Percentage
(1)	(2)	(3)	(4)
1.	upto 2500	69453	71.65
2.	2501 to 4300	24236	25.00
3.	4301 to 6100	2483	2.56
4.	6101 to 9700	591	0.61
5.	9701 to 13300	142	0.15
6.	13301 to 19300	29	0.03
7.	above 19301	00	0.00
	Total	**96934**	**100.00**