

## Form F-1

[see Rule 3]

### MACRO-ECONOMIC FRAMEWORK STATEMENT

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

- 1.1 The quick estimates of Gross State Domestic Product (GSDP) for the year 2005-06 are now available. As per these quick estimates, GSDP at constant prices grew by 6.05 percent in 2005-06. The review statement for the first six months of the fiscal year 2006-07 relating to the income and expenditure trends had mentioned that as per the advance estimates GSDP (at 1993-94 constant prices) grew by 1.94 percent in 2005-06. Growth in agriculture by 3.1 percent instead of the anticipated decline of 10.2 percent, trade, hotel & restaurant by 6.1 percent instead of the anticipated decline of 1.0 percent and mining by 6.9 percent instead of the anticipated growth of 0.3 percent are the main reasons for the improvement in quick estimates in comparison with the advanced estimates.
- 1.2 The sectoral composition of GSDP is presented in the Table 1.1, characterizing structure of the economy and its changing nature. For the purpose of analysis, the year 1993-94 has been considered as it is the base year for GSDP (except the figures of All India data of 2005-06). 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, and hotels, banking insurance, real estate, public administration and other services.
- 1.3 The State of Madhya Pradesh contributed 4.86 percent of the national domestic product in the year 1993-94. By the year 2003-04, this contribution had gone down to 4.08 percent. This contribution further declined to 3.96 percent in the year 2004-05 and to 3.94 percent in the year 2005-06. This decline is mainly because the national economy is growing at a higher rate than the economy of the State. The fiscal policy attempts to bridge this gap by increasing public investment and encouraging private investment.

**Table 1.1**  
**Comparative Structure of the Economy**

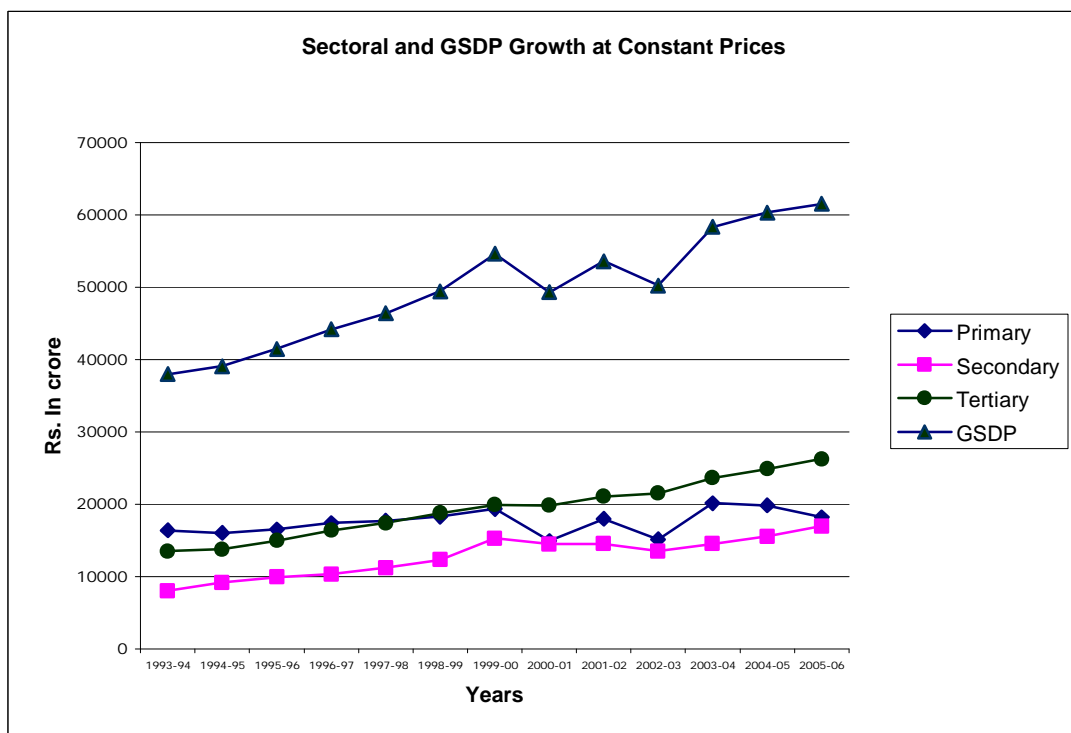
(Figures in Percentage)

Sector/Year	1993-94	2003-2004	2004-2005	2005-2006
Primary	43.19 (33.54)	33.96 (24.03)	32.91 (22.81)	32.09 (21.72)
Industry	21.15 (23.69)	26.17 (24.54)	25.79 (24.79)	26.43 (24.18)
Services	35.66 (42.77)	39.34 (51.43)	41.30 (52.40)	41.48 (54.10)

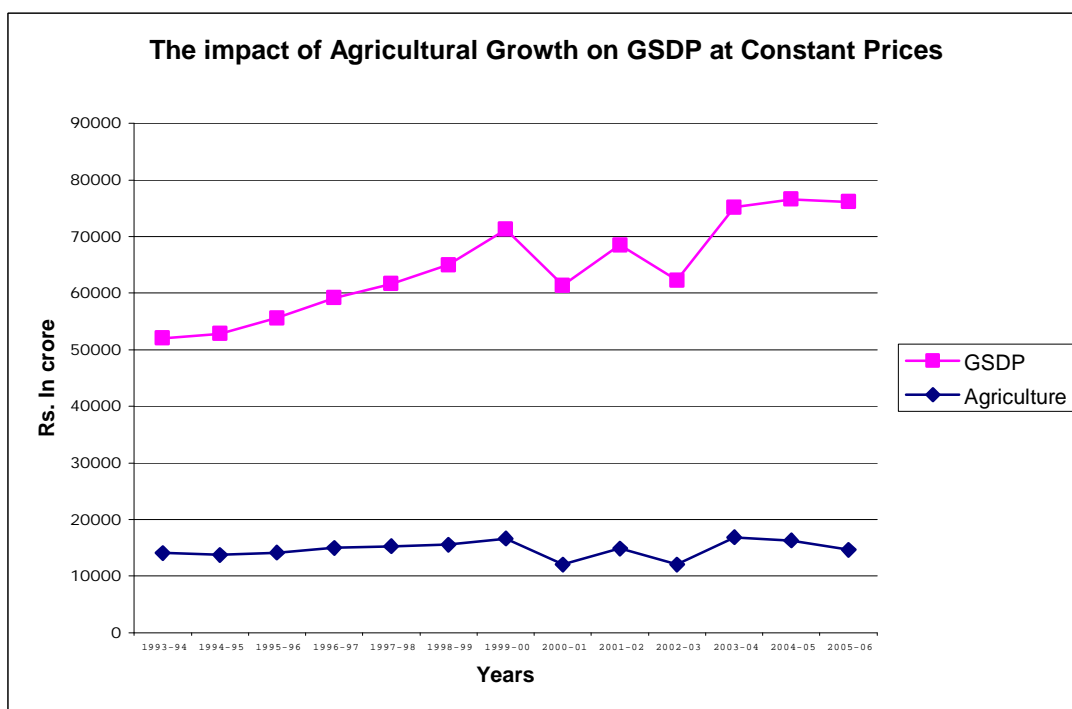
Note : The figures in the brackets are of All India, with 1999-2000 as base year. However, the GSDP figures for MP are presented here with 1993-94 as the base year as these are yet to be revised.

## 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 percent (calculated using trend line), which is much below the national average of 5.83 percent. 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 was doing well and grew at an annual rate of 5.97 percent as against the national average of 6.39 percent 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.
- 2.2 The GSDP for the year 2005-06 at current prices was Rs. 1,12,177 crore as per the quick estimates. It grew by 9.04 percent in comparison with the previous year. The growth in 2004-05 was 5.82 percent. Thus, the growth in the year 2005-06 was higher in comparison with the growth in the previous year. At 1993-94 constant prices, the growth in 2005-06 was 6.05 percent as compared to growth of 3.42 percent in the year 2004-05.
- 2.3 The growth rate for the year 2005-06 at constant prices were 3.42, 8.69 and 6.50 percent for the primary, secondary and tertiary sectors respectively. The sectoral growth of the economy during the period 1993-94 to 2005-06 is depicted below.



- 2.4 Agriculture grew by 3.10 percent in 2005-06. Agriculture had registered a decline of 3.46 percent in the year 2004-05 because of unfavourable weather. As per the advanced estimates a decline of 8.14 percent was estimated in the primary sector. Though the weather was not favourable even at the time of rabi crop in the year 2005-06, a growth of 3.10 percent is estimated in agriculture because of significant increase in the production of oilseeds and commercial crops - cotton and sugar-cane. The state has made huge investment in the development of irrigation facilities in the last 3 years. Because of this investment, agriculture production is expected to show stability in the near future.
- 2.5 Growth in the manufacturing sector was badly affected because of various infrastructural constraints in the period 2000-01 to 2002-03. Growth in the sector has picked up in 2003-04, 2004-05 & 2005-06 but this growth rate is modest compared to the national growth rate. Construction sector has achieved a growth rate of 14.88 percent in 2005-06, which reflects the pace of development of physical infrastructure. This infrastructural growth is also due to higher capital expenditure in the public sector.
- 2.6 The service sector has achieved a moderate growth rate of 6.5 percent in the year 2005-06. This is an improvement over the growth rate of 5.37 percent achieved in 2004-05 but is significantly below the growth rate of 9.83 percent achieved at the national level.
- 2.7 The economy of Madhya Pradesh is still agrarian and is dependent on the vagaries of nature. The graphs below depict the impact of agricultural growth on the GSDP. It is clearly seen that whenever agriculture performed badly, the growth of GSDP had been adversely affected. During the period 1993-94 to 1999-2000, the growth of the economy was dominated by industry and agriculture and service sectors supplemented the growth process. The impact of sluggishness in agriculture is highly visible.



### 3 Overview of Government Finances

- 3.1 The year 2005-06 ended with a revenue surplus of Rs. 33.32 crore as against a revenue deficit of Rs. 25.49 crore shown in the revised estimates for the same year. Similarly, the fiscal deficit has also shown a significant improvement over the revised estimates. The fiscal deficit was Rs. 4572.42 crore as per the 2005-06 accounts against the revised estimate of Rs. 4768.90 crore. However, the primary deficit increased slightly from Rs. 1082.93 crore as per revised estimates to Rs. 1150.63 crore as a result of the decreased interest payments. The savings in interest payments have been used to supplement plan capital expenditure. The fiscal indicators have shown marked improvement during year 2006-07. The revenue surplus is estimated to increase from Rs.970.22 crore (BE) to Rs. 1763.38 crore (RE). The fiscal deficit is estimated to decrease from Rs. 4873.67 crore (BE) to Rs. 4593.23 crore (RE).
- 3.2 As per the Accounts for the year 2005-06 the revenue receipts were Rs. 20596.80 crore, lower than the revised estimates of Rs. 21344.41 crore. The shortfall was mainly due to decrease in receipt of grants from the Central government. The non-plan revenue expenditure for the year 2005-06 had been contained to Rs. 16351.00 crore as against the revised estimates of Rs. 16563.71 crore. The revenue receipts as per the revised estimates for the year 2006-07 are slightly higher than the budget estimates.

#### **4. Prospects**

In the period from 2000 to 2002 drought and infrastructural bottlenecks had adversely affected the growth momentum of the State's economy. It has emerged out of that adverse phase. Higher investment in public irrigation systems is likely to help achieve higher growth rate in agriculture. Improvement in infrastructure has had a positive impact on the industrial climate in the State and is attracting private investment. Further improvement is expected in the performance of the manufacturing sector. The growth in agriculture and manufacturing sectors is likely to improve the performance of the service sector. The State is likely to meet the fiscal targets in the year 2006-07. Thus, the State is moving on the fiscal path envisaged in the Act.

## 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
		2005-06 A/C	2006-07 R.E	2007-08 B.E.		
	(1)	(2)	(3)	(4)	(5)	(6)
1	Revenue Receipts (2 +3+4)	20596.80	24859.86	27995.84	20.70	12.62
2	Tax Revenue (2.1+2.2)	15456.06	17790.15	20101.59	15.10	12.99
2.1	State Tax	9113.83	10167.17	11716.31	11.56	15.24
2.2	Share in Central Taxes	6342.23	7622.98	8385.28	20.19	10.00
3	Non-Tax Revenue	2208.20	2334.17	2427.03	5.70	3.98
4	Grant-in-aid from Central Govt.	2932.54	4735.54	5467.22	61.48	15.45
5	Capital Receipts (6+7+8)	7451.75	4192.62	4816.54	-43.74	14.88
6	Recovery of loans and advances	2851.98	58.26	43.78	-97.96	-24.85
7	Net public debt	4206.69	3489.06	4705.50	-17.06	34.86
8	Net Receipts from Public Account	393.08	645.30	67.26	64.17	-89.58
9	Total Receipts (1+5)	28048.55	29052.48	32812.38	3.58	12.94
10	Revenue Expenditure (10.1+10.2)	20563.48	23096.48	25989.11	12.32	12.52
10.1	Non-Plan Revenue Expenditure	16351.00	17271.60	19112.90	5.63	10.66
10.2	Plan Revenue Expenditure	4212.48	5824.88	6876.21	38.28	18.05
10.3	Revenue Expenditure Of which:					
10.3.1	Interest payments	3421.79	3910.02	4252.32	14.27	8.78
10.3.2	Subsidies	6519.46	7110.47	7860.21	9.07	10.54
10.3.3	Wages & Salaries	6038.80	6900.76	8185.67	14.27	18.62
10.3.4	Pension Payments	1557.15	1729.16	1999.05	11.05	15.61
11	Capital Expenditure (11.1+11.2)	6623.28	5172.28	5881.46	-21.90	13.71
11.1	Non-Plan Capital Expenditure	2923.47	315.86	197.00	-89.20	-37.63
11.2	Plan Capital Expenditure	3699.81	4856.42	5684.46	31.26	17.05
12	Loans and advances (12.1+12.2)	834.44	1242.59	823.68	48.91	-33.71
12.1	Non Plan Loans and advances	796.53	890.02	266.22	11.74	-70.09
12.2	Plan Loans and advances	37.91	352.57	557.46	830.01	58.11
13	Total Expenditure	28021.20	29511.35	32694.25	5.32	10.79
13.1	Non Plan Expenditure (10.1+11.1+12.1)	20071.00	18477.48	19576.12	-7.94	5.95
13.2	Plan Expenditure (10.2+11.2+12.2)	7950.20	11033.87	13118.13	38.79	18.89
14	Revenue Deficit (1-10)	33.32	1763.38	2006.73	5192.26	13.80
15	Fiscal Deficit (1+6-13)	-4572.42	-4593.23	-4654.63	0.46	1.34
16	Primary Deficit [1+6-(13-10.3.1)]	-1150.63	-683.21	-401.31	-40.62	-41.26

**Form 2**  
(Rule 4)

**Medium Term Fiscal Policy Statement**

**A. Fiscal Indicators- Rolling Targets**

Fiscal Indicators	Accounts 2005-06	Revised Estimates (RE) 2006-07	Budget Estimates (BE) 2007-08	Targets for next Three Years		
				2008-09	2009-10	2001-12
(1)	(2)	(4)	(5)	(6)	(7)	(8)
1. Revenue Deficit as percentage of GSDP	0.03	1.42	1.44	1.59	1.44	1.64
2. Fiscal Deficit as percentage of GSDP	4.08	3.69	3.34	3.00	2.99	2.99
3. Total outstanding Liabilities as percentage of GSDP	52.50	50.14	48.97	47.25	45.64	44.19

**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 2007-08 are estimated to grow at 10 percent over the current year revised estimates For later years, the Twelfth Finance Commission projections have been taken. For the year 2010-11, the tax devolutions have been calculated on the basis of a 10 percent increase over the last year of Finance Commission award. The State's Own Tax Revenue (SOTR), Rs. 11716.31 crore for the year 2007-08 (BE) are based on the assessment of the respective tax collecting Departments, showing a growth of 16.82 percent over 2006-07 (BE). For later years, SOTR is assumed to grow at 13.5 percent from the budget estimates of 2007-08.
- b) **Non-Tax Revenue** - Non-tax revenue comprises of State own non- tax revenue and plan and non-plan grants from Centre. State own-non-tax revenue for the year 2007-08 (BE) are estimated at Rs.2427.03 crore, based on departmental projections and are assumed to grow at 5 percent from the base year of 2007-08. Plan grants are assumed to grow at 10 percent from the base year of 2007-08. 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 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 40.89 percent in the year 2006-07 (RE) and is expected to reach 44.36 percent by 2010-11.
- e) **Share of own non-tax revenues to total revenue receipts** – The share of own non-tax revenue to the total revenue receipts is 9.38 percent in the year 2006-07 (RE) and is expected to be 7.27 percent by 2010-11. This proportion is going down as tax revenues are growing at a higher rate than 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 Adhinyam, 2005. The State had fulfilled the conditions of the Debt Consolidation and Relief Facility (DCRF) scheme and Rs. 363.06 crore of debt has been waived off in 2005-06. The State is also eligible for debt relief of another installment of Rs. 363.06 crore in 2006-07. A formal order from Government of India is awaited. All due repayments during this period have been accounted for. The portfolio of 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 externally aided projects (EAP) to the State from the year 2005-06 and thus, the loans and advances from the Centre include only loans for these ongoing EAPs.
- (b) **Special securities issued to the NSSF** – At present NSSF is an expensive source of financing; 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. Loans from NSSF have dipped from Rs. 3035.02 crore in 2005-06 to Rs. 2120.95 crore as per revised estimates of the year 2006-07.
- (c) **Recovery of loans and advances** - As on 31<sup>st</sup> March 2006, Rs. 3848.54 crore of loans and advances are outstanding. A major portion of these loans is to be recovered from the MP State Electricity Board and its successor companies. The recovery of remaining loans and advances are projected to grow at 25 percent average annual growth rate from the budget estimates of the year 2006-07. However, for the year 2007-08, Rs.25.91 crore is taken as recoveries.
- (d) **Borrowings from financial institutions** – The borrowings from institutions like NABARD, HUDCO, LIC are project based and are part of the overall



borrowing programme. Since, NABARD (RIDF) assistance is a relatively low cost resource, the State would try to maximise the utilisation of these funds.

- (e) **Other receipts (net) – Employees Insurance, provident funds, etc.–** This is a source of borrowing from public account outside the Consolidated Fund of the State. As and when such funds are available they are used as a gap-filling instrument to finance capital expenditure.
  - (f) **Outstanding Liabilities - Internal Debt and Other Liabilities –**The gross debt at the end of March 2006 is Rs. 45199.79 crore and is estimated to be Rs 48814.94 crore at the end of March 2007. The gross debt would be increasing at an average growth rate of 7.5 percent per annum. The total State Government guarantees as on 31<sup>st</sup> December 2006 amount to Rs. 13618.14 crore and are assume to grow at 8 percent. 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 2008-09 onwards is projected at a growth rate of 12 percent. Non-Plan Revenue Expenditure includes TFC non-plan revenue expenditure grants and is projected to grow at a rate of 9 percent. 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, the average cost of borrowing is estimated to be 8.60 percent and the same has been used for projections.
    - II. **Major subsidies:** The growth rate assumed on General Subsidies is 10 percent. Aggregate technical and commercial losses will be reduced to keep power subsidy under control.
    - III. **Salaries:** A higher provision has been made in the year 2007-08 in order to pay the increased salaries on account of 50 percent DA merger and consequent increases in DA. Thus, the salaries are projected at 8.6 percent from the year 2008-09 onwards.
    - IV. **Pensions:** Pensions are projected to grow at 10 percent from the year 2007-08 onwards.
  - (b) **Capital account**
    - I. **Loans and advances:** Loans and advances are assumed to grow at 6 percent annually.
    - II. **Capital Outlay:** Capital expenditure would be growing at an average annual rate of 8 percent. After achieving the fiscal deficit target of 3

percent of GSDP by 2008-09, this would be maintained in the following years. Hence, these would be fiscal space for enhanced capital investments.

**(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 percent for projecting the GSDP. The GSDP for the year 2005-06 (quick estimate) prepared by the Department of Planning, Economics and Statistics is taken as the base year and is projected to grow at a rate of 11 percent for 2006-07 and 12 percent for subsequent years following DCRF guidelines.

### **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 targets 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 13.97 percent in the year 2006-07 as per the revised estimates and is expected to go up to 15.11 percent by the year 2010-11, of which the own tax-GSDP ratio is 8.16 percent which would reach 8.74 percent in the terminal year. State's share in Central tax devolutions as a proportion of GSDP for the current year is 6.12 percent and would reach 6.01 percent in the terminal year. In order to increase the non-tax revenues user charges would be reviewed periodically with a view to making them sustainable.
- 2. Assessment of increase in NPPE:** Expenditure on Non-Plan revenue account was estimated to grow at 9 percent annually as per the Medium Term Fiscal Policy Statement of 2005-06. The expenditure on salaries and pension is one of the key parameters in achieving the fiscal targets. In the FRBM statements for the year 2005-06, it has been indicated that this expenditure would grow at not more than 7.5 percent on salaries and 9.66 percent on pensions. The decision to merge 50 percent DA with basic pay is estimated to increase the wage bill, including pensions, by Rs. 418 crore in the initial year. It would also result in increase in the rate of growth of salaries and pensions by one percent. In addition to this, the Government needs to recruit more medical and para-medical staff for the medical, ayurvedic, homeopathic and unani colleges according to the norms laid down by apex bodies and also to expand and strengthen the health services. The universalisation of education would also increase the non-plan revenue expenditure, as more teachers are required to be employed. The State Government has sanctioned additional posts for the police force to meet the requirements of the security environment. Accordingly, the Non-Plan revenue expenditure is estimated to grow at 10.66 percent in 2007-08. Achievement of fiscal targets would be dependent on ensuring that salaries, pensions and other Non-Plan revenue expenditure is contained within the projected parameters. 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 prudently so that increase in interest liability remains under check. The fiscal deficit targets would set the limit to capital receipts through borrowings. The contingent liabilities would be kept within the limits set by the Act.

3. **The use of capital receipts including market borrowings for generating productive assets.** The State has already achieved revenue surplus in the year 2005-06. From 2006-07 all capital receipts are being 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. 1792.30 crore, Rs. 1708.70 crore and Rs. 1732.72 crore, respectively.
4. **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
2001-02	1010.76
2002-03	1082.68
2003-04	1197.27
2004-05	1329.89
2005-06	1557.15
2006-07	1729.16
2007-08	1999.05
2008-09	2198.96
2009-10	2418.85
2010-11	2660.74
2011-12	2926.81
2012-13	3219.49
2013-14	3541.44
2014-15	3895.58
2015-16	4285.14

Note:- Data for the 2001-02 to 2005-06 are Actual, 2006-07 is Revised Estimates, 2007-08 is Budget Estimates and 2008-09 onwards are projected at 10 percent average growth rate.

As mentioned earlier, the pension liability would increase at a faster rate due to the merger of 50 percent DA. Hence, the revised projections are based on an annual growth rate of 10 percent as against 9.66 percent projected in the last report.

## Form F – 3

[see Rule 5]

### FISCAL POLICY STRATEGY STATEMENT

**1. Fiscal Policy Overview:** The fiscal policy of the State is aimed at increasing development expenditure so as to ensure investment in social and physical infrastructure. This would expand the productive base of the State's economy and help to attract more private investments. In order to achieve this objective, it is necessary to increase revenues and decrease the growth of Non-Plan Revenue Expenditure (NPRE). 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 tax revenue receipts of the State are estimated to grow at 16.99 percent in the year 2007-08 over the previous year budget estimates. State own tax revenues (SOTR) are estimated to grow at 11.56 percent during the year 2006-07 over the year 2005-06. SOTR is expected to grow at 16.82 percent in 2007-08(BE) as compared to 2006-07 (BE). NPRE grew at 5.63 percent in the year 2006-07(RE) over last year. NPRE for the year 2007-08 is estimated to grow at 10.66 percent over 2006-07(RE). The revenue surplus is expected to go up from Rs. 1763.38 crore in 2006-07(RE) to Rs.2006.73 crore in 2007-08(BE). The fiscal deficit is expected to go up marginally from Rs. 4593.23 crore in 2006-07(RE) to Rs.4654.63 crore in 2007-08(BE). Thus, all the fiscal parameters are within the targets set under Act.

**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 NPRE and enhancing Plan expenditure.

**2.1 Tax Policy:** The Government endeavors to increase the revenues without hurting the growth momentum. It is Government's intention to undertake positive tax initiatives to improve the tax to GSDP ratio, expand the tax base, increase tax compliance and make tax administration more efficient. VAT was introduced in the State from the 1st of April 2006. As per the trends in revenue collection upto December 2006, the growth in VAT items is about 20 percent and 28 percent on non-VAT items. 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. There is a need to reorient expenditure to extract better value for money. The imperative is to improve the quality of implementation and enhance the efficiency and accountability of the delivery mechanism. With a view to relating expenditure with outcomes, the State has introduced Outcome Budget for the first time in

the year 2006-07. This would enable people to assess the efficiency of public expenditure and this in turn would help the Government in improving the delivery mechanism. The Government is committed to enable women realise their full potential. In order to measure this commitment, there is a need to bring Gender classification in the budget. The Government is making a small beginning in this direction by classification of some major schemes that benefit women. This gender budgeting would help in better targeting of schemes.

The financial decision making process would be made more transparent and objective based on agreed norms. E-tendering has been introduced for increased transparency. Institutional arrangements will be made for prompt action on audit reports. Local Fund audit report is now being reviewed at the level of the Divisional Commissioner to ensure faster compliance. Economy measures will be continued in the ensuing year on certain items of expenditure. Redeployment of surplus staff would be continued to bring out expenditure efficiency.

- 2.3 **Borrowing and Contingent liabilities:** As per the projections made in the Medium Term Fiscal Policy of 2005-06, revenue surplus has already been achieved in the year 2005-06. As a result, the reliance on borrowing for capital investments would considerably be reduced. The fiscal deficit targets would limit the level of borrowing. The contingent liabilities have been rationalised and the Guarantee Redemption Fund created in the 2005-06, has been credited with a sum of Rs. 100 crore. It is proposed to set aside another Rs. 100 crore for this Fund in 2007-08. Besides, 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 VAT was introduced during the fiscal year 2006-07. The Government would ensure that the VAT system maintains the tax buoyancy. Exemption under entry tax would be reviewed to augment resources of the local bodies. Free movement of goods is necessary for rapid economic growth and accordingly the transport sector is being modernised through computerised inter-state check posts and other information technology initiatives.
- 3.2 The decision to merge 50% of DA with basic pay would increase the revenue expenditure. However, the Government will strive to increase much needed revenue surplus for investments in social and physical infrastructure. The expenditure policy focuses increasing productivity of public investment by completing the on-going infrastructure projects on a priority basis.
- 3.3 The recent changes in the composition of debt portfolio brought down the cost of borrowing. However, the increasing interest rates and tight monetary policy at the national level may make the management of public debt more challenging.

#### **(4) Rationale for Policy changes**

- 4.1 Equity and productivity considerations have prompted the Government to increase the salaries and the pensions of Government employees. The complementary nature of revenue expenditure in social sector is recognized. The Education and Health sectors require deployment of more teachers, doctors and Para-medical staff. As a result, revenue expenditure may go up.
- 4.2 Changing money market conditions would be kept in mind while deciding the borrowing programme of the Government. The basic objective of the borrowing policy is to bring down the average cost of borrowing.
- 4.3 There is a need to strike a balance between decreasing power subsidy to agriculture and the interest of the farmers. This would also ensure higher agricultural production through increased use of irrigation pumps. The level of power subsidies to farmers would be decided by the economic rationality in the context of a democratic polity.
- 4.4 **Policy Evaluation:** All updated fiscal information has been provided as per the Act. The targets set for 2006-07 are likely to be met. The assumptions underlying the projections are realistic as would be evident from the fiscal performance during the year 2006-07. Further, the assumptions have been appropriately modified with explanations to ensure they continue to be rooted in reality. The commitment of the Government to fiscal transparency is reflected through the disclosure statements and other information provided.

FORM F-4  
[see Rule 7]

**SELECT FISCAL INDICATORS**

(Percent)

<b>S.No.</b>	<b>Item</b>	<b>Previous Year 2005-06 (Accounts)</b>	<b>Current Year 2006-07 (RE)</b>	<b>Ensuing Year 2007-08 (BE)</b>
(1)	(2)	(3)	(4)	(5)
1	Gross Fiscal Deficit as Percentage of GSDP	4.08	3.69	3.34
2	Revenue Deficit as Percentage of Gross Fiscal Deficit	-0.73	-38.39	-43.11
3	Revenue Deficit as Percentage of GSDP	0.03	1.42	1.44
4	Revenue Deficit as Percentage of TRR	0.16	7.09	7.17
5	Total Liabilities -GSDP Ratio (%)	52.50	50.14	48.97
6	Total Liabilities - Total Revenue Receipts (%)	285.92	251.14	243.93
7	Total Liabilities –State’s Tax Revenue Receipts (%)	646.18	614.07	582.86
8	State’s Tax Revenue Receipts to Revenue Expenditure (%)	44.32	44.02	45.08
9	Capital Outlay as Percentage of Gross Fiscal Deficit	144.85	112.61	126.36
10	Interest Payment as Percentage of Revenue Receipts	16.61	15.73	15.19
11	Salary Expenditure as Percentage of Revenue Receipts	29.32	27.76	29.24
12	Pension Expenditure as Percentage of Revenue Receipts	7.56	6.96	7.14

**FORM F-5**

[see Rule 7]

**A. COMPONENTS OF STATE GOVERNMENT LIABILITIES**

(Rs. in crore)

S. No	Category	Raised or to be raised during the Fiscal Year			Repayment/Redemption during the Fiscal Year			Outstanding Amount (as on 31 <sup>st</sup> March)		
		Previous Year (Acc) 2005-06	Current Year (RE) 2006.07	Ensuing Year (BE) 2007-08	Previous Year (Acc) 2005-06	Current Year (RE) 2006.07	Ensuing Year (BE) 2007-08	Previous Year (Acc) 2005-06	Current Year (RE) 2006.07	Ensuing Year (BE) 2007-08
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1	Market Borrowings	1260.82	1421.47	2286.34	316.52	357.55	510.84	10246.09	11310.01	13085.51
2	Loans from Centre	293.83	433.96	1097.06	414.99	426.89	442.16	8991.02	8997.98	9652.88
3	Special Securities issued to the NSSF	3035.02	2120.95	2096.00	36.45	77.13	117.26	12127.81	14171.63	16150.37
4	Borrowings from Financial Institutions/ Banks	570.98	724.16	907.58	186.00	349.80	611.22	6110.03	6484.39	6780.75
5	WMA/OD from RBI	0	0	0	0	0	0	0	0	0
6	Public Account	1347.66	1473.75	1423.49	1354.27	1312.27	1361.47	7724.84	7850.93	7912.95
7	Other Deposits	0	0	0	0	0	0	0	0	0
8	<b>Total</b>	6508.31	6174.29	7810.47	2308.23	2523.64	3042.95	45199.79	48814.94	53582.46

**B. WEIGHTED AVERAGE INTEREST RATES ON STATE GOVERNMENT LIABILITIES**

(Percent)

S. No	Category	Raised during the Fiscal Year <sup>^</sup>		Outstanding Amount (as on 31 <sup>st</sup> March)	
		Previous Year (Acc) 2004-06	Current Year (RE) 2006-07	Previous Year (Acc) 2005-06	Current Year (RE) 2006-07
(1)	(2)	(3)	(4)	(5)	(6)
1	Market Borrowings	7.59	8.31	8.06	7.58
2	Loans from Centre	9.00	9.00	7.68	7.92
3	Special Securities issued to the NSSF	9.50	9.50	10.36	10.04
(4)	Borrowings from Financial Institutions/ Banks	7.87	7.50	8.56	8.18
(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 *	8.66	8.60	8.77	8.60

<sup>^</sup> 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 2005-06	Current Year* 2006-07
	(1)	(2)	(3)
(1)	Average amount of WMA (Rs crore)	0	0
(2)	Average amount of OD (Rs crore)	0	0
(3)	Number of days of WMA	0	0
(4)	Number of days of OD	0	0
(5)	Number of occasions of OD	0	0

\* as on 31<sup>st</sup> December, 2006.

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)	
					Discharged	Not discharged		Receivable	Received
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
nil	nil	nil	nil	nil	nil	nil	nil	nil	nil

Note: Data for the current year is upto 31<sup>st</sup> December.

**FORM F-8**

[see Rule 7]

**GUARANTEE REDEMPTION FUND (GRF)**

(Rs. in 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	101.16	0	0	0	101.16

**FORM F – 9**

[see Rule 7]

**STATEMENT OF FINANCIAL ASSETS**

S.No.	Item	Assets at the beginning of the previous year 2005-06	Assets acquired during the previous year 2005-06	Cumulative total of assets at the end of the previous year 2005-06
		<b>Book Value (Rs. cr.)</b>	<b>Book Value (Rs. cr.)</b>	<b>Book Value (Rs. cr.)</b>
(1)	(2)	(3)	(4)	(5)
(1)	<b>Loans and advances</b>	<b>5866.09</b>	<b>-2017.54</b>	<b>3848.55</b>
	<i>Of which:</i>			
	Loans to Local Bodies	727.89	5.71	733.60
	Loans to companies	0.00	0.00	0.00
	Loans to others	5138.20	-2023.25	3114.95
(2)	Equity Investment Shares Bonus shares	4151.65	2814.34	6965.99
(3)	Investments in Govt dated securities/Treasury Bills	5.57	0.00	5.57
(4)	Investments in 14-day Intermediate Treasury Bills	199.65	445.31	644.96
(5)	Other financial investments	-	-	-
	<b>Total</b>	<b>10222.96</b>	<b>1242.11</b>	<b>11465.07</b>

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 2005-06)

<b>Major Head</b>	<b>Description</b>	<b>Amount under disputes (Rs. crore)</b>	<b>Amount not under disputes (Rs. crore)</b>	<b>Grand Total (Rs. crore)</b>
(1)	(2)	(3)	(4)	(5)
	<b>Taxes on Income and Expenditure</b>			
0023	Hotel Receipts Tax	-	-	-
0028	Other Taxes on income and expenditure	-	-	-
	<b>Taxes on Property and capital Services</b>			
0029	Land Revenue	66.81	19.10	85.91
0030	Stamps and Registration fees	16.07	49.29	65.36
	<b>Taxes on Commodities and Services</b>			
0040	Taxes on Sales, trade, etc	205.97	553.33	759.30
0039	State Excise	31.11	22.62	53.73
0041	Taxes on Vehicles	0.00	33.83	33.83
0045	Other taxes and duties on commodities and services	0.05	0.42	0.47
0043	Taxes and Duties on Electricity	22.78	10.07	32.85
0853	Non-Ferrous Mining and Metallurgical Industries	38.33	11.56	49.89
0700 0701 0702	Major Medium and Minor Irrigation	79.73	104.44	184.17
0406	Forestry and Wild life	3.17	15.82	18.99
	Other	-	-	-
	<b>TOTAL</b>	<b>464.02</b>	<b>820.48</b>	<b>1284.50</b>

**FORM F-11**

[see Rule 7]

**A. Employment in State Government**

(As at the end of the year 2005-06)

S.No	Pay Group (in Rupees)	No. of Employees	Percentage
(1)	(2)	(3)	(4)
1.	upto 2500	5145	1.09
2.	from 2501 to 4300	154689	32.77
3.	from 4301 to 6100	158701	33.62
4.	from 6101 to 9700	131219	27.80
5.	from 9701 to 13300	15118	3.20
6.	from 13301 to 19300	6754	1.43
7.	above 19301	436	0.09
	<b>Total</b>	<b>472062</b>	<b>100.00</b>

**B. Employment in State Public Sector Undertakings****(i) New Payscale**

(As at the end of the year 2005-06)

S.No	Pay Group (in Rupees)	No. of Employees	Percentage
(1)	(2)	(3)	(4)
1.	upto 2500	1540	2.29
2.	from 2501 to 4300	12571	18.75
3.	from 4301 to 6100	27084	40.40
4.	from 6101 to 9700	20193	30.12
5.	from 9701 to 13300	3392	5.06
6.	from 13301 to 19300	2105	3.14
7.	above 19301	161	0.24
	<b>Total</b>	<b>67046</b>	<b>100.00</b>

**(ii) Old Payscale**

1.	upto 800	371	5.68
2.	from 801 to 1000	2023	30.99
3.	from 1001 to 1400	2341	35.86
4.	from 1401 to 2000	1250	19.15
5.	from 2001 to 3500	503	7.71
6.	from 3501 to 5000	36	0.55
7.	above 5001	4	0.06
	<b>Total</b>	<b>6528</b>	<b>100.00</b>

### C. Employment in Semi Government Bodies

#### (i) New Payscale

(As at the end of the year 2005-06)

S.No	Pay Group (in Rupees)	No. of Employees	Percentage
(1)	(2)	(3)	(4)
1.	upto 2500	584	8.48
2.	from 2501 to 4300	2717	39.48
3.	from 301 to 6100	1542	22.40
4.	from 6101 to 9700	1422	20.66
5.	from 9701 to 13300	489	7.11
6.	from 13301 to 19300	114	1.65
7.	above 19301	15	0.22
	<b>Total</b>	<b>6883</b>	<b>100.00</b>

#### (ii) Old Payscale

(As at the end of the year 2005-06)

S.No	Pay Group (in Rupees)	No. of Employees	Percentage
(1)	(2)	(3)	(4)
1.	upto 800	31	1.21
2.	from 801 to 1000	699	27.35
3.	from 1001 to 1400	397	15.53
4.	from 1401 to 2000	484	18.94
5.	from 2001 to 3500	835	32.67
6.	from 3501 to 5000	94	3.68
7.	above 5001	16	0.62
	<b>Total</b>	<b>2556</b>	<b>100.00</b>

### D. Employment in Universities

#### New Payscale

(As at the end of the year 2005-06)

S.No	Pay Group (in Rupees)	No. of Employees	Percentage
(1)	(2)	(3)	(4)
1.	upto 2500	521	5.52
2.	2501 to 4300	5390	57.12
3.	4301 to 6100	1037	10.99
4.	6101 to 9700	924	9.79
5.	9701 to 13300	851	9.02
6.	13301 to 19300	563	5.97
7.	above 19301	150	1.59
	<b>Total</b>	<b>9436</b>	<b>100.00</b>



## E. Employment in Urban Local Bodies

### New Payscale

(As at the end of the year 2005-06)

S.No	Pay Group (in Rupees)	No. of Employees	Percentage
(1)	(2)	(3)	(4)
1.	upto 2500	22059	33.37
2.	2501 to 4300	36393	55.07
3.	4301 to 6100	5684	8.60
4.	6101 to 9700	1607	2.44
5.	9701 to 13300	295	0.45
6.	13301 to 19300	48	0.07
7.	above 19301	0	0.00
	<b>Total</b>	<b>66086</b>	<b>100.00</b>

## F. Employment in Development Authorities

### New Payscale

(As at the end of the year 2005-06)

S.No	Pay Group (in Rupees)	No. of Employees	Percentage
(1)	(2)	(3)	(4)
1.	upto 2500	361	18.55
2.	2501 to 4300	953	48.97
3.	4301 to 6100	284	14.60
4.	6101 to 9700	234	12.02
5.	9701 to 13300	95	4.88
6.	13301 to 19300	19	0.98
7.	above 19301	0	0.00
	<b>Total</b>	<b>1946</b>	<b>100.00</b>

## G. Employment in in Rural Local Bodies

### New Payscale

(As at the end of the year 2005-06)

S.No	Pay Group (in Rupees)	No. of Employees	Percentage
(1)	(2)	(3)	(4)
1.	upto 2500	56808	56.10
2.	2501 to 4300	39252	38.75
3.	4301 to 6100	4399	4.34
4.	6101 to 9700	640	0.63
5.	9701 to 13300	149	0.15
6.	13301 to 19300	32	0.03
7.	above 19301	0	0.00
	<b>Total</b>	<b>101280</b>	<b>100.00</b>

