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Government of Karnataka

GOVERNMENT OF KARNATAKA
FINANCE DEPARTMENT

Medium Term Fiscal Plan

2010 - 2014

(2010ನೆಯ ಇಸವಿ ಮಾರ್ಚ್ ತಿಂಗಳಲ್ಲಿ ವಿಧಾನಮಂಡಲದ ಮುಂದೆ ಮಂಡಿಸಿದಂತೆ)
(As Presented to the Legislature in March 2010)

Statement of Compliance

- This **2010-14 Medium Term Fiscal Plan** is tabled before the Legislature in compliance with **Section 3** of the **Karnataka Fiscal Responsibility Act (2002)**.

- **Section 3** of the Act requires the **MTFP** to include the following elements, all of which can be found in the document as shown below:

1. The medium-term fiscal objectives of the Government (Chapters 1, 4, 5, 6 and 7).

2. An evaluation of the performance of the prescribed fiscal indicators in the previous years (Chapter 2).

3. A Statement of recent economic trends and prospects for growth and development (Chapter 3).

4. The strategic priorities and key fiscal policies of the Government, and an evaluation of their consistency (Chapters 4 to 7).

5. Four-year rolling targets (Chapter 7).

6. An assessment of sustainability relating to the revenue deficit and the use of capital receipts for productive purposes.

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<u>Chapter 1</u>

a) <u>Economic Outlook</u>

1. The Medium Term Fiscal Plan 2009-13 was presented in the backdrop of an unprecedented global financial crisis. The speed and intensity with which the largely US sub-prime crisis turned into a global financial crisis and a global economic crisis was unexpected. In the wake of the crisis, the Indian economy witnessed significant liquidity pressures due to the substitution of overseas financing by domestic financing. The money and credit markets were under tremendous pressure, resulting in lower availability of credit to businesses and increase in the interest rates thereby slowing down the manufacturing and the services sector.

2. Karnataka's economy was also impacted by this crisis. For a large part of 2009-10, there was pressure on Government finances, affecting the revenue collections thereby making it difficult for the State Government to meet its budgeted revenue targets. However, the global outlook has significantly improved in the last quarter. Most economies have posted positive growth, but there still exists some risk of the recovery losing momentum once the ongoing fiscal stimulus measures are withdrawn by the respective Governments. Further, there are growing concerns about higher unemployment levels, growing fiscal deficits and continued credit recession to productive sectors. In addition, the economy is also facing various challenges as controlling food price inflation, revival of credit supply and reversal of capital flows. Karnataka's economy has largely weathered the crisis and the revenue collections in the last quarter have shown signs of attaining levels of growth registered during the pre-crisis levels.

3. During the year 2009-10, the fiscal deficit was estimated at 2.88 per cent of GSDP, while the revenue surplus was estimated at 0.39 per cent of GSDP. The GSDP during the year 2009-10 in real terms was expected to grow at 6 per cent and the inflation at 4 per cent. Due to the economic

crisis and its resultant impact, the GSDP growth projections in current prices for 2009-10 were 10.3 per cent, as against 12.8 per cent in 2008-09 and 16.7 per cent in 2007-08. The economy is, however, expected to regain its high growth trajectory enjoyed during the years 2004-05 to 2007-08.

4. The MTFP 2010-14 is being presented in anticipation of a robust turnaround in economic growth as compared to the slow down witnessed in the previous and the current year. The Government recognizes that in order to return to the high growth path, all possible efforts would have to be made to step up public expenditure, focus on infrastructure development and social sector programmes and continuously strive to improve the quality of expenditure.

b) <u>Fiscal situation</u>

5. Before the Central Government started impressing upon the State Governments to have fiscal responsibility legislations, Government of Karnataka had already passed fiscal laws like the Karnataka Ceiling on Government Guarantees Act, 1999 and the Karnataka Fiscal Responsibility Act, 2002. On the strength of these laws, the State Government consolidated its fiscal position and has ever since been a front-runner in the path of fiscal consolidation. Whereas the fiscal correction path as stipulated in the fiscal responsibility legislations of most States envisaged elimination of revenue deficit by 2008-09 and reduction in gross fiscal deficit to 3 per cent of GSDP by 2009-10, Karnataka has been reporting consistent revenue surpluses and fiscal deficits within 3 per cent of GSDP from 2004-05 onwards.

6. It was only in the years 2008-09 and 2009-10, based on the advise of the Central Government, the fiscal deficit limit of 3 per cent was enhanced to 3.5 per cent in 2008-09 and to 4 per cent of GSDP in 2009-10. In both these years these revised limits have been strictly adhered to. The revenue surplus situation even in these years has been maintained.

The fiscal performance of the State as reflected in the revenue and fiscal deficit targets are shown in the Table 1 below:-

Table 1

Rs. in crores

Item	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10 BE
GSDP Nominal	120889	130990	156226	183796	205784	240062	270697	294952
Fiscal Deficit	5281	4501	3600	3687	4688	5331	8732	8493
FD as per cent of GSDP	4.37%	3.44%	2.30%	2.01%	2.28%	2.22%	3.23%	2.88%
Revenue Deficit	2646	457	-1780	-2512	-4152	-3540	-1631	-1151
RD as per cent of GSDP	2.19%	0.35%	-1.14%	-1.37%	-2.02%	-1.47%	-0.60%	-0.39%

7. It is the endeavor of the State Government to continue to report revenue surpluses in the future to maintain fiscal sustainability of the State's finances and to provide more resources for capital investments. The State's strict adherence to fiscal discipline has also helped it in obtaining financial incentives as detailed in Table 2 below from the Government of India as per the recommendations of the 12th Finance Commission.

TABLE – 2

Debt Consolidation as per the Recommendation of XII Finance Commission

Rs. in crores

Year	Before Consolidation		After Consolidation		Savings		Debt Waiver
	Principal	Interest	Principal	Interest	Principal	Interest	
2006-07	404	786	358	511	45	276	358
2007-08	472	740	358	484	114	256	358
2008-09	468	685	358	457	109	228	358
2009-10	506	631	358	430	148	201	358
Total	**1850**	**2842**	**1433**	**1881**	**416**	**961**	**1433**

(c) Key Challenges and the way forward

8. The State Government has scrupulously adhered to the fiscal objectives and management principles enumerated in the Karnataka Fiscal Responsibility Act (KFRA). In view of the economic slow down following the global financial crisis, the Central Government allowed additional borrowings to the State Government in relaxation of fiscal deficit norms under the KFRA. During the year 2008-09 and 2009-10, the State Government utilized the additional borrowings for capital investments to give a boost to its economic activities.

9. This relaxation in the fiscal norms was a temporary measure. The State Government is committed to containing the fiscal deficit within the limit mandated by the KFRA. The endeavor of the State Government will be to increase the revenue surplus so that more funds can be mobilized for the capital investments.

10. The State's economy is yet to regain its high potential growth level, as is the case with the national economy. The early signs of increase in the economic growth are also to get reflected fully in the tax revenues of the State. On the revenue side, the efforts of the State Government in the coming years will be to ensure better enforcement, continuous review and monitoring of tax efforts. On the expenditure side, priority will be given for expenditure, on social sectors and economic infrastructure. Efforts shall be made to ensure full utilization of the assistance available under Centrally Sponsored and Central Plan Schemes. The austerity measures undertaken during the year 2009-10 shall be extended to the next year to regulate the non-plan expenditure.

11. The State Government has recorded the best own tax revenue to the GSDP ratio in the country over the years through better enforcement and monitoring efforts. This aspect has also been noted in the Reserve Bank of India's report, "State Finances: A Study of Budgets of 2008-09". The good performance on the tax efforts is not complemented by the non-tax

revenues. The State has one of the lowest non-tax revenues to the GSDP ratios in the country. As per information available in the RBI report, the national average of own non-tax revenues to the GSDP was 1.3 per cent during the year 2007-08 (RE), as against Karnataka's ratio of 0.8 per cent. If the non-tax revenues can be improved to the national average, additional non tax revenues of over Rs. 1,000 crore can be mobilized. Hence, apart from enforcement and monitoring of own tax efforts, a special emphasis will be given for mobilizing non-tax revenues during the next year.

Chapter 2

Evaluation of Fiscal Performance

12. The Karnataka Government has been continuously recording a revenue surplus since 2004-05 and the gross fiscal deficit has been contained within 3 per cent, except for the years 2008-09 and 2009-10 for which as suggested by Government of India the fiscal responsibility legislation was amended to permit the State Government to incur fiscal deficit of upto 3.5 per cent and 4 per cent of the estimated GSDP respectively. Table 3 below shows the State's fiscal performance since 2006-07 in terms of various indicators comparing actual achievements with targets set for each year. The performance is calculated on the latest available data on GSDP.

Table 3
Fiscal Framework

Rs. in crores

Item	2006-07 BE	2006-07 A/c	2007-08 BE	2007-08 A/c	2008-09 BE	2008-09 A/c	2009-10 BE	2009-10 RE
Revenue Receipts	35875	37587	40762	41151	47240	43291	48389	46406
of which								
State' Own Tax Revenues	22534	23301	26691	25987	31876	27646	32721	29339
Non Tax Revenues	4088	4098	1857	3358	1932	3159	2130	2495
Resources from the Centre - Devolution	4609	5374	6300	6779	7982	7154	7645	7000
- Grants	4644	4813	5914	5027	5450	5332	5893	7572
Revenue Expenditure	34341	33435	39135	37611	45713	41659	47238	45868
of Which								
Interest	4366	4236	4818	4506	5278	4532	5578	5250
Salaries	6724	6545	8547	8410	11413	9927	11305	11306
Pensions	2666	2496	3416	3241	3500	4113	4001	3500
Subsidies (Food, Transport Housing & Industry)	1741	1991	2517	3364	1492	1472	1960	1744
Power Subsidy	1800	2370	2150	2297	2410	1943	2400	1900
Devolution to ULBs	1530	1639	1904	1926	2995	2374	2720	2370
Major O&M (Roads,Buildings & Irrigation)	1018	1011	810	740	834	636	750	711
Other O & M (Edn, Health,RD,WS,Agr, Forest)	3438	3477	8663	7012	8388	8487	4413	4275
Administrative Expenditure	687	559	799	688	921	742	832	938
Other Revenue Expenditure	10372	9112	5511	5428	8482	7433	13280	13873
Capital Receipt (Non Debt)	45	60	749	298	3070	238	1977	69
Revenue Deficit	**-1535**	**-4152**	**-1627**	**-3540**	**-1527**	**-1631**	**-1151**	**-538**
Expenditure on Capital Formation	6790	8900	8681	9406	11627	10602	11622	11873
Fiscal Deficit	**5211**	**4688**	**6305**	**5331**	**7030**	**8732**	**8493**	**11266**

Table 3
Fiscal Framework

Rs. in crores

Item	2006-07 BE	2006-07 A/c	2007-08 BE	2007-08 A/c	2008-09 BE	2008-09 A/c	2009-10 BE	2009-10 RE
Total Debt Stock	56074	54602	61418	59778	67504	68064	77103	79644
Interest	4366	4236	4818	4506	5278	4532	5578	5250
Debt Services	5320	5986	6117	5756	7085	6310	7782	7560
Salary+Pension+Interest	13756	13278	16780	16156	20192	18572	20884	20056
Gross Off Budget Borrowings	**845**	**242**	**720**	**103**				
Net Off Budget Borrowings	**-146**	**-1246**	**-58**	**-1136**	**-679**	**-456**	**-697**	**-531**
Consolidated interest	5077	5299	5198	4888	5548	4785	5870	5429
Consolidated Revenue Deficit	**-824**	**-3089**	**-1247**	**-3158**	**-1258**	**-1389**	**-750**	**-259**
Consolidated Capital Formation	7635	9142	9401	9508	11627	10602	11622	11873
Consolidated Fiscal Deficit	**5064**	**3442**	**6247**	**4196**	**6350**	**8277**	**7796**	**10735**
Consolidated Debt Stock	61263	59643	66149	63581	70847	71410	79794	82513
Cnsldtd Rev Deficit/ GSDP	**-0.44%**	**-1.50%**	**-0.58%**	**-1.32%**	**-0.52%**	**-0.51%**	**-0.25%**	**-0.09%**
GSDP at Current Prices	**186757**	**205784**	**213503**	**240062**	**244043**	**270697**	**294952**	**298465**
Annual Inflation	4.00%	4.00%	5.00%	5.00%	8.00%	4.00%	4.00%	4.00%
GSDP Annual Real Growth	7.00%	7.00%	8.00%	8.00%	7.00%	5.65%	6.00%	5.77%
Revenue Receipts	19.21%	18.27%	19.09%	17.14%	19.36%	15.99%	16.41%	15.55%
of which								
State' Own Tax Revenues	12.07%	11.32%	12.50%	10.83%	13.06%	10.21%	11.09%	9.83%
Non Tax Revenues	2.19%	1.99%	0.87%	1.40%	0.79%	1.17%	0.72%	0.84%
Resources from the Centre - Devolution	2.47%	2.61%	2.95%	2.82%	3.27%	2.64%	2.59%	2.35%
- Grants	2.49%	2.34%	2.77%	2.09%	2.23%	1.97%	2.00%	2.54%
Revenue Expenditure	18.39%	16.25%	18.33%	15.67%	18.73%	15.39%	16.02%	15.37%
of Which								
Interest	2.34%	2.06%	2.26%	1.88%	2.16%	1.67%	1.89%	1.76%
Salaries	3.60%	3.18%	4.00%	3.50%	4.68%	3.67%	3.83%	3.79%
Pensions	1.43%	1.21%	1.60%	1.35%	1.43%	1.52%	1.36%	1.17%
Subsidies (Food, Transport Housing & Industry)	0.93%	0.97%	1.18%	1.40%	0.61%	0.54%	0.66%	0.58%
Power Subsidy	0.96%	1.15%	1.01%	0.96%	0.99%	0.72%	0.81%	0.64%
Devolution to ULBs	0.82%	0.80%	0.89%	0.80%	1.23%	0.88%	0.92%	0.79%
Major O&M (Roads,Buildings & Irrigation)	0.54%	0.49%	0.38%	0.31%	0.34%	0.23%	0.25%	0.24%
Other O & M (Edn, Health,RD,WS,Agr, Forest)	1.84%	1.69%	4.06%	2.92%	3.44%	3.14%	1.50%	1.43%
Administrative Expenditure	0.37%	0.27%	0.37%	0.29%	0.38%	0.27%	0.28%	0.31%
Other Revenue Expenditure	5.55%	4.43%	2.58%	2.26%	3.48%	2.75%	4.50%	4.65%
Revenue Deficit	**-0.82%**	**-2.02%**	**-0.76%**	**-1.47%**	**-0.63%**	**-0.60%**	**-0.39%**	**-0.18%**
Capital Receipt (Non Debt)	0.02%	0.03%	0.35%	0.12%	1.26%	0.09%	0.67%	0.02%
Expenditure on Capital Formation	3.64%	4.32%	4.07%	3.92%	4.76%	3.92%	3.94%	3.98%
Fiscal Deficit	**2.79%**	**2.28%**	**2.95%**	**2.22%**	**2.88%**	**3.23%**	**2.88%**	**3.77%**
Off Budget Borrowings/GSDP	**0.45%**	**0.12%**	**0.34%**	**0.04%**				
Consolidated Revenue Deficit/GSDP	**-0.44%**	**-1.50%**	**-0.58%**	**-1.32%**	**-0.52%**	**-0.51%**	**-0.25%**	**-0.09%**
Consolidated Capital expenditure/GSDP	4.09%	4.44%	4.40%	3.96%	4.76%	3.92%	3.94%	3.98%
Consolidated Fiscal Deficit/GSDP	**2.71%**	**1.67%**	**2.93%**	**1.75%**	**2.60%**	**3.06%**	**2.64%**	**3.60%**
Consolidated Debt Stock/GSDP	**32.80%**	**28.98%**	**30.98%**	**26.49%**	**29.03%**	**26.38%**	**27.05%**	**27.65%**

13. As indicated in the table above, the revenue balance position reached a peak surplus of Rs. 4,152 crores in the financial year 2006-07. Subsequently, there has been a consistent decline in the revenue surplus amount over the years. As per 2009-10 (RE) the revenue surplus is expected to be reduced to Rs. 538 crores. The decline in the revenue surplus for the year is due to the combination of stress on the Government resources and increased social sector expenditure. During the year, a significant amount of additional expenditure over the amount budgeted was incurred for social security pensions and enhanced subsidy for the public distribution system. In addition, during the current year, expenditure was incurred for the relief and rehabilitation efforts for the victims of the floods that hit the northern districts of the State. This additional expenditure has put a tremendous strain on the revenue balance position of the State. Further, the stimulus package announced by the Centre to boost the consumer demand has put a downward pressure on the tax collections of the Central Government. As a result, as against the budgeted devolution from the Government of India of Rs. 7,645 crore, the State Government expects to receive only around Rs. 7,000 crore, a reduction of about 10 per cent.

14. Declining revenue surpluses reduce the ability of a Government to increase its capital expenditure outlay. However, the Government has used the enhancement of the fiscal deficit limits during 2008-09 and 2009-10 to meet its capital expenditure commitments by accessing market borrowings. As per the revised estimates for 2009-10 inspite of the various fiscal pressures, the Government has been able to achieve a modest increase of Rs. 68 crores in the non-plan expenditure as compared with the budget estimates for the year. According to revised estimates, the Government is expected to fall short of its budgeted plan expenditure commitments by Rs. 1,187 crores in the current year. The revised estimates include impact of expenditure items in the supplementary estimates that are to be presented to the legislature.

15. Inspite of the overall shortfall in own tax revenues by Rs. 3,383 crores as compared with budget estimates, the Government has managed to meet most of its developmental commitments during the year. This has been possible due to the various austerity measures undertaken by the Government to keep its non-plan expenditure under control during the current year. There were restrictions on fresh recruitment, vehicle purchases, foreign tours and training, holding Government functions in star hotels and a total ban on travel in business class in flights. The Government also benefited from lower pension expenditure during the year on account of increase in the retirement age for all State Government employees from 58 years to 60 years during 2008-09. The retirement of employees will commence from the year 2010-11 and hence the pension expenditure is expected to significantly increase from the next year as compared to 2009-10.

Chapter 3

Macro Economic Outlook

a) GSDP

16. Table 4 below shows the contribution of various sectors to the Gross State Domestic Product in the last few years. The services sector continues to be the dominant contributor to the GSDP.

Table 4
GSDP at factor cost (constant prices) by Industry of Origin

Rs. in crores

Industry	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09 QE	2009-10 AE
Primary	27107	24389	32056	38406	35977	41342	47671	50231
Secondary	31193	35034	42393	51847	60746	73492	78394	86514
Tertiary	62589	71567	81777	93543	109062	125228	144631	161721
Total	**120889**	**130990**	**156226**	**183796**	**205784**	**240062**	**270697**	**298465**
Percentage share of different sectors								
Primary	22.4	18.6	20.5	20.9	17.5	17.2	17.6	16.8
Secondary	25.8	26.7	27.1	28.2	29.5	30.6	29.0	29.0
Tertiary	51.8	54.6	52.3	50.9	53.0	52.2	53.4	54.2

Source: Directorate of Economics & Statistics QE: Quick Estimates AE: Advance Estimates.

b) GSDP Growth

17. As per the latest available estimates of the Directorate of Economics & Statistics, the real annual GSDP growth rate in 2009-10 is estimated at 5.5 per cent (constant prices) as against 4.5 per cent (constant prices) in 2008-09. The slowdown of the economy has been more pronounced in the State than at the national level. This is perhaps reflective of the higher integration of the State economy with the global economy through IT and mining exports. The negative growth in agriculture in these two years has also impacted the overall growth in GSDP.

18. Taking into account the external economic outlook and the national macro economic scenario as detailed in the Review of the Indian Economy by the Economic Advisory Council to the Prime Minister, it is expected that the State economy will grow at around 8 per cent in real terms in 2010-11. At the national and the state level, there appears to be significant upside prospects for further acceleration in growth during the next year due to signs of revival in private demand, merchandise exports registering a positive growth from November 2009 onwards after a phase of decline of over 13 consecutive months, better outlook for a rabi crop, favourable capital market conditions, higher investments, and surplus conditions in the forex market.

19. In current prices, the State economy is expected to grow at 10.3 per cent in 2009-10, with primary, secondary and tertiary sectors growing at 5.4 per cent, 10.45 per cent and 10.3 per cent respectively. Considering the prospects of moderation in inflation in 2010-11, the GSDP at current market rates is estimated to be Rs. 3,28,312 crore in 2010-11 as compared to Rs. 2,98,465 crore in 2009-10.

c) Inflation trends

20. Inflation has emerged as a major concern during the current year resulting from significant supply side factors. The source of inflation has primarily been on account of food articles and the situation has aggravated after a deficient south-west monsoon, resulting in a lower kharif output.

21. Presently, WPI inflation including food articles is around 8.5 per cent and the food inflation is around 18 per cent. WPI has increased to a high of 8.5 per cent at present from 0.7 per cent at beginning of the year, signaling that the inflation arising from high food prices is getting transmitted to other non-food items through expectations driven wage price revisions having a cascading effect on the overall inflation scenario. Addressing the supply side constraints will be the cornerstone of the

anti-inflationary policy measures during the next year. However, the outlook for the rabi crop being favourable, the arrival of foodgrains, vegetables and certain new crops could ease some of the pressures on inflation.

d) Policy interventions

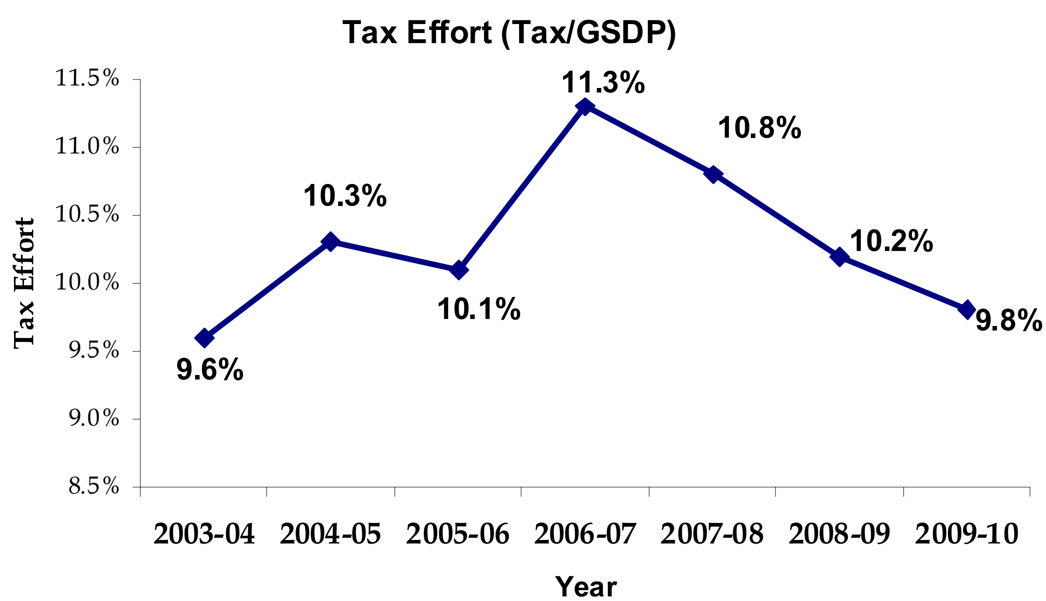
22. To give impetus to the currently sluggish economy and to ensure its return to the high growth trajectory enjoyed from 2004-05 to 2007-08, the strategy of the Government would be to focus on building infrastructure to remove systemic constraints in the economy, and to provide support to the social sectors. In view of the limited capacity of the State Government to finance the infrastructure, the Government shall increasingly make use of the public private partnership mode to mobilize investments.

Chapter 4

Revenue Reforms & Projections

Trend in Major Own Tax Revenues

23. During the years 2002-03 to 2006-07, the average compound annual growth rate of more than 20 per cent was recorded in the Own Tax Revenues of the State Government. As a result of the above, the State's financial position improved significantly. However, of late the tax effort, i.e. ratio of Tax to GSDP as a percentage after reaching a peak of 11.3 per cent in 2006-07 has been showing a continuous declining trend (graph below).



24. The decline in the last two years is more pronounced due to the impact of the economic slowdown. During the years 2008-09 and 2009-10, the global economic crisis affected the State Government in line with the Indian and the world economy and due to a slowdown in the economic activities, the growth in tax collections declined. For the years 2008-09 and 2009-10 (RE), the total major own tax revenues recorded an increase of 6.41 per cent and 6.44 per cent (RE) respectively. Inspite of the global financial crisis, which affected the last six months during the year 2008-

09 and the first half of the year 2009-10, the Government has managed to increase its revenues by over 6 per cent in both the years. However, the decline in the growth rate of tax revenues indicates the need for improving tax administration, enhancing collection efficiency, and revisiting the tax rates.

25. Table 5 shows the growth in State Revenues under major taxes from the period 2003-04 to 2008-09. During the past six years, commercial taxes and motor vehicle taxes have grown at the same rate (CAGR) as that of GSDP in real terms with buoyancy of around 1.0. The stamps and registration duties have seen negative growth in recent years, and require closer attention. The excise duty has seen high buoyancy of 1.28 in these six years. As a result of the economic slowdown, the collection from the four major taxes during 2009-10 (RE) is expected to be lower by Rs 3,383 crores as compared to the budget estimates. The slower growth in the tax revenues in the last two years was mainly due to the general economic slowdown in the country and outside.

Table 5

Rs. in crores

Year	Commercial Tax			Excise Duty		
	Actuals	**Growth Rate**	**Buoyancy**	**Actuals**	**Growth Rate**	**Buoyancy**
2003-04	7733	22.49%	2.7	2334	11.45%	1.4
2004-05	10057	30.05%	2.1	2806	20.20%	1.4
2005-06	11484	14.19%	0.9	3397	21.07%	1.4
2006-07	13714	19.42%	1.9	4495	32.34%	3.1
2007-08	15552	13.40%	0.6	4767	6.03%	0.2
2008-09	16645	7.03%	0.5	5750	20.62%	1.4
2009-10 RE	17500	5.13%	0.5	6735	17.14%	1.5
CAGR	**12.37%**		**0.96***	**16.35%**		**1.28***
Year	**Motor Vehicle Tax**			**Stamps & Registration Duty**		
	Actuals	**Growth Rate**	**Buoyancy**	**Actuals**	**Growth Rate**	**Buoyancy**
2003-04	800	18.41%	2.2	1356	21.55%	2.6
2004-05	983	22.86%	1.6	1760	29.81%	2.1
2005-06	1105	12.46%	0.8	2212	25.70%	1.7
2006-07	1374	24.34%	2.4	3206	44.91%	3.7
2007-08	1650	20.05%	0.8	3409	6.33%	0.3
2008-09	1681	1.88%	0.1	2927	-14.14%	-1.0
2009-10 RE	1795	6.77%	0.6	2687	-8.19%	-0.7
CAGR	**12.24%**		**1.02***	**10.27%**		**0.95***

* Buoyancy over 7 year period is based on logarithmic regression

Commercial Taxes

26. Commercial Taxes constitute the biggest share in the State's own tax revenue with tax on sale of goods being the major source. With most of the taxes on sale of goods being included in the Value Added Tax system from 2005-06 onwards, it was expected that the growth in revenue from Value Added Tax system would stabilize even without any modification in the rate structure. However, the negative impact on tax revenues in the second half of 2008-09 on account of the global economic slowdown which affected domestic consumption of goods and services in all sectors has continued in the first half of 2009-10 as well. While the State Government had reduced taxes on petroleum products in 2008-09 to cushion the impact of increase in the administered prices of petroleum products by the Central Government, subsequent reduction of these prices in the last quarter of 2008-09 and first quarter of 2009-10 without consequential roll back of tax reduction by the State Government has also added to further shortfall in tax revenue. Further, reduction of Central Sales Tax from an initial 4 per cent to 2 per cent during the previous year in preparation for rolling out the GST has affected revenues adversely. There has been some reversal of this trend in the second half of 2009-10, and the revenues have posted modest growth in recent months.

27. In order to give a fillip to revenue collection, the State Government would take suitable measures to improve tax compliance and make tax administration more effective and efficient. Measures to facilitate electronic filing of returns, electronic payment of taxes, and electronic capture and verification of returns and movement of goods would be put in place. Measures would also be taken to have a more productive tax base by ensuring better compliance. A suitable mechanism would be designed to reduce interpretational issues at different levels and to provide a congenial atmosphere for increased self-compliance. A comprehensive capacity building programme would be taken up to enhance the capability of the officers and staff.

28. The proposed Goods and Services Tax (GST) is a much needed comprehensive reform of the indirect tax system in the country to remove the cascading effect of taxes. It is expected to reduce the multiplicity of taxes and bring down the compliance cost. GST is likely to benefit all stakeholders in the long run even though there could be some revenue loss in the short to medium term. In this context, an important concern of the State Government is regarding the revenue neutral rate for the State GST, which is proposed to be on an all State aggregate basis. Karnataka having achieved the highest tax effort as a percentage of GSDP, may suffer revenue losses under the uniform State GST rate in the medium term as was experienced under VAT.

29. The Empowered Committee of State Finance Ministers has met during the previous and the current year to sort-out all the issues relevant to the States, the Centre, and other stakeholders. While consensus among the States and the Centre is still elusive on some critical issues of GST, a broad design of the likely structure is available. This would be made use of in developing administrative structures and procedures to implement the new tax system. The deferment in the introduction of Goods and Services Tax (GST) which was originally to be introduced in April, 2010 would be taken as an opportunity by the State to prepare itself to effectively meet the challenges in its implementation.

<u>State Excise</u>

30. The process of reorientation of enforcement measures and its effective implementation has helped in improved harnessing of the excise revenue in the State. The computerization of canalized distribution system being led by the Karnataka State Beverages Corporation (KSBCL) is complete. Further, computerization of the Excise Department is being taken up for focussed review of crime statistics, while making it compatible with the information technology systems put in place by KSBCL. To provide stability to the changes which have taken place in the last few years in

the State's excise policy, the year 2010-11 has been contemplated to be the year of consolidation and a moderate increase in revenue of about 10 per cent is projected.

Stamps & Registration

31. The global financial crisis hit this revenue stream of the State Government the most on account of a significant reduction in purchase and sale of properties. There was negative growth of 14 per cent in 2008-09. On its part, the State Government announced a 1.5 per cent reduction in stamp duty from 7.5 per cent to 6 per cent to stimulate the real estate market. In view of this reduction and a general lack of demand, the growth is expected to be negative at 8.19 per cent during the year 2009-10 (RE).

32. The availability of institutional finance for investment in industry and real estate has increased in the last two quarters. Active policy interventions by the Reserve Bank of India have increased liquidity in the system. The related sectors of steel, cement etc. are also witnessing increase in demand. The real estate industry has reported firming up of prices of commercial and residential properties due to increase in consumer demand, which is reflected through the buoyancy shown by the tax revenues during the last quarter. It is expected that from the year 2010-11 onwards, the collections will significantly improve and pre-crisis growth rates of above 20 per cent may be recorded.

33. For making the registration services more citizen centric and to enable interoperability between related departments, a new Project 'Kaveri' is envisioned during the year 2010-11 on a PPP model with the following objectives.

(a) Facilitating issue of Certified Copies, Encumbrance Certificates, etc., through Bangalore 1, Karnataka 1, Nemmadi Kendras, Web Portal, etc., to the general public.

(b) Reducing the average time taken for document registration from the present 30 to 10 minutes.
(c) Providing access to the general public to information on the registration of properties, marriages, e-stamp sales, public grievance redressal, etc., through the Web.
(d) Facilitating the exchange of information, electronically, among related Departments such as Bhoomi, Treasury, Urban Local Bodies, Income Tax Department, Accountant General Office, etc.
(e) Controlling misuse or leakage of revenue due to the Government.

<u>Motor Vehicle Taxes</u>

34. Collection of Motor Vehicle Taxes also suffered during the financial crisis since availability of credit had become a major issue. During the period of the crisis, the demand for motor vehicles plummeted drastically. Government of India rolled out sops to stimulate the automobile industry in the form of reduction in excise duty and allocations for purchase of buses under the JNNURM. With the Indian economy showing signs of recovery, and the information technology sector which contributes significantly to consumption spending in Karnataka being on the recruitment mode, the tax collection scenario for the next year looks optimistic.

35. The Transport Department has undertaken implementation of a Computerised Service Delivery System. The project has covered the 55 RTOs of the State, over 82 lakh vehicles and around 90 lakh vehicle users. So far 8 lakh smart cards are issued for Driving Licences and Registration Certificates for vehicles. Issue of smart cards is expected to prevent fake driving licences and bogus vehicle registration certificates. Driving licences and vehicles data is available on-line to all the departmental offices. Further, when data is fed to the National database, it will be available throughout the country in all Transport Department

offices. This facility should reduce undue delays in the general public getting clearances from various authorities.

Royalty on major and minor minerals

36. During the current year, the Central Government revised the royalty rates on major minerals. As a result, the revenue projections for royalty receivable in the next year are expected to increase by 40 per cent. Although the demand in the international market for these minerals is still subdued, an upward trend in prices for the last two quarters has been witnessed. The Government is hopeful of meeting a target of Rs. 1,000 crore as collections from royalty during 2010-11, against the 2009-10 (RE) target of Rs. 720 crores.

Receipts from sale of land

37. MTFP 2009-13 had anticipated revenues from the sale of Government land of Rs. 1,900 crore. However, due to the slowdown in the real estate market, which resulted in a severe downside correction in property prices, sale of Government land to raise additional resources was not considered in the current year. It is expected that in 2009-10 not more than Rs. 100 crore will be realized. Hence, there will be a shortfall of Rs. 1,800 crores. Since the market conditions are showing signs of improvement, it is expected that in the next year, better realization can be achieved from the sale of land, the target for the year 2010-11 is kept at Rs. 2,800 crores.

Chapter 5

Expenditure Management & Projections

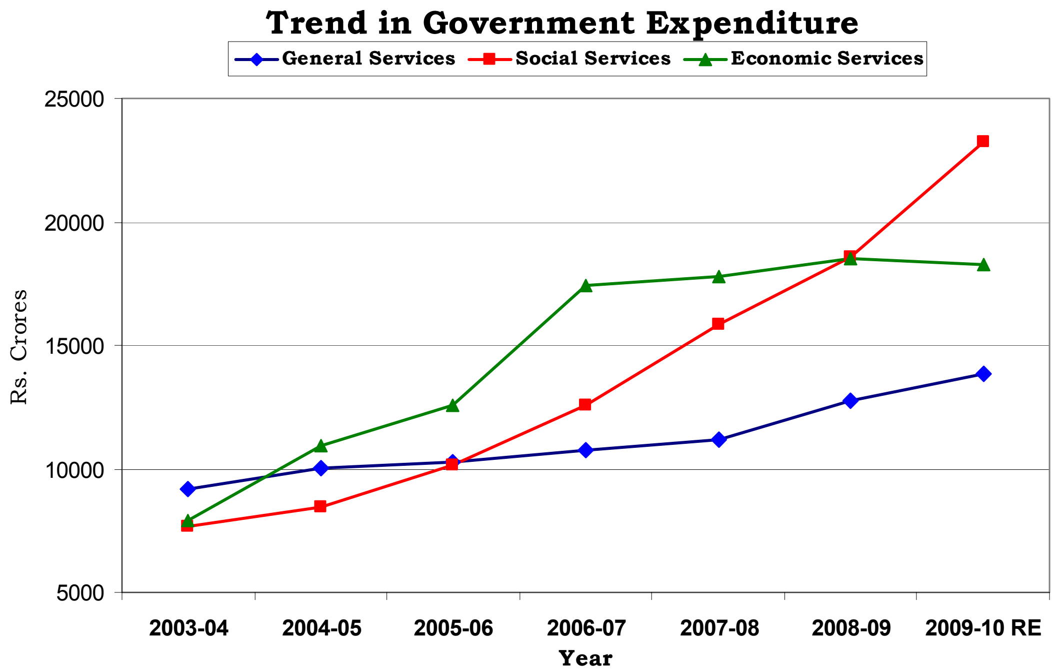
38. As part of its strategy to improve the structure of its expenditure, the Government has been making continuous efforts to enhance outlays for social services, while restricting expenditure on general services. The quality of expenditure and the outcome of the enhanced outlays though remain a major challenge. The trends in Government's expenditure on general, social and economic services during the past seven years are shown in the Table 6 and graph below.

Table – 6

Expenditure on Services

Rs. in crores

Services		2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10 RE
General Services	Revenue	9039	9900	10036	10419	10872	12276	13451
	Capital	128	136	218	321	339	475	411
	Loan	0	0	0	0	0	0	0
	Total	**9168**	**10036**	**10254**	**10740**	**11211**	**12751**	**13862**
Social Services	Revenue	6965	7723	8899	10937	13124	15873	19649
	Capital	427	486	1105	1293	2148	2555	2814
	Loan	256	239	143	326	595	173	800
	Total	**7649**	**8448**	**10147**	**12555**	**15866**	**18601**	**23264**
Economic Services	Revenue	4652	6511	7947	10440	11453	11137	10398
	Capital	2474	4051	4499	6929	6162	6840	7696
	Loan	755	373	157	31	160	558	152
	Total	**7880**	**10935**	**12603**	**17401**	**17776**	**18534**	**18245**



39. The expenditure on social services as a percentage of GSDP has increased from 6.33 per cent in 2003-04 to 7.87 per cent in 2009-10 (RE). The expenditure on economic services has remained constant during the last three years, while the growth in the expenditure on general services has been largely contained.

40. During 2009-10, a significant step up of over 21.3 per cent in the expenditure on social services is expected. State Government expects to incur substantially higher expenditure on social services for increased coverage of social security pensions, welfare of SC, ST & OBCs and urban development. During the current year, 15 districts of the State were hit by unprecedented floods rendering lakhs of people homeless. Standing crops in those districts were destroyed to a large extent and lakhs of houses collapsed. The relief measures for this natural calamity have also resulted in a significant increase in the expenditure on social services. Further, development expenditure has increased substantially due to opening of new schools, colleges, polytechnics, engineering colleges and medical colleges, upgradation of primary health centers, community health centers and taluk level hospitals. The Government

recognises the need to take up training of rural youth in technical skills to equip the vast reservoir of manpower in rural areas for employment in industry and the services sector. As a result, upgradation of Industrial Training Institutes, increased allocation to Government Tools & Training Centres and infrastructure support to industries has been provided. In addition, outlays for Tier – II and Tier –III cities for urban development in the form of Chief Minister's Small & Medium Towns Programme have been given.

41. The outlays on some of the major development sectors are detailed in the table 7 below.

Table 7
Outlay under major development sectors

Rs. crores

Years	Agri & Horti	Growth	Rural Dev	Growth	Health	Growth	Education	Growth
2005-06	674	-14.36%	1639	23.60%	1147	9.81%	4793	11.83%
2006-07	874	29.74%	2016	23.00%	1353	18.02%	5631	17.50%
2007-08	1264	44.62%	2549	26.44%	1769	30.75%	6859	21.81%
2008-09	1323	4.71%	3104	21.78%	1995	12.80%	8600	25.38%
2009-10 (RE)	1458	10.15%	3542	14.10%	2183	9.42%	8732	1.54%
2010-11 (BE)	2094	43.64%	3442	-2.82%	2658	21.73%	10505	20.31%

The details of the activities undertaken in the priority development sectors are outlined below:-

a) <u>Agriculture</u>

42. Dependence of a large proportion of the population of the State on agriculture and its falling contribution in the overall GSDP is a cause of serious concern. To alleviate the distress in this sector, State Government during the current year announced an interest subsidy scheme on crop loans from all commercial banks so that the net interest payable by the farmers can be limited to 3 per cent per annum. This scheme is in addition to the already existing scheme for interest subsidy

on loans from cooperative banks. Further, the State Government has announced a new scheme to promote organic farming in the State. This scheme shall address the issue of soil degradation and reduction in use of fertilizers and pesticides, making farm produce more healthy and at the same time more remunerative to the farmers. Action has also been taken by dovetailing the State's own resources to the funds available under Rashtriya Krishi Vikasa Yojana to promote micro irrigation, provision of seed subsidy and various soil and water conservation schemes through an integrated watershed management programme. Significant allocations have also been made to augment the irrigated lands in the State and the farmers have been provided with free power for those using IP sets less than 10 HP.

b) Rural Development

43. Rural Development is one of the key thrust areas of the Government's policy. During the current year, allocations for drinking water supply has been given the topmost priority. Further there is an increased focus on connectivity of the villages by providing all weather roads by taking up programmes under the Centrally Sponsored and Central Plan Schemes. During the year, the Mahatma Gandhi National Rural Employment Guarantee Scheme has been implemented in the State with renewed vigour. As against an expenditure of approximately Rs. 358 crores in 2008-09, the State is expected to spend more than Rs. 2,000 crores in the current year. Over 56 lakhs job cards have been issued in the State. Extensive work on flood control, rural connectivity, water services and water harvesting, rejuvenation of traditional water bodies, development of irrigation facilities and land development has been undertaken under the scheme. During the next year also, this programme shall be aggressively pursued. Other programmes for comprehensive development of villages like Suvarna Gramodaya, Total Sanitation Campaign, Mukhya Manthri Grameena Yojana are also being implemented in a mission mode.

c) Health & Education

44. The overall outlay on health and education has been consistently increasing over the years. For the next year an increase in outlay of 21.73 per cent on health and 20.31 per cent for education is proposed.

45. It is the endeavour of the Government to ensure institutionalized delivery for every birth in the State. In this regard, new schemes like Taayi Bhagya, Prasoothi Araike were launched to financially support the mothers of BPL families to undertake deliveries in hospitals. In addition, schemes for 24X7 PHCs have been launched to handle all emergencies.

46. The Government has achieved considerable success in enrolling children in primary schools. However, the challenge to prevent dropouts in high schools and colleges remains. To address the issue of school dropouts at the high school level, Rashtreeya Madhyamika Shiksha Abhiyana was launched in the current year. In addition, Government proposes to introduce science and commerce education in all Government colleges to improve the employment potential of the students. The Government recognizes that not only the coverage of the entire population, but the quality of the education imparted is a critical determinant of employability and life learning skills.

d) Energy

47. Karnataka today is a power deficit State. At peak hours in the summer months, the power shortage ranges from 1,000 MW to 1,500 MW. To bridge this power deficit, significant investments both in generation and transmission are required. Although transmission losses in the State are one of the lowest in the country, there is still scope for further reduction of the transmission and distribution losses from the present 22 per cent to a more acceptable level of 18 per cent in the next three years. During the current year, a number of initiatives have been taken up by the State Government to enhance the power generation capacity in the State. Total projects of approximately 8,000 MW are in the pipeline which are

expected to be completed over the next five years. Government provided an equity contribution of Rs. 500 crore to Karnataka Power Corporation Limited during the year 2008-09. Towards its goal of providing power to all, the Government has decided to make another equity investment of Rs. 500 crore in the energy sector in the current year to strengthen the generation, transmission and distribution network in the State. Since the financial resources of the State Government alone are not sufficient to manage the entire power shortage, several projects are being taken up on a public private partnership basis.

e) Urban Development

48. Karnataka with an urban population of 1.76 crore (as per 2001 census) ranks fourth among the highly urbanized States in India. In accordance with the State Finance Commission's recommendations, the devolution to the ULBs have been steadily increasing from Rs. 1926 crore in 2007-08 to Rs.2370 crore during 2009-10.

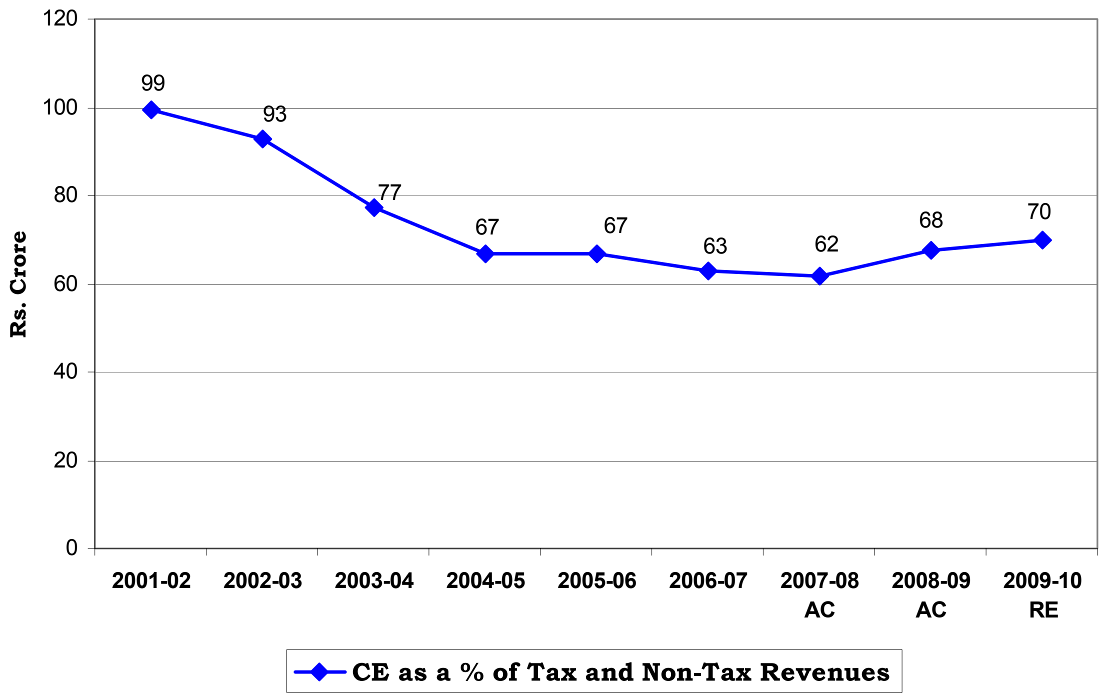
49. During the previous year the Government launched a special urban development package providing Rs. 100 crore for each of the 7 city corporations. Extensive works relating to underground drainage, water supply and roads have been undertaken. Further, during the current year, the Chief Minister's Small & Medium Towns Development Programme was launched to provide additional grants to smaller ULBs like City Municipal Councils and Town Municipal Councils to improve infrastructure and urban governance in tier II and tier III cities. The total outlay of the programme is more than Rs. 1,400 crore and is expected to be completed within a two year period. In addition, the cities of Bangalore & Mysore have been covered under the Central Government's Jawaharlal Nehru National Urban Renewal Mission. The projects taken up in these cities comprise basic services for urban poor, urban transport and improving urban infrastructure and governance. An allocation of over Rs. 4,000 crore under the mission has been made and funding until 2011-12 has been tied up.

50. There are currently five major externally aided projects which are in progress in the State including the ADB assisted North Karnataka Urban Sector Investment Programme (NKUSIP), the World Bank assisted Karnataka Municipal Reform Project (KMRP) and Karnataka Urban Water Supply & Sanitation Improvement Project (KUWASIP). In addition, JBIC assisted Cauvery Water Supply Scheme, Phase II to bring additional 500 MLD of water from the Cauvery to the city of Bangalore is under progress. Further, the first line of Bangalore Metro, which is assisted by JICA, is expected to be operational in December 2010 and the entire project is expected to be operational in March 2013.

f) <u>Committed Expenditure</u>

51. The expenditure on salaries, pensions, interest payments, subsidies, grants in aid, maintenance of assets and social security pensions constitute a major part of the committed expenditure of the Government. As shown in the graph below, such committed expenditure accounts for 70 per cent the tax and non-tax revenues including tax devolution from the Central Government in the year 2009-10. As a result, the main development agenda of the Government has to be financed from the balance 30 per cent of the tax and non-tax revenue, grants from Government of India and the borrowings. However, it may be noted that a significant part of the committed expenditure such as salary of teachers and doctors and social security pensions facilitates development and provides a safety net for the weaker sections.

Committed Expenditure as Percentage of Tax and Non-Tax Revenues



52. The absolute increase in the committed expenditure has been fairly regulated. However, the economic slowdown has resulted in only a very modest growth in the tax and non-tax revenues. The increase in the committed expenditure relative to the tax and non-tax revenues constrains the Government's ability to finance other priority functions, especially investments in the capital projects. Corrective measures in the coming years are needed to ensure provision of funding for the infrastructure sectors.

53. The quality of expenditure as an issue has gathered substantial momentum in the wake of the need for fiscal correction at the Central and State Government levels. In times of fiscal stress, there is a need to ensure that the correction is not at the cost of either quantity or quality of expenditure. The 13th Finance Commission has also gone into these aspects and has made recommendations on the need to improve the quality of public expenditure to obtain better outputs and outcomes.

Chapter 6

Public Finance Management & Systemic Reforms

54. Improving the quality and pace of expenditure is a continuing challenge before the Government. To achieve this objective, Government launched the Monthly Programme Implementation Calendar (MPIC) with effect from December 2008 for all schemes at the State and the District level. The purpose of this initiative is to focus on effective implementation and efficiency in service delivery and improving the quality of expenditure by minimizing the asymmetry in the flow of revenues and expenditure.

Expenditure Reforms Commission

55. In the pursuit of reforming the expenditure systems the Government established the Expenditure Reforms Commission during the last year. The Commission had active participation from the executive, the industry and the academia. The Commission submitted its First Report in February 2010 with recommendations on some important issues pertaining to selected Departments. Some of the generic recommendations are as follows:

(a) Capital investments need to be stepped up and protected from fiscal uncertainties through prudent allocations. The capital expenditure (excluding debt servicing) should be maintained at 5 per cent of the GSDP every year.

(b) Beginning with the year 2010-11, the Finance Minister should make a statement on the floor of the House once in six months, explaining the progress of each project estimated to cost Rs.50 crores and above.

(c) Ex-ante expenditure management tools for investment/project appraisal should be institutionalised to prepare and examine expenditure proposals for informed expenditure decisions and for inducing fiscal discipline in implementation. Government may set up an Expenditure Finance Committee (EFC) on the lines of the prevailing practices in Government of India.

(d) The regional imbalances observed in the development of sectors like Health and Education need to be addressed not by merely earmarking increased allocations, but also by insisting on performance attainments against a set of pre-determined targets for expected outcomes in each sector, with a clear time line for the talukas identified as backward, more backward and the most backward.

(e) Investments in interventions that impact HDI should be addressed on a priority basis, with earmarking of adequate allocations and emphasis on expenditure performance monitoring in relation to the objectives set for each scheme.

(f) Every department should disclose key goals stated in measurable terms for its operations so that all intervention/schemes are benchmarked against that goal.

(g) All schemes/ programmes / projects should have a sunset clause, indicating the objectives/goals to be achieved, and specifying the terminal year in which such schemes/programmes/projects are to be closed.

(h) In all the departments, Plan schemes with provision of less than Rs.100 lakhs should be abolished. Schemes with provision between Rs.100 and Rs.500 lakh should be reviewed as regards their efficiency. If the schemes are found to be useful, merger with any existing scheme having similar objectives may be considered.

(i) Departments/Offices that have outlived their utility, due to changes in economic environment or regulatory regime, should be merged with other departments/offices with similar or related objectives to ensure that the staff in these organisations are usefully deployed and their services properly utilised.

(j) All non-technical Group 'C' and Group 'D' posts lying vacant for more than 2 years should be abolished. If a need arises then the posts should be created again.

56. The Commission has also made specific recommendations for the departments of Primary & Secondary Education, Employment & Training, Social Welfare, Public Works and Agriculture & Horticulture. The recommendations are currently under the active consideration of the Government.

Khajane II

57. Automation of core processes within the treasuries (Khajane) was implemented in the year 2001. The Khajane system when implemented was a substantial leap from the erstwhile management system as it incorporated system based clearance of bills across all treasuries, facilitated monthly generation of accounts, eliminated systemic deficiencies in the manual system like the overdrawal of funds, fraudulent withdrawals, misclassification of expenses and non-reconciliation of accounts. It significantly helped administration in better cash management and budget management.

58. The functional needs of the Government for a comprehensive integrated financial management system have increased significantly since the implementation of the Khajane project in 2001. A large part of that system has also become technologically obsolete. As a result, the Government has decided to implement Khajane-II, which shall integrate

the treasury with the stakeholder departments for real time. The objectives envisaged for Khajane-II include, incorporating online system of release of funds and submission of bills, technology for ECS payments for over 90 per cent of the payments, timely information regarding receipts, fund releases, scheme-wise expenditure details for financial management, generation of accounts of the State with a high degree of accuracy, and strengthening the MIS reports and the decision support systems.

<u>Financial inclusion</u>

59. To ensure transparency, accountability and bringing as many persons within the banking fold, action is being taken by the State Government to promote financial inclusion, particularly with regard to payment of wages under Mahatma Gandhi Rural Employment Guarantee Scheme (MGREGS) and Social Security Pensions (SSP) through bank accounts. Through concentrated and determined action, payments to all the job cardholders under (MGREGS) who seek work are being made through bank accounts. There are approximately 40 lakh bank accounts and approximately 2.5 lakh post office SB accounts opened to disburse wages. More than 1 lakh beneficiaries under SSP and 2.5 lakh under State Government's social security pensions are drawing their payments through bank accounts. Further, smart card based disbursement of pensions is currently being implemented in 6 districts of the State on a pilot basis.

<u>IT Initiatives</u>

60. Various e-governance initiatives to enhance revenue collections by making it simpler for citizens to pay their taxes are being undertaken. The aim of these initiatives is to reduce physical interaction between the taxpayers and the Government. Online payment of taxes would save time, provide convenient service to the taxpayer, and at the same time reduce the cost of collection of taxes.

New Pension Scheme

61. Defined Contribution Pension Scheme for all employees who joined the State Government service on or after April 1, 2006 is to be implemented from April 2010 as per the architecture made and regulated by the Pension Fund Regulatory and Development Authority. The monthly contribution under the scheme would be 10 per cent of Basic Pay and Dearness Allowance thereon to be paid by the employee and matched by the Government in equal proportion. A provision of Rs. 175 crores has been made for the year 2010-11 to meet the State Government contribution of approximately 60,000 employees who have joined the State Government service after April 01, 2006.

Chapter 7
Medium Term Fiscal Plan Projections 2010-14

Rs. in crores

Item	2008-09 A/c	2009-10 BE	2009-10 RE	2010-11 BE	2011-12 Proj.	2012-13 Proj.	2013-14 Proj.
Revenue Receipts	43291	48389	46406	53639	60763	68487	77230
of which							
State' Own Tax Revenues	27646	32721	29339	36228	41120	46673	52975
Non Tax Revenues	3159	2130	2495	2820	2996	3202	3430
Resources from the Centre - Devolution	7154	7645	7000	9060	10283	11672	13248
- Grants	5332	5893	7572	5530	6363	6940	7577
Revenue Expenditure	41659	47238	45868	53138	59647	66130	73266
of Which							
Interest	4532	5578	5250	6316	7141	8055	9085
Salaries	9927	11305	11306	11366	12858	14185	15574
Pensions	4113	4001	3500	4500	5175	5951	6844
Subsidies (Food, Transport Housing & Industry)	1472	1960	1744	1674	1841	2025	2228
Power Subsidy	1943	2400	1900	2825	3108	3418	3760
Devolution to ULBs	2374	2720	2370	2885	3676	4168	4721
Major O&M (Roads,Buildings & Irrigation)	636	750	711	339	373	411	452
Other O & M (Edn, Health,RD,WS,Agr, Forest)	8487	4413	4275	7979	8561	9151	9780
Administrative Expenditure	742	832	938	901	956	1029	1108
Other Revenue Expenditure	7433	13280	13873	14353	15957	17736	19714
Capital Receipt (Non Debt)	238	1977	69	2903	615	125	137
Revenue Deficit	**-1631**	**-1151**	**-538**	**-500**	**-1116**	**-2358**	**-3964**
Expenditure on Capital Formation	10602	11622	11873	13112	11763	14086	17346
Fiscal Deficit	**8732**	**8493**	**11266**	**9708**	**10745**	**12127**	**13687**
Total Debt Stock	68064	77103	79644	89403	100149	112276	125963
Interest	4532	5578	5250	6316	7141	8055	9085
Debt Services	6310	7782	7560	8779	10772	12416	13767
Salary+Pension+Interest	18572	20884	20056	22182	25174	28191	31503
Gross Off Budget Borrowings							
Net Off Budget Borrowings	**-456**	**-697**	**-531**	**-880**	**-580**	**-337**	**-299**
Consolidated interest	4785	5870	5429	6474	7213	8056	9085
Consolidated Revenue Deficit	**-1389**	**-750**	**-259**	**-343**	**-1044**	**-2356**	**-3964**
Consolidated Capital Formation	10602	11622	11873	13112	11763	14086	17346
Consolidated Fiscal Deficit	**8277**	**7796**	**10735**	**8828**	**10165**	**11790**	**13388**
Consolidated Debt Stock	71410	79794	82513	91575	101953	113888	127333
Cnsldtd Rev Deficit/ GSDP	**-0.51%**	**-0.25%**	**-0.09%**	**-0.10%**	**-0.28%**	**-0.56%**	**-0.84%**
GSDP at Current Prices	270697	294952	298465	328312	370532	418183	471961
Annual Inflation	4.00%	4.00%	4.00%	5.00%	4.50%	4.50%	4.50%
GSDP Annual Real Growth	5.65%	6.00%	5.77%	8.00%	8.00%	8.00%	8.00%
Revenue Receipts	15.99%	16.41%	15.55%	16.34%	16.40%	16.38%	16.36%
of which							
State' Own Tax Revenues	10.21%	11.09%	9.83%	11.03%	11.10%	11.16%	11.22%
Non Tax Revenues	1.17%	0.72%	0.84%	0.86%	0.81%	0.77%	0.73%
Resources from the Centre - Devolution	2.64%	2.59%	2.35%	2.76%	2.78%	2.79%	2.81%
- Grants	1.97%	2.00%	2.54%	1.68%	1.72%	1.66%	1.61%
Revenue Expenditure	15.39%	16.02%	15.37%	16.19%	16.10%	15.81%	15.52%

Chapter 7
Medium Term Fiscal Plan Projections 2010-14

Rs. in crores

Item	2008-09 A/c	2009-10 BE	2009-10 RE	2010-11 BE	2011-12 Proj.	2012-13 Proj.	2013-14 Proj.
of Which							
Interest	1.67%	1.89%	1.76%	1.92%	1.93%	1.93%	1.93%
Salaries	3.67%	3.83%	3.79%	3.46%	3.47%	3.39%	3.30%
Pensions	1.52%	1.36%	1.17%	1.37%	1.40%	1.42%	1.45%
Subsidies (Food, Transport Housing & Industry)	0.54%	0.66%	0.58%	0.51%	0.50%	0.48%	0.47%
Power Subsidy	0.72%	0.81%	0.64%	0.86%	0.84%	0.82%	0.80%
Devolution to ULBs	0.88%	0.92%	0.79%	0.88%	0.99%	1.00%	1.00%
Major O&M (Roads,Buildings & Irrigation)	0.23%	0.25%	0.24%	0.10%	0.10%	0.10%	0.10%
Other O & M (Edn, Health,RD,WS,Agr, Forest)	3.14%	1.50%	1.43%	2.43%	2.31%	2.19%	2.07%
Administrative Expenditure	0.27%	0.28%	0.31%	0.27%	0.26%	0.25%	0.23%
Other Revenue Expenditure	2.75%	4.50%	4.65%	4.37%	4.31%	4.24%	4.18%
Revenue Deficit	**-0.60%**	**-0.39%**	**-0.18%**	**-0.15%**	**-0.30%**	**-0.56%**	**-0.84%**
Capital Receipt (Non Debt)	0.09%	0.67%	0.02%	0.88%	0.17%	0.03%	0.03%
Expenditure on Capital Formation	3.92%	3.94%	3.98%	3.99%	3.17%	3.37%	3.68%
Fiscal Deficit	**3.23%**	**2.88%**	**3.77%**	**2.96%**	**2.90%**	**2.90%**	**2.90%**
Off Budget Borrowings/GSDP							
Consolidated Revenue Deficit/GSDP	**-0.51%**	**-0.25%**	**-0.09%**	**-0.10%**	**-0.28%**	**-0.56%**	**-0.84%**
Consolidated Capital expenditure/GSDP	3.92%	3.94%	3.98%	3.99%	3.17%	3.37%	3.68%
Consolidated Fiscal Deficit/GSDP	**3.06%**	**2.64%**	**3.60%**	**2.69%**	**2.74%**	**2.82%**	**2.84%**
Consolidated Debt Stock/GSDP	**26.38%**	**27.05%**	**27.65%**	**27.89%**	**27.52%**	**27.23%**	**26.98%**