ಕರ್ನಾಟಕ ಸರ್ಕಾರ

Government of Karnataka

GOVERNMENT OF KARNATAKA

FINANCE DEPARTMENT

Medium Term Fiscal Plan

2009 – 2013

(2009ನೆಯ ಇಸವಿ ಫೆಬ್ರವರಿ ತಿಂಗಳಲ್ಲಿ ವಿಧಾನಮಂಡಲದ ಮುಂದೆ ಮಂಡಿಸಿದಂತೆ)

(As Presented to the Legislature in February 2009)

Statement of Compliance

- This **2009-13 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 (Chapter 1, 4, 5, 6 and Chapter 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.

Chapter 1

Introduction

a. Emerging Challenges

1. The Medium Term Fiscal Plan 2008-12 was presented on the strength of the impressive economic growth witnessed during the past five years and the rewards of sustainable fiscal consolidation. During the year 2008-09, the fiscal deficit was estimated to be 2.88 percent of GSDP while the revenue surplus was estimated at 0.63 percent of GSDP. Considering the international commodity price signals, particularly of petroleum prices, the GSDP during the year 2008-09 was assumed to grow at 7 percent while inflation was assumed to be 8 percent. However, during the period after the presentation of MTFP, there was a worldwide unprecedented economic crisis triggered by a breakdown of the financial system. The Indian economy was hit adversely for the reasons which originated beyond its boundaries and so was Karnataka's economy. Thus, the year 2008-09 has posed an unprecedented challenge in the management of government finances - a prospect that is likely to continue in the year 2009-10. The Central Government budget 2009-10 has already signaled that adhering to deficit targets in 2009-10 as mandated under the FRBM legislation is difficult. The Central budget also signals that nominal GDP growth projections for 2009-10 are lower at 11 percent as compared to 14.9 in 2008-09. For the years thereafter namely, 2010-11 and 2011-12, GDP growth is projected to be 13 percent and 13.4 percent respectively. Thus, the medium term fiscal scenario is comparatively less optimistic than it was two years ago.

2. The present uncertain economic scenario is likely to continue in the medium term and it is likely to affect Karnataka's economy too. During 2008-09, lower than expected GDP growth rate, tax/duty cuts announced by the Centre to boost the consumer

demand had their impact on Central tax receipts and hence on the devolution of Karnataka's entitlements from the GoI. Already the devolution of funds to Karnataka which were estimated at Rs. 7982 crore in BE 2008-09, has declined to Rs. 7152 crore in 2008-09 RE. As such MTFP 2009-13 is being presented in the backdrop of potentially low growth in the revenues within which the government has to manage its development priorities as well as step up public expenditure to boost the State's economy and accelerate its growth. The succeeding chapters in the statement explain the challenges and the government's responses in detail.

b. Path of Fiscal Correction

3. Karnataka is a front-runner on the path of fiscal consolidation. On the strength of fiscal laws like Karnataka Ceiling on Government Guarantees Act 1999 and the Karnataka Fiscal Responsibility Act (KFRA) 2002 the Government has managed to put its finances on strong footing.

4. During the period before enacting KFRA the State's fiscal situation was under severe stress, more particularly during the period from 1997 onwards. Several factors like the high salary expenditure due to the implementation of the Pay Commission Award, large off-budget borrowings to finance major items of expenditure like irrigation projects, poor buoyancy of tax revenues, and increasing interest payments contributed to such a situation. Consequently, the State's finances showed a revenue deficit from 1997-98 onwards along with a substantial fiscal deficit. The revenue and fiscal deficit which were at the level of 0.38 percent and 2.20 percent of GSDP respectively in 1997-98, increased to 3.01 percent (Rs. 3284 crore) and 5.4 percent (Rs.5,870 crore) in 2001-02.

5. Prior to the passing of KFRA the situation in Karnataka was broadly reflective of the state of affairs prevailing in other States as also at the Central level. The key fiscal indicators during the period

between 1997-98 and 2001-02 showed a deteriorating fiscal situation. The fiscal stress experienced prior to KFRA can be seen from Table 1.

TABLE- 1

Fiscal Deficit and Revenue Deficit of Government of Karnataka prior to enacting KFRA

(Rs. in crore)

Item	1997-98	1998-99	1999-00	2000-01	2001-02
GSDP Nominal	73046	87841	101247	108362	112846
Fiscal Deficit	1610	3112	4276	4219	5870
FD as % of GSDP	2.20	3.54	4.22	3.89	5.20
Revenue Deficit	277	1215	2325	1862	3284
RD as % of GSDP	0.38	1.38	2.45	1.78	3.01

6. KFRA mandated the Government to ensure a zero revenue deficit and to contain fiscal deficit to below 3 percent by 31st March,2006. This mandate enabled the Government to manage government finances prudently. The State has fairly overcome the fiscal strain of 1990s, mainly on account of measures taken for curtailing revenue expenditure, taking up revenue enhancing measures on the policy front and by enhancing institutional efficiency for increased tax compliance. The overall tax receipts which were 7.9 percent of GSDP in 2000-01 have improved to 11.1 percent of GSDP in 2007-08. In this background, the State has achieved KFRA mandated deficit targets by 2004-05, thus being ahead of time and has remained on that path thereafter.

7. The KFRA had also emphasized fiscal responsibility as a developmental responsibility. The law expects transparency in fiscal operations. The debts and deficits were required to be managed within specified targets with focus on fiscal consolidation. In this

direction, the Government of Karnataka initiated a number of policy initiatives and administrative measures. Complementing the revenue rationalization measures, some administrative measures are also notable, viz., checking evasion of excise duty by canalization of Indian made liquor, abolition of the use of stamp papers for registration, containing salary and pension expenditure at less than 35 percent of revenue expenditure, and introduction of IT based Human Resource Management System. Similarly measures were also taken to curtail interest expenditure by debt swapping, that enabled high cost debt to be replaced by low cost debt under GoI's Debt Consolidation and Waiver Scheme. The expenditure on salaries was also controlled by abolition of posts falling vacant in government departments as well as by imposing ban on new recruitment in sectors other than social services. Furthermore, the existing law on procurement reforms has also been an integral part of the expenditure reforms. The law provides for ensuring transparency in public procurement of goods and services by streamlining the procedure in inviting, processing and accepting of tenders.

8. The expenditure compression measures resulted in bringing down interest payments from 23.5 percent of State's revenues in 2000-01 to less than 18.5 percent by 2004-05. Further, during the same period the expenditure on salaries came down from 29 percent of the total revenue expenditure to 22 percent. The fiscal performance of the state as reflected in the deficit targets mandated for the fiscal years 2000-01 to 2007-08 are shown in Table 2 below.

Table 2

Rs. in crore

Item	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09 BE
GSDP Nominal	112846	120888	130989	156254	186209	200922	233802	244043
Fiscal Deficit	5870	5281	4501	3600	3687	4688	5331	7030
FD as % of GSDP	5.20	4.37	3.44	2.30	1.98	2.33	2.28	2.88
Revenue Deficit	3284	2253	525	-1673	-2311	-4152	-3776	-1571
RD as % of GSDP	2.91	1.86	0.40	-1.07	-1.24	-2.07	-1.62	-0.64

9. The measures explained above, adopted by the Government to correct the fiscal situation, has enabled the State to meet both the deficit targets by the year 2004-05 itself, and thereafter has helped the State to sustain the position. All such measures have not only had their impact on fiscal sustainability of the State but have also earned rewards in the form of significant financial incentives in terms of debt consolidation and debt waiver as recommended by the 12th Finance Commission from the Government of India. Table-3 shows the incentives obtained by the State under the scheme.

TABLE – 3

Debt Consolidation as per the Recommendation of XII Finance Commission

Rs. in crore

Year	Before Consolidation		After Consolidation		Savings		Debt Waiver
	Principal	Interest	Principal	Interest	Principal	Interest	
2005-06	370.56	828.90	358.34	537.51	12.22	291.39	358.33
2006-07	403.57	786.45	358.34	510.63	45.23	275.82	358.33
2007-08	472.32	739.79	358.34	483.75	113.98	256.04	358.33
2008-09	467.72	684.80	358.34	456.88	109.38	227.92	358.33
Total	**1714.2**	**3039.9**	**1433.4**	**1988.8**	**280.81**	**1051.2**	**1433.3**

10. The fiscal space so created by adhering to fiscal targets and debt consolidation had enabled the government in reprioritizing its expenditure in favour of social services and economic services, such as education and health, and other social security measures (Table -4).

Table – 4

Expenditure on Services

Rs. in crore

Services		2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09 RE
General Services	Revenue	7112.09	9039.13	9900.25	10035.84	10419.42	10871.78	13848.18
	Capital	75.85	128.43	136.21	217.92	320.94	339.02	364.57
	Loan	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Total	**7187.94**	**9167.56**	**10036.46**	**10253.76**	**10740.36**	**11210.8**	**14212.75**
Social Services	Revenue	6326.23	6965.04	7722.75	8898.79	10936.71	13123.67	15931.80
	Capital	295.30	427.21	486.04	1105.30	1292.62	2147.68	2572.56
	Loan	230.03	256.48	238.80	142.72	325.84	594.80	394.20
	Total	**6851.56**	**7648.73**	**8447.59**	**10146.81**	**12555.17**	**15866.15**	**18898.57**
Economic Services	Revenue	4802.41	4651.69	6510.52	7947.33	10440.24	11453.31	9754.70
	Capital	2564.84	2473.76	4051.44	4498.70	6929.01	6162.24	6497.92
	Loan	249.19	754.73	372.60	156.88	31.39	160.43	553.83
	Total	**7616.44**	**7880.18**	**10934.56**	**12602.91**	**17400.64**	**17775.98**	**16806.45**

11. The trends in the above Table indicate the step up in expenditure especially in Social and Economic Services in the last few years. The State has been able to provide for the implementation of the recommendations of its Fifth Pay Commission which gave its award in 2006-07. The State has also incurred substantial expenditure on implementing major new initiatives like the farmer's loan waiver scheme (Rs.500 crores in 2006-07 and Rs.1250 crore in 2007-08), provision of agricultural credit at subsidized interest rate of 4% through cooperative credit institutions (Rs.150 crore per year) and enhancement of social security pensions from Rs. 200/- to Rs.400/- per month (Rs.1228 crore in 2008-09). Integrated development of 1200 villages under the Suvarna Gramodaya Scheme has been taken up with an outlay of over Rs.1000 crore from 2006-07 to 2008-09. Further,

development expenditure has also been increased substantially on opening of new schools, colleges, polytechnics and engineering colleges, upgradation of primary health centers, community health centers and taluk level hospitals, opening of new medical colleges, engineering colleges and Industrial Training Institutes and infrastructure support for industries. Besides these new programmes, the outlay for physical infrastructure on railway and road projects and urban development has been substantially enhanced.

c. Road ahead and the Fiscal Objectives

12. The Medium Term Fiscal Plans of the State presented ever since KFRA came into force, had a common thread as reflected in the legislative objective of the KFRA. The Act seeks the government to ensure fiscal stability and sustainability, and enhance the scope for improving social and physical infrastructure, and development by achieving a sufficient revenue surplus. In furtherance of this objective the Government is expected to be guided by 17 fiscal management principles enumerated in Section 4 of KFRA. The above fiscal objective as well as the fiscal management principles run through all the MTFPs so far. The Central government has recently provided an opportunity to the State Governments to relax their deficit targets for the year 2008-09, as a one time measure only, and allowed States to undertake additional borrowings, the proceeds of which have to be used for capital expenditure. In this context, the State Government, while managing a revenue surplus is only relaxing its fiscal deficit target to 3.5 percent of GSDP for the year 2008-09, as a one-time measure, for which an amendment will be moved as part of Finance Bill.

13. The past experience also points to the need for continued fiscal prudence, since remaining on the path of fiscal stabilisation brings along long-term rewards, ensures intergenerational equity by reducing future debt burden as well as helping in creating a cushion for additional borrowings during difficult times like the one we are facing

now. Thus, on the strength of realizing the benefits of a prudent fiscal regime mandated by KFRA the Government is strongly committed to contain deficits within specified limits, raise revenue surplus and be back on the fiscal consolidation path while making productive use of the additional borrowings made during 2008-09. The government is also committed to fully use the additional borrowings for creation of assets through increased capital expenditure. In other words, the fiscal space will be used for increasing public expenditure for infrastructure development, human resource development, and welfare of the citizens on an ongoing basis.

Chapter 2

Evaluation of Fiscal Performance

14. After achieving a revenue surplus status in 2004-05, Karnataka Government has consistently striven to sustain and improve its fiscal parameters. Table 5 below shows the State's fiscal performance since 2005-06 in terms of various indicators, comparing the actual achievement with targets set for each year. In respect of 2008-09 the likely performance as per the revised estimates is compared with the budget estimates. The performance is based on the latest available data on GSDP.

Table 5

Fiscal Framework

Rs. Crores

Item	2005-06 BE	2005-06 A/c	2006-07 BE	2006-07 A/c	2007-08 BE	2007-08 A/c	2008-09 BE	2008-09 RE
Revenue Receipts of which	29218	30352	35875	37587	40762	37655	47240	42818
State' Own Tax Revenues	18680	18632	22534	23301	26691	25987	31876	28764
Non Tax Revenues	4090	3875	4088	4098	1857	3358	1932	1906
Resources from the Centre								
- Devolution	3760	4213	4609	5374	6300	6779	7982	7152
- Grants	2688	3632	4644	4813	5914	1531	5450	4996
Revenue Expenditure of which	28364	28041	34341	33435	39135	37375	45713	42050
Interest	4029	3765	4366	4236	4818	4506	5278	4778
Salaries	6169	5750	6724	6545	8547	8667	11403	11440
Pensions	2427	2237	2666	2496	3416	3241	3500	4200
Subsidies (Food, Transport	1573	2099	1741	1991	2517	3128	1492	1775
Housing & Industry)								
Power Subsidy	1750	1821	1800	2370	2150	2297	2410	1860
Devolution to ULBs	1160	1159	1530	1639	1904	1926	2995	2516
Major O&M (Roads,Buildings & Irrigation)	513	262	1018	1011	810	740	834	729
Other O & M (Edn, Health,RD,WS,Agr, Forest)	2778	2716	3438	3477	8663	4076	8388	2087
Administrative Expenditure	559	557	687	559	799	688	921	790
Other Revenue Expenditure	7406	7677	10372	9112	5511	8107	8492	11875
Capital Receipt (Non Debt)	30	124	45	60	749	298	3070	271
Revenue Deficit	**-854**	**-2311**	**-1535**	**-4152**	**-1627**	**-280**	**-1527**	**-767**
Expenditure on Capital Formation	3774	3591	5088	6349	7523	4288	10678	9639
Fiscal Deficit	**4714**	**3687**	**5211**	**4688**	**6305**	**5331**	**7030**	**9357**
Total Debt Stock	52727	49794	56148	54676	61492	59852	67578	69162
Interest	4029	3765	4366	4236	4818	4506	5278	4778

Item	2005-06 BE	2005-06 A/c	2006-07 BE	2006-07 A/c	2007-08 BE	2007-08 A/c	2008-09 BE	2008-09 RE
Debt Services	4925	4576	5320	5986	6117	5756	7085	6510
Salary+Pension+Interest	12625	11751	13756	13278	16780	16413	20181	20418
Gross Off Budget Borrowings	**899**	**1078**	**845**	**242**	**720**	**103**		
Net Off Budget Borrowings	**-135**	**-816**	**-146**	**-1246**	**-58**	**-1136**	**-679**	**-640**
Consolidated interest	4820	4508	5077	5299	5198	4888	5548	5017
Consolidated Revenue Deficit	**-63**	**-1568**	**-824**	**-3089**	**-1247**	**102**	**-1258**	**-528**
Consolidated Capital Formation	4673	4668	5933	6591	8243	4391	10678	9639
Consolidated Fiscal Deficit	**4579**	**2871**	**5064**	**3442**	**6247**	**4196**	**6350**	**8717**
Consolidated Debt Stock	59216	56274	61337	59717	66223	63655	70921	72375
Cnsldtd Rev Deficit/ GSDP	**-0.04%**	**-0.93%**	**-0.44%**	**-1.54%**	**-0.58%**	**0.04%**	**-0.52%**	**-0.20%**
GSDP at Current Prices	166228	167975	186757	200922	213503	233802	244043	268138
Inflation	5.00%	5.00%	4.00%	4.00%	5.00%	5.00%	8.00%	4.00%
GSDP Annual Real Growth	7.00%	7.00%	7.00%	7.00%	8.00%	8.00%	7.00%	9.00%
Revenue Receipts of which	17.58%	18.07%	19.21%	18.71%	19.09%	16.11%	19.36%	15.97%
State' Own Tax Revenues	11.24%	11.09%	12.07%	11.60%	12.50%	11.11%	13.06%	10.73%
Non Tax Revenues	2.46%	2.31%	2.19%	2.04%	0.87%	1.44%	0.79%	0.71%
Resources from the Centre - Devolution	2.26%	2.51%	2.47%	2.67%	2.95%	2.90%	3.27%	2.67%
- Grants	1.62%	2.16%	2.49%	2.40%	2.77%	0.65%	2.23%	1.86%
Revenue Expenditure of Which	17.06%	16.69%	18.39%	16.64%	18.33%	15.99%	18.73%	15.68%
Interest	2.42%	2.24%	2.34%	2.11%	2.26%	1.93%	2.16%	1.78%
Salaries	3.71%	3.42%	3.60%	3.26%	4.00%	3.71%	4.67%	4.27%
Pensions	1.46%	1.33%	1.43%	1.24%	1.60%	1.39%	1.43%	1.57%
Subsidies (Food,Transport Housing & Industry)	0.95%	1.25%	0.93%	0.99%	1.18%	1.34%	0.61%	0.66%
Power Subsidy	1.05%	1.08%	0.96%	1.18%	1.01%	0.98%	0.99%	0.69%
Devolution to ULBs	0.70%	0.69%	0.82%	0.82%	0.89%	0.82%	1.23%	0.94%
Major O&M (Roads,Buildings & Irrigation)	0.31%	0.16%	0.54%	0.50%	0.38%	0.32%	0.34%	0.27%
Other O & M (Edn, Health,RD,WS,Agr, Forest)	1.67%	1.62%	1.84%	1.73%	4.06%	1.74%	3.44%	0.78%
Administrative Expenditure	0.34%	0.33%	0.37%	0.28%	0.37%	0.29%	0.38%	0.29%
Other Revenue Expenditure	4.46%	4.57%	5.55%	4.53%	2.58%	3.47%	3.48%	4.43%
Revenue Deficit	**-0.51%**	**-1.38%**	**-0.82%**	**-2.07%**	**-0.76%**	**-0.12%**	**-0.63%**	**-0.29%**
Capital Receipt (Non Debt)	0.02%	0.07%	0.02%	0.03%	0.35%	0.13%	1.26%	0.10%
Expenditure on Capital Formation	2.27%	2.14%	2.72%	3.16%	3.52%	1.83%	4.38%	3.59%
Fiscal Deficit	**2.84%**	**2.19%**	**2.79%**	**2.33%**	**2.95%**	**2.28%**	**2.88%**	**3.49%**
Off Budget Borrowings/GSDP	**0.54%**	**0.64%**	**0.45%**	**0.12%**	**0.34%**	**0.04%**		
Consolidated Revenue Deficit/GSDP	**-0.04%**	**-0.93%**	**-0.44%**	**-1.54%**	**-0.58%**	**0.04%**	**-0.52%**	**-0.20%**
Consolidated Capital expenditure/GSDP	2.81%	2.78%	3.18%	3.28%	3.86%	1.88%	4.38%	3.59%
Consolidated Fiscal Deficit/GSDP	**2.75%**	**1.71%**	**2.71%**	**1.71%**	**2.93%**	**1.79%**	**2.60%**	**3.25%**
Consolidated Debt Stock/GSDP	**35.62%**	**33.50%**	**32.84%**	**29.72%**	**31.02%**	**27.23%**	**29.06%**	**26.99%**

15. The revenue balance position reached a peak surplus of Rs.4152 crore in the financial year 2006-07. Thereafter, there is a declining trend with the surplus being reduced to Rs.767 Crore in 2008-09 RE. The revenue surplus has come down as a result of increased expenditure towards salaries and pensions due to implementation of the Pay Commission award, welfare measures like social security pensions, and enhanced subsidies for the agriculture sector. During the current year, lower than expected growth in the revenue receipts due to the prevailing difficult macro-economic conditions has also impacted the revenue balance position adversely. The declining revenue surplus affects the ability of the Government to increase capital expenditure. This is resulting in increased accessing of market borrowings to finance capital expenditure.

16. Every year since 2004-05, the actual revenue surplus has been more than the Budget Estimate of the year. The fiscal deficit has been less than the Budget Estimates by 0.46 percent to 0.67 percent upto 2007-08. At the same time, the capital expenditure has been maintained around the Budget Estimates upto 2007-08. The actual performance with reference to MTFP targets indicates a conservative approach in the Budget Estimates.

17. The Revised Estimate for 2008-09 presents a situation different from the past trend. The revenue surplus is expected to come down from the Budget Estimate of Rs.1527 Crore to Rs.767 Crore, while the fiscal deficit is expected to be higher than the Budget Estimate of Rs. 7030 Crore at Rs.9357 Crore. The Plan capital expenditure is expected to be Rs.10395 Crore, almost 10.6 percent lower than the Budget Estimate of Rs.11627 Crore. The revenue expenditure is expected to be lower at Rs.42050 Crore from the Budget Estimate of Rs.45713 Crore. The adherence to the MTFP targets is estimated to result in proportionately larger allocation on the capital expenditure.

18. The revised estimates include impact of the major expenditure items in the supplementary estimates that are to be presented to the Legislature. The outlays in the supplementary estimates are expected to be financed from the overall savings, and additional fiscal space of 0.5 percent of GSDP being created through amendment to KFRA as a one-time measure. The control on fresh recruitment, debt swap, and debt consolidation and relief facility from GOI has helped in limiting growth of expenditure on salaries, pensions and interest. Following the implementation of the 5th State Pay Commission recommendations, the salary expenditure is likely to go up from 3.42 percent of GSDP in 2005-06 to 4.27 percent in 2008-09 RE. The retirement age was increased to 60 years during 2008-09. This change is expected to result in moderation in the pension expenditure.

19. Off-budget borrowings have been eliminated from 2008-09 to bring transparency to the fiscal performance. This arrangement is would be continued in the MTFP period. Only such organizations would be allowed to borrow who can service the debt out of their own resources, without depending on the State's budget.

Chapter 3

Macro Economic Outlook

a. GSDP

20. Table-6 below shows the contribution of various sectors to Gross State Domestic Product in the last few years. The Services sector continues to be the dominant contributor to the GSDP. The contribution of agriculture sector is declining progressively.

Table 6

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

Rs. in crore

Industry	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 QE	2008-09 AE
Primary	26538	24672	21850	27013	28135	27684	32023	30374
Secondary	26384	29180	30762	32322	38080	40618	44091	46664
Tertiary	52638	56508	61561	66125	73806	80769	89388	97616
Total	**105560**	**110360**	**114173**	**125460**	**140021**	**149071**	**165502**	**174654**
Percentage share of different sectors								
Primary	25.1	22.4	19.1	21.5	20.1	18.6	19.3	17.4
Secondary	25.0	26.4	26.9	25.8	27.2	27.2	26.6	26.7
Tertiary	49.9	51.2	53.9	52.7	52.7	54.2	54.1	55.9

Source: Economic Survey 2008-09, Directorate of Statistics AE: Advance Estimates. QE: Quick Estimates

b. GSDP growth in 2008-09 and prospects for 2009-2010

21. The real annual GSDP growth rate in 2008-09 is estimated at 5.5 percent (constant prices) as against 11 percent in 2007-08 percent (at constant prices). The latest available estimates from Directorate of Economics Statistics, point to a subdued outlook for GSDP growth in 2009-10. Agriculture, which witnessed a growth of 15.6 percent in 2007-08, is estimated to show a negative growth at (-)5.7 percent due to poor monsoon. The industrial sector, which had a growth of 8.8 in 2007-08, is expected to grow at a reduced rate of 5.8 percent in 2008-09. The services sector growth, which was 10.7 percent in 2007-08, is estimated to decline to 9.2 percent in 2008-09. Considering the

uncertainties in the national economy, this subdued outlook is not surprising.

22. Taking into account the external economic outlook, and national macroeconomic scenario as detailed in the Macroeconomic Framework Statement for 2009-10 presented by Central Government, it is projected that the State's economy would grow at a real growth rate of 6 percent in 2009-10. Considering the low inflation prospects in 2009-10, the GSDP at current market prices is estimated to be Rs. 2,94,952 crore in 2009-10, as compared to Rs. 2,68,138 crore in 2008-09.

23. At the national level the macro economic trends suggest a moderation of economic growth mainly due to the contagion effect of the global economic crisis. The moderation is across the sectors. Slowing down of the global economy is expected to adversely impact the export oriented industry and services sectors more intensely, and the shock is likely to continue into the medium term. Karnataka with a high share of the services sector, information technology and textile based industries is likely to significant strain on the state economy. However, beyond 2009-10, it is expected that the growth will improve to the potential level of 9%.

c. Inflation trends

24. The high inflation that was witnessed during the major part of 2008-09 has gradually given way to a low inflation regime which is currently at 4.34 percent for the week ending January 31,2009. Given the uncertainties in oil and other commodity prices and other associated cost push factors in the supply chain of manufacturing sector, defining a more probable inflation path for the year 2009-10 is difficult. However, taking a cue from the Union Budget and the deficit targets fixed for Central budget, the medium term inflation is assumed at 4 percent.

d. Policy interventions

25. To sustain the present growth of the economy, the State's strategy for all the three sectors will be to identify and address the factors impeding accelerated growth, and to put the economy on the path of quick recovery. The additional borrowing during the year enabled through one-time amendment to KFR Act will be utilized for capital expenditure through equity investment and asset creation. To generate an optimal solution for the investments and for quality in growth with minimum time lag, it is necessary to initiate many associated institutional reforms that enhance efficiency in public service delivery and improve governance. Such measures include streamlining of the purchase of land, minimizing time for permissions and statutory approvals, speedier dispute resolution, easing of compliance norms, enabling provisions for private investment in agriculture, skill development including through private partnership, etc., which need to be implemented earnestly during the year.

Chapter 4

Revenue Reforms and Projections

a. Strategy and Projections for Major Own Tax Revenues

26. The improvement in the State's financial position owes to a large extent to the consistent growth in tax revenues during the period of fiscal correction. The prudent tax policies ensured that the tax to GSDP ratio moved up from 9.73 percent in 2003-04 to 11.11 percent during 2007-08.

27. The State has consciously followed the policy of widening the tax base while moderating the rate of tax. Table 7 shows the growth in the State's revenues under major taxes during the period 2002-03 to 2007-08. During the KFRA regime upto 2007-08, the average growth rate of commercial taxes, excise, motor vehicles tax, stamps and registration was 20.91 percent, 19.26 percent, 20.95 percent and 29.16 percent respectively. However, reflecting the downward trend in the economy during 2008-09, the growth rate of revenue as projected in the budget from these tax sources has not materialized, leading to a shortfall of Rs.3143 Crores. This is further leading to an unprecedented fiscal stress for the reasons not wholly associated with Government's policies, but attributable majorly to the global crisis.

Table 7

Actuals in Rs. crore

Year	Commercial Tax			Excise Tax		
	Actuals	Growth Rate	Buoyancy	Actuals	Growth Rate	Buoyancy
2002-03	6313	3.85%	0.38	2094	5.93%	0.59
2003-04	7733	22.49%	2.68	2334	11.45%	1.37
2004-05	10057	30.05%	2.13	2806	20.20%	1.43
2005-06	11484	14.19%	0.95	3397	21.07%	1.41
2006-07	13714	19.42%	1.89	4495	32.34%	3.15
2007-08	15552	13.40%	0.55	4767	6.03%	0.25
2008-09 RE	17595	13.14%	0.89	5574	16.94%	1.15
Trend Growth Rate	18.62%			18.85%		

Year	Motor Vehicle Tax			Stamps & Registration Tax		
	Actuals	Growth Rate	Buoyancy	Actuals	Growth Rate	Buoyancy
2002-03	676	-5.15%	-0.51	1115	30.44%	3.00
2003-04	800	18.41%	2.20	1356	21.55%	2.57
2004-05	983	22.86%	1.62	1760	29.81%	2.11
2005-06	1105	12.46%	0.83	2212	25.70%	1.72
2006-07	1374	24.34%	2.37	3206	44.91%	3.71
2007-08	1650	20.05%	0.83	3409	6.33%	0.26
2008-09 RE	1762	6.77%	0.46	3110	-8.76%	-0.60
Trend Growth Rate	18.10%			21.79%		

(i) Commercial Taxes

28. Commercial taxes are the biggest contributor to the State's own tax revenues of which Tax on sale of goods is the major item. From 2005-06 onwards the State has adopted the Value Added Tax system as per the national design. The transition to Value Added Tax resulted in negligible growth in revenues in 2005-06 and around 20% growth in 2006-07. During the first half of 2008-09, despite increase in the global oil prices, States could not derive tax revenue benefits as the practice of administered prices was continued by GoI. Further, when a decision for increasing the prices was taken by the Central Government, the State Government partly rolled back the tax on petroleum products to cushion the impact on the common man. Subsequently, when oil prices decreased the government has undergone a significant loss of Rs. 300 crore on account of the reduced prices. Also there has been a slowing down of sale of articles of mass consumption, as well as in the construction industry, which has contributed to the sluggishness in the economy and, to decreased realization.

29. From 2008-09 there is no support from Government of India to compensate for the loss arising out of the lower than projected normative growth rates under the Value Added Tax. Thus it is crucial for the State to adjust to the uniform Value Added Tax system without financial incentives. The consensus evolved by the Empowered Committee of State Finance Ministers of not resorting to competitive

rate wars needs to be carried forward in letter and spirit to preserve the integrity of the system and to prevent it from relapsing into the pre-2000 era of competitive exemptions and tax rates leading to erosion of the tax base. State specific procedures and rates not only impact tax revenues but also raise compliance costs and hinders the evolution of a seamless common market. Reduction in Central Sales Tax (CST) from 3 percent to 2 percent by GoI during 2008-09 in preparation for GST has affected the revenues adversely. The State is engaging GoI for this considerable loss of CST revenues, and a continued compensation package to address the erosion of tax.

30. The State has to prepare itself to the challenge adjusting to the introduction of the Goods and Services Tax (GST) which is likely to be effective from the year 2010 onwards as part of Comprehensive Indirect Tax reforms leading to a common market in the country. However, in the absence of specific details, there are apprehensions that a switchover to GST may have adjustment problems in the initial years of its implementation including substantial adverse financial implications to Karnataka, if a robust system of compensation is not put in place in advance. These uncertainties/apprehensions have also been highlighted before the Thirteenth Finance Commission, which recently visited the State.

(ii) State Excise

31. After the imposition of ban on the sale of arrack, there has been a significant shift in the consumption of IML, mainly to the lower price band. The price band spectrum, the various levies, and the socio-economic milieu combine to determine alcohol consumption. In the present economic scenario, the excise target appears quite achievable and a 15% growth has been considered for 2009-10.

(iii) Stamps & Registration

32. The slump in the stamps and registration which led to a revenue shortfall of about Rs.800 crore in 2007-08 has continued into this year also. There is a possibility that a shortfall of about Rs.1000 crore will occur in 2008-09 as compared to the BE target. The general slowing down of the economy has greatly stressed the real estate market. Inspite of the liquidity injection measures by RBI, and the fiscal stimulus packages by the central government, the demand remains sluggish. The allied sectors of steel, cement, etc. are also facing the collateral effect which is also washing onto the commercial taxes arena.

(iv) Motor Vehicles Tax

33. Growth in the revenue from the Motor Vehicles Taxes was satisfactory in 2007-08 and it exceeded the budget estimates. However, during 2008-09, the automobile industry has been hard hit due to global factors. In order to revive the industry the GoI has reduced excise duty on motor vehicles by 4 percent as part of its fiscal stimulus package in December 2008. It is seen that even the public transport operators have scaled down the purchase due to the economic slowdown. But a more serious slowdown has been seen in private vehicles purchase, and 2008-09 achievements would be less by about Rs.300 crores than the target. This has led to a conservative projection for 2009-10 as hopes of recovery appear bleak inspite of measures taken to reduce costs by giving tax breaks. A method of increasing the tax collection is by rigorous enforcement, which would provide the severely required buoyancy.

(v) Revenue from Royalty on Major & Minor Minerals

34. Royalty rates on major minerals, which were due for revision in 2007-08, have not been revised by the Central Government. Receipts from royalty on major & minor minerals in 2008-09 continue to be

lower mostly due to decline in demand in the international market, especially after the Beijing Olympics. The revenue in 2008-09 is likely to fall short by Rs. 150 crore as compared to BE. The Government of India has been approached repeatedly, regarding the revision of royalties. Substantial resources could be available for the development needs of the State when the royalty and rates are revised. Expecting a revision of royalty rates on major minerals by GOI, 6.35 percent growth in revenues has been assumed.

(vi) Receipts from Sale of Land

35. Large tracts of Government land in and around Bangalore are under encroachment as per the State's Legislature Committee Report. It is important to safeguard these precious assets by suitably fencing and securing it at the first instance. Land protection and its disposal needs to be part of public policy to fuel growth, generate employment and enhance productivity. Use of these lands needs to be done keeping in view the present and future requirements for public purposes.

36. MTFP 2008-12 had anticipated sale of government land in and around Bangalore to unlock potential value of land assets for financing development. The same has not materialized due to a general sluggishness in the real estate sector. With a plan size of Rs.29500 crore in 2009-10, it is imperative that these vital assets are capitalized and substantial funds are available to achieve the objectives as set out. Even though a target of Rs.3000 crores was been set for 2008-09, probably about Rs.200 crores only may be realized. For 09-10, a target of Rs.1900 crore has been factored, and it is expected that the newly formed Karnataka Land Estate Corporation would act expeditiously in disposal of the land. Long term lease of the government land near the international airport is also planned during 2009-10.

Chapter 5

Expenditure Management & Projections

37. As stated in the MTFP 2008-12, there is a need for continued improvement in the quality of expenditure to obtain better outputs and outcomes to realize value for money from increased allocations for productive/priority sectors. In this direction, the State has taken up two key initiatives, namely, Monthly Programme Implementation Calendar (MPIC) and Programme Performance Budgeting (PPB) during the current year, which have been explained in chapter 6 of MTFP 2009-13.

38. As explained earlier, the state has undertaken a number of measures towards better expenditure management. It has been able to recast its expenditure in favour of social and economic services. Expenditure on Social Services as a percentage of GSDP has increased from 5.71 percent in 2002-03 to 8.6 percent in 2008-09 (BE). Similarly expenditure on Economic Services as a percentage of GSDP increased from 6.34 percent to 7.84 during the same period. The State has also taken a number of steps to keep the growth of salary expenditure. In this regard it is worth noting that RBI, in one of its Reports (State Finances – A study of State Budgets, 2007-08) has mentioned that expenditure on salaries in Karnataka as percentage of total revenue expenditure at 22 percent is one of the lowest as compared with the all-State average of 29 percent.

39. As part of its expenditure strategy, the State has been trying to earmark increased outlays in various high priority development sectors. The following section outlines the expenditure strategy in priority development sectors.

a. Agriculture

40. As shown in Chapter 3, the contribution of Agriculture to the total Gross State Domestic Product is declining, as its growth has not been able to keep pace with the other sectors of the economy. However the number of people depending upon agriculture has not been declining leading to stagnation of per capita income levels. Therefore agricultural productivity has been one of the prime areas of concern for the State Government. Agriculture, which contributes 85% of the primary sector has witnessed a negative growth rate of 5.7 percent during 2008-09, as per Economic Survey 2008-09. Responding to such an alarming decline will require not only substantial resources to be allocated to agriculture but also in the rural development sector to prevent unemployment in rural areas.

41. Action has been taken along the lines of the recommendations of the Official Group to provide concrete incentives for the farm sector. Dovetailing the funds available under RKVY and also by applying the States own resources, consciously schemes are in place for extension activities and providing timely credit and IEC facilities. Steps have been taken to increase the irrigated area as well as providing free power to farmers using IP sets less than 10HP.

42. A conscious move to increase the absorption of workers in more remunerative professions using skill development schemes, are being actively encouraged. With the small size of holdings, farmers in the state find it difficult to get economic returns in agriculture unless they diversify for which substantial investment would be necessary.

Table 8

Outlay under Agriculture & Horticulture, Rural Development

Rs. crore

Years	Agriculture & Horticulture	Growth	Rural Development	Growth
2004-05	787		1326	
2005-06	674	-14.36%	1639	23.60%
2006-07	874	29.74%	2016	23.00%
2007-08	1264	44.62%	2549	26.44%
2008-09 (RE)	1506	19.15%	2831	11.06%
2009-10 (BE)	1685	11.89%	3064	8.23%

b. Rural Development

43. In keeping with the avowed objective of providing connectivity and clean, reliable and safe drinking water, there has been an increased focus on roads to villages as well as drinking water schemes. For the comprehensive development of villages, schemes like Nirantara Jyoti. Mukhya Mantri Grameena Yojana, NREGA, Total sanitation campaign, etc. are being implemented on a mission mode to facilitate development of villages

c. Power

44. The power sector requires substantial investments both in generation and transmission, not only because the State power deficit, but also because of substantial T/D losses of more than 25%. Recognising the criticality of this the Government has decided to infuse equity of Rs.500 crore into the Karnataka Power Corporation. A long term vision of establishing multiple power projects either individually by GoK, or in association with private entrepreneurs is being increasingly explored.

d. Health & Education

45. The sectors of Health and Education are of critical importance to the State's development. Table 9 shows outlays under Health and Education. The State will be able to realize the benefits of the demographic dividend only if its population is healthy and educated. Therefore, the State is making substantial investments in both these areas. The Government recognizes that in the medium term perspective, expenditure on education and health and family welfare needs to be raised to 5 percent and 1.5 percent respectively of the GSDP from their prevailing levels of 3.7 percent and 1 percent. Considering the magnitude of the expenditure in this regard Government has requested the Thirteenth Finance Commission to consider a Special Grant.

46. Emphasis is being given to not only primary education but also to High school and college education. As a policy decision the government has started numerous first grade colleges in various districts. Emphasis is also being given to having Science as a subject in these institutions. To facilitate meritorious needy students, interest subsidy to study loans is also being offered. The challenge here is not the mere achievement of passing high school or obtaining a degree but also the quality of education which is a critical determinant of employability and learning life skills. It is a critical endeavour as to how this young task force is given requisite skills to make them productively employed. Learning via direct government support, or by partnership with the industry, needs to make the student adequately capable of being absorbed in the workforce. The Knowledge Commission and Skill Mission are in the forefront of this endeavour

Table 9

Outlay under Health & Education

Rs. in crore

Years	Health	Growth	Education	Growth
2004-05	1044		4286	
2005-06	1147	9.81%	4793	11.83%
2006-07	1353	18.02%	5631	17.50%
2007-08	1769	30.75%	6859	21.81%
2008-09 (RE)	2202	24.48%	8643	26.01%
2009-10 (BE)	2281	3.59%	8888	2.83%

e. Redressal of Regional Imbalances

47. An Eight Year Special Development Plan (SDP) was initiated for addressing regional imbalances through the Budget for 2007-08 by earmarking Rs.1571 crore in plan allocation to the backward areas of the State as per the High Power Committee Report on Regional Imbalances (HPCRRI) popularly known as Dr. Nanjundappa Committee Report. In 2009-10, Rs. 2574 crore has been allocated under the SDP. This allocation is mainly directed in the areas of rural development, power, transport, agriculture and irrigation. Considering the financing needs for addressing regional imbalances in the State, the Government has also put up a request to the Thirteenth Finance Commission for a Special Grant. In order to facilitate convenient identification of SDP schemes at the object head a unique number has been allocated. A high power committee continuously supervises the implementation of the schemes.

f. Interest Payments, Salaries, Pensions& Subsidies

48. The expenditure on interest payments, salaries, pensions & subsidies is expected to be 8.28 per cent of GSDP in 2008-09 RE, declining from 9.0 per cent in 2002-03. By the year 2012-13, these expenditures are estimated to be within 8.19 percent, leaving large fiscal space for development expenditure.

Chapter 6

Public Finance Management and Systemic Reforms

49. The Khajane project implemented in the State Treasury 7 years back has helped in automating the processes within the Treasury. The Government needs for sound management of State finances, have overgrown the capabilities of Khajane project. In the coming year, a major information technology based initiative is planned for comprehensive management of State finances. The project will aim to enable electronic flow of authorization, funds and information among all stakeholders such as public, banks, line departments and Accountant General. The focus will be on improving ease and consistency for the stakeholders and not merely on improving processes within the Treasury.

50. The avoidable rush of expenditure in the last month of a financial year compromises the quality of expenditure, and also leads to parking of funds in personal deposit accounts, which give an illusion of increased expenditure during the year. In pursuance of the commitment in MTFP 2007-08 and MTFP 2008-09, the Government has launched the Monthly Programme Implementation Calendar (MPIC) with effect from December 2008 for all schemes at State and District level. MPIC while subsuming the existing format used for monitoring the Plan Schemes, also enables every programme manager, at State level, district level and upto Taluk level to monitor the processes involved in the implementation of a scheme. The overarching aim of MPIC is to improve the quality and pace of expenditure and minimize asymmetry in the flow of revenues and expenditure. Guidelines issued in December 2008 have been evolved after extensive consultations. The key officials from line departments have been given intensive orientation in the use of prescribed formats. As such full utilization of the new monitoring tool is likely to be realized in the year 2009-10 by line departments and thus help in better budget management.

51. Similarly, the government is keen to roll out Programme Performance Budgeting (PPB) in all the departments. Action has been initiated to simplify the existing PPB formats to make it more citizen-friendly. Nodal officers nominated by ten major spending departments are a part of the team for simplification of the PPB formats and to implement PPB in these departments starting from 2009-10. It is seen that the presence of a large number of schemes dilutes focus and compromises on effective implementation and efficiency in services delivery. Further, a large number of schemes lead to thin spread of scarce resources where by under-funding of focus areas occur. As a measure to address the issue, PPB would be utilized to consolidate schemes into programmes and tie-up programme implementation to inputs, outputs and outcomes.

52. In order to enhance and streamline the procedure for release of funds under various budget heads, the Government has delegated more powers in respect of release of funds for revenue and capital expenditure and for according administrative sanction for expenditure. These orders also make it mandatory for all Departments to seek concurrence of Finance Department for release of funds in the latter part of the financial year so as to have an effective oversight mechanism for estimating the progress of expenditure, as well as to facilitate any corrective action to be taken to guide departments about trend of spending, and to identify savings which could be better applied in priority areas.

53. Power, food and social subsidies have considerable merit in the face of ensuring welfare to the citizens. However, improper selection, inefficiency in the system of delivery and lack of accountability take considerable toll on governance related issues, and have a moral and financial hazard, which can prove to be an unsustainable burden in the long run and would crowd out effective application of public finances in

critical areas. To tackle these challenges effective use of IT tools by point of sales instruments, biometrics, and metering utilizing rated instruments would aid in ensuring accountability and enable to get specifics on the actual quantum disbursed or supplied. These measures would also help in utilising the space made available, by savings thus generated, for more effective and equitable distribution of subsidies.

Chapter 7

Medium Term Fiscal Plan Projections 2009-13

Rs. Crore

Item	2007-08 A/c	2008-09 BE	2008-09 RE	2009-10 BE	2010-11 Proj.	2011-12 Proj.	2012-13 Proj.
Revenue Receipts of which	37655	47240	42818	48389	52772	61998	72936
State' Own Tax Revenues	25987	31876	28764	32721	38252	46067	55318
Non Tax Revenues	3358	1932	1906	2130	2308	2517	2748
Resources from the Centre							
- Devolution	6779	7982	7152	7645	8769	10058	11502
- Grants	1531	5450	4996	5893	6482	7130	7843
Revenue Expenditure of which	37375	45713	42050	47238	50847	56072	61836
Interest	4506	5278	4778	5578	6499	7522	8681
Salaries	8667	11403	11440	11522	12674	13941	15336
Pensions	3241	3500	4200	4001	5237	5760	6337
Subsidies (Food, Transport Housing & Industry)	3128	1492	1775	1960	2080	2209	2347
Power Subsidy	2297	2410	1860	2400	2640	2904	3194
Devolution to ULBs	1926	2995	2516	2720	3161	3791	4536
Major O&M (Roads,Buildings & Irrigation)	740	834	729	750	1281	1414	1567
Other O & M (Edn, Health,RD,WS,Agr, Forest)	4076	8388	2087	4413	4824	5268	5747
Administrative Expenditure	688	921	790	832	877	925	975
Other Revenue Expenditure	8107	8492	11875	13063	12791	13882	15074
Capital Receipt (Non Debt)	298	3070	271	1977	585	643	102
Revenue Deficit	**-280**	**-1527**	**-767**	**-1151**	**-1925**	**-5927**	**-11100**
Expenditure on Capital Formation	4288	10678	9639	10441	11016	16428	23268
Fiscal Deficit	**5331**	**7030**	**9357**	**8493**	**9325**	**10571**	**11983**
Total Debt Stock	59852	67578	69162	77177	85688	96259	108242
Interest	4506	5278	4778	5578	6499	7522	8681
Debt Services	5756	7085	6510	7782	11172	14328	17811
Salary+Pension+Interest	16413	20181	20418	21100	23192	25678	28396
Gross Off Budget Borrowings	**103**						
Net Off Budget Borrowings	**-1136**	**-679**	**-640**	**-697**	**-637**	**-580**	**-337**
Consolidated interest	4888	5548	5017	5870	6607	7593	8683
Consolidated Revenue Deficit	**102**	**-1258**	**-528**	**-860**	**-1817**	**-5855**	**-11098**
Consolidated Capital Formation	4391	10678	9639	10441	11016	16428	23268
Consolidated Fiscal Deficit	**4196**	**6350**	**8717**	**7796**	**8688**	**9991**	**11646**
Consolidated Debt Stock	63655	70921	72375	80003	89197	99400	111192
Cnsldtd Rev Deficit / Rev Rct	**0.27%**	**-2.66%**	**-1.23%**	**-1.78%**	**-3.44%**	**-9.44%**	**-15.22%**
Cnsldtd Rev Deficit/ GSDP	**0.04%**	**-0.52%**	**-0.20%**	**-0.29%**	**-0.58%**	**-1.66%**	**-2.78%**
GSDP at Current Prices	233802	244043	268138	294952	310841	352369	399446
Inflation	5.00%	8.00%	4.00%	4.00%	4.00%	4.00%	4.00%
GSDP Annual Real Growth	8.00%	7.00%	9.00%	6.00%	9.00%	9.00%	9.00%
Revenue Receipts of which	16.11%	19.36%	15.97%	16.41%	16.98%	17.59%	18.26%
State' Own Tax Revenues	11.11%	13.06%	10.73%	11.09%	12.31%	13.07%	13.85%
Non Tax Revenues	1.44%	0.79%	0.71%	0.72%	0.74%	0.71%	0.69%
Resources from the Centre							
- Devolution	2.90%	3.27%	2.67%	2.59%	2.82%	2.85%	2.88%
- Grants	0.65%	2.23%	1.86%	2.00%	2.09%	2.02%	1.96%
Revenue Expenditure of which	15.99%	18.73%	15.68%	16.02%	16.36%	15.91%	15.48%

Item	2007-08 A/c	2008-09 BE	2008-09 RE	2009-10 BE	2010-11 Proj.	2011-12 Proj.	2012-13 Proj.
Interest	1.93%	2.16%	1.78%	1.89%	2.09%	2.13%	2.17%
Salaries	3.71%	4.67%	4.27%	3.91%	4.08%	3.96%	3.84%
Pensions	1.39%	1.43%	1.57%	1.36%	1.68%	1.63%	1.59%
Subsidies (Food, Transport Housing & Industry)	1.34%	0.61%	0.66%	0.66%	0.67%	0.63%	0.59%
Power Subsidy	0.98%	0.99%	0.69%	0.81%	0.85%	0.82%	0.80%
Devolution to ULBs	0.82%	1.23%	0.94%	0.92%	1.02%	1.08%	1.14%
Major O&M (Roads,Buildings & Irrigation)	0.32%	0.34%	0.27%	0.25%	0.41%	0.40%	0.39%
Other O & M (Edn, Health,RD,WS,Agr, Forest)	1.74%	3.44%	0.78%	1.50%	1.55%	1.50%	1.44%
Administrative Expenditure	0.29%	0.38%	0.29%	0.28%	0.28%	0.26%	0.24%
Other Revenue Expenditure	3.47%	3.48%	4.43%	4.43%	4.12%	3.94%	3.77%
Revenue Deficit	**-0.12%**	**-0.63%**	**-0.29%**	**-0.39%**	**-0.62%**	**-1.68%**	**-2.78%**
Capital Receipt (Non Debt)	0.13%	1.26%	0.10%	0.67%	0.19%	0.18%	0.03%
Expenditure on Capital Formation	1.83%	4.38%	3.59%	3.54%	3.54%	4.66%	5.82%
Fiscal Deficit	**2.28%**	**2.88%**	**3.49%**	**2.88%**	**3.00%**	**3.00%**	**3.00%**
Administrative Expdr as % of RR	**1.83%**	**1.95%**	**1.85%**	**1.72%**	**1.66%**	**1.49%**	**1.34%**
Total Debt Stock	25.60%	27.69%	25.79%	26.17%	27.57%	27.32%	27.10%
Interest/Revenue	11.97%	11.17%	11.16%	11.53%	12.32%	12.13%	11.90%
Debt Services/Revenue	15.29%	15.00%	15.20%	16.08%	21.17%	23.11%	24.42%
(Salary+Pension+Interest)/Revenues	43.59%	42.72%	47.69%	43.61%	43.95%	41.42%	38.93%
Debt Services/GSDP	2.46%	2.90%	2.43%	2.64%	3.59%	4.07%	4.46%
(Salary+Pension+Interest)/GSDP	7.02%	8.27%	7.61%	7.15%	7.46%	7.29%	7.11%
Consolidated Interest/revenue	12.98%	11.74%	11.72%	12.13%	12.52%	12.25%	11.90%
Off Budget Borrowings/GSDP	**0.04%**						
Consolidated interest/GSDP	2.09%	2.27%	1.87%	1.99%	2.13%	2.15%	2.17%
Consolidated Revenue Deficit/GSDP	**0.04%**	**-0.52%**	**-0.20%**	**-0.29%**	**-0.58%**	**-1.66%**	**-2.78%**
Consolidated Capital expenditure/GSDP	1.88%	4.38%	3.59%	3.54%	3.54%	4.66%	5.82%
Consolidated Fiscal Deficit/GSDP	**1.79%**	**2.60%**	**3.25%**	**2.64%**	**2.79%**	**2.84%**	**2.92%**
Consolidated Debt Stock/GSDP	**27.23%**	**29.06%**	**26.99%**	**27.12%**	**28.70%**	**28.21%**	**27.84%**

Chapter 1

Introduction

a. Emerging Challenges

1. The Medium Term Fiscal Plan 2008-12 was presented on the strength of the impressive economic growth witnessed during the past five years and the rewards of sustainable fiscal consolidation. During the year 2008-09, the fiscal deficit was estimated to be 2.88 percent of GSDP while the revenue surplus was estimated at 0.63 percent of GSDP. Considering the international commodity price signals, particularly of petroleum prices, the GSDP during the year 2008-09 was assumed to grow at 7 percent while inflation was assumed to be 8 percent. However, during the period after the presentation of MTFP, there was a worldwide unprecedented economic crisis triggered by a breakdown of the financial system. The Indian economy was hit adversely for the reasons which originated beyond its boundaries and so was Karnataka's economy. Thus, the year 2008-09 has posed an unprecedented challenge in the management of government finances - a prospect that is likely to continue in the year 2009-10. The Central Government budget 2009-10 has already signaled that adhering to deficit targets in 2009-10 as mandated under the FRBM legislation is difficult. The Central budget also signals that nominal GDP growth projections for 2009-10 are lower at 11 percent as compared to 14.9 in 2008-09. For the years thereafter namely, 2010-11 and 2011-12, GDP growth is projected to be 13 percent and 13.4 percent respectively. Thus, the medium term fiscal scenario is comparatively less optimistic than it was two years ago.

2. The present uncertain economic scenario is likely to continue in the medium term and it is likely to affect Karnataka's economy too. During 2008-09, lower than expected GDP growth rate, tax/duty cuts announced by the Centre to boost the consumer

demand had their impact on Central tax receipts and hence on the devolution of Karnataka's entitlements from the GoI. Already the devolution of funds to Karnataka which were estimated at Rs. 7982 crore in BE 2008-09, has declined to Rs. 7152 crore in 2008-09 RE. As such MTFP 2009-13 is being presented in the backdrop of potentially low growth in the revenues within which the government has to manage its development priorities as well as step up public expenditure to boost the State's economy and accelerate its growth. The succeeding chapters in the statement explain the challenges and the government's responses in detail.

b. Path of Fiscal Correction

3. Karnataka is a front-runner on the path of fiscal consolidation. On the strength of fiscal laws like Karnataka Ceiling on Government Guarantees Act 1999 and the Karnataka Fiscal Responsibility Act (KFRA) 2002 the Government has managed to put its finances on strong footing.

4. During the period before enacting KFRA the State's fiscal situation was under severe stress, more particularly during the period from 1997 onwards. Several factors like the high salary expenditure due to the implementation of the Pay Commission Award, large off-budget borrowings to finance major items of expenditure like irrigation projects, poor buoyancy of tax revenues, and increasing interest payments contributed to such a situation. Consequently, the State's finances showed a revenue deficit from 1997-98 onwards along with a substantial fiscal deficit. The revenue and fiscal deficit which were at the level of 0.38 percent and 2.20 percent of GSDP respectively in 1997-98, increased to 3.01 percent (Rs. 3284 crore) and 5.4 percent (Rs.5,870 crore) in 2001-02.

5. Prior to the passing of KFRA the situation in Karnataka was broadly reflective of the state of affairs prevailing in other States as also at the Central level. The key fiscal indicators during the period

between 1997-98 and 2001-02 showed a deteriorating fiscal situation. The fiscal stress experienced prior to KFRA can be seen from Table 1.

TABLE- 1

Fiscal Deficit and Revenue Deficit of Government of Karnataka prior to enacting KFRA

(Rs. in crore)

Item	1997-98	1998-99	1999-00	2000-01	2001-02
GSDP Nominal	73046	87841	101247	108362	112846
Fiscal Deficit	1610	3112	4276	4219	5870
FD as % of GSDP	2.20	3.54	4.22	3.89	5.20
Revenue Deficit	277	1215	2325	1862	3284
RD as % of GSDP	0.38	1.38	2.45	1.78	3.01

6. KFRA mandated the Government to ensure a zero revenue deficit and to contain fiscal deficit to below 3 percent by 31st March,2006. This mandate enabled the Government to manage government finances prudently. The State has fairly overcome the fiscal strain of 1990s, mainly on account of measures taken for curtailing revenue expenditure, taking up revenue enhancing measures on the policy front and by enhancing institutional efficiency for increased tax compliance. The overall tax receipts which were 7.9 percent of GSDP in 2000-01 have improved to 11.1 percent of GSDP in 2007-08. In this background, the State has achieved KFRA mandated deficit targets by 2004-05, thus being ahead of time and has remained on that path thereafter.

7. The KFRA had also emphasized fiscal responsibility as a developmental responsibility. The law expects transparency in fiscal operations. The debts and deficits were required to be managed within specified targets with focus on fiscal consolidation. In this

direction, the Government of Karnataka initiated a number of policy initiatives and administrative measures. Complementing the revenue rationalization measures, some administrative measures are also notable, viz., checking evasion of excise duty by canalization of Indian made liquor, abolition of the use of stamp papers for registration, containing salary and pension expenditure at less than 35 percent of revenue expenditure, and introduction of IT based Human Resource Management System. Similarly measures were also taken to curtail interest expenditure by debt swapping, that enabled high cost debt to be replaced by low cost debt under GoI's Debt Consolidation and Waiver Scheme. The expenditure on salaries was also controlled by abolition of posts falling vacant in government departments as well as by imposing ban on new recruitment in sectors other than social services. Furthermore, the existing law on procurement reforms has also been an integral part of the expenditure reforms. The law provides for ensuring transparency in public procurement of goods and services by streamlining the procedure in inviting, processing and accepting of tenders.

8. The expenditure compression measures resulted in bringing down interest payments from 23.5 percent of State's revenues in 2000-01 to less than 18.5 percent by 2004-05. Further, during the same period the expenditure on salaries came down from 29 percent of the total revenue expenditure to 22 percent. The fiscal performance of the state as reflected in the deficit targets mandated for the fiscal years 2000-01 to 2007-08 are shown in Table 2 below.

Table 2

Rs. in crore

Item	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09 BE
GSDP Nominal	112846	120888	130989	156254	186209	200922	233802	244043
Fiscal Deficit	5870	5281	4501	3600	3687	4688	5331	7030
FD as % of GSDP	5.20	4.37	3.44	2.30	1.98	2.33	2.28	2.88
Revenue Deficit	3284	2253	525	-1673	-2311	-4152	-3776	-1571
RD as % of GSDP	2.91	1.86	0.40	-1.07	-1.24	-2.07	-1.62	-0.64

9. The measures explained above, adopted by the Government to correct the fiscal situation, has enabled the State to meet both the deficit targets by the year 2004-05 itself, and thereafter has helped the State to sustain the position. All such measures have not only had their impact on fiscal sustainability of the State but have also earned rewards in the form of significant financial incentives in terms of debt consolidation and debt waiver as recommended by the 12th Finance Commission from the Government of India. Table-3 shows the incentives obtained by the State under the scheme.

TABLE – 3

Debt Consolidation as per the Recommendation of XII Finance Commission

Rs. in crore

Year	Before Consolidation		After Consolidation		Savings		Debt Waiver
	Principal	Interest	Principal	Interest	Principal	Interest	
2005-06	370.56	828.90	358.34	537.51	12.22	291.39	358.33
2006-07	403.57	786.45	358.34	510.63	45.23	275.82	358.33
2007-08	472.32	739.79	358.34	483.75	113.98	256.04	358.33
2008-09	467.72	684.80	358.34	456.88	109.38	227.92	358.33
Total	**1714.2**	**3039.9**	**1433.4**	**1988.8**	**280.81**	**1051.2**	**1433.3**

10. The fiscal space so created by adhering to fiscal targets and debt consolidation had enabled the government in reprioritizing its expenditure in favour of social services and economic services, such as education and health, and other social security measures (Table -4).

Table – 4

Expenditure on Services

Rs. in crore

Services		2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09 RE
General Services	Revenue	7112.09	9039.13	9900.25	10035.84	10419.42	10871.78	13848.18
	Capital	75.85	128.43	136.21	217.92	320.94	339.02	364.57
	Loan	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Total	**7187.94**	**9167.56**	**10036.46**	**10253.76**	**10740.36**	**11210.8**	**14212.75**
Social Services	Revenue	6326.23	6965.04	7722.75	8898.79	10936.71	13123.67	15931.80
	Capital	295.30	427.21	486.04	1105.30	1292.62	2147.68	2572.56
	Loan	230.03	256.48	238.80	142.72	325.84	594.80	394.20
	Total	**6851.56**	**7648.73**	**8447.59**	**10146.81**	**12555.17**	**15866.15**	**18898.57**
Economic Services	Revenue	4802.41	4651.69	6510.52	7947.33	10440.24	11453.31	9754.70
	Capital	2564.84	2473.76	4051.44	4498.70	6929.01	6162.24	6497.92
	Loan	249.19	754.73	372.60	156.88	31.39	160.43	553.83
	Total	**7616.44**	**7880.18**	**10934.56**	**12602.91**	**17400.64**	**17775.98**	**16806.45**

11. The trends in the above Table indicate the step up in expenditure especially in Social and Economic Services in the last few years. The State has been able to provide for the implementation of the recommendations of its Fifth Pay Commission which gave its award in 2006-07. The State has also incurred substantial expenditure on implementing major new initiatives like the farmer's loan waiver scheme (Rs.500 crores in 2006-07 and Rs.1250 crore in 2007-08), provision of agricultural credit at subsidized interest rate of 4% through cooperative credit institutions (Rs.150 crore per year) and enhancement of social security pensions from Rs. 200/- to Rs.400/- per month (Rs.1228 crore in 2008-09). Integrated development of 1200 villages under the Suvarna Gramodaya Scheme has been taken up with an outlay of over Rs.1000 crore from 2006-07 to 2008-09. Further,

development expenditure has also been increased substantially on opening of new schools, colleges, polytechnics and engineering colleges, upgradation of primary health centers, community health centers and taluk level hospitals, opening of new medical colleges, engineering colleges and Industrial Training Institutes and infrastructure support for industries. Besides these new programmes, the outlay for physical infrastructure on railway and road projects and urban development has been substantially enhanced.

c. Road ahead and the Fiscal Objectives

12. The Medium Term Fiscal Plans of the State presented ever since KFRA came into force, had a common thread as reflected in the legislative objective of the KFRA. The Act seeks the government to ensure fiscal stability and sustainability, and enhance the scope for improving social and physical infrastructure, and development by achieving a sufficient revenue surplus. In furtherance of this objective the Government is expected to be guided by 17 fiscal management principles enumerated in Section 4 of KFRA. The above fiscal objective as well as the fiscal management principles run through all the MTFPs so far. The Central government has recently provided an opportunity to the State Governments to relax their deficit targets for the year 2008-09, as a one time measure only, and allowed States to undertake additional borrowings, the proceeds of which have to be used for capital expenditure. In this context, the State Government, while managing a revenue surplus is only relaxing its fiscal deficit target to 3.5 percent of GSDP for the year 2008-09, as a one-time measure, for which an amendment will be moved as part of Finance Bill.

13. The past experience also points to the need for continued fiscal prudence, since remaining on the path of fiscal stabilisation brings along long-term rewards, ensures intergenerational equity by reducing future debt burden as well as helping in creating a cushion for additional borrowings during difficult times like the one we are facing

now. Thus, on the strength of realizing the benefits of a prudent fiscal regime mandated by KFRA the Government is strongly committed to contain deficits within specified limits, raise revenue surplus and be back on the fiscal consolidation path while making productive use of the additional borrowings made during 2008-09. The government is also committed to fully use the additional borrowings for creation of assets through increased capital expenditure. In other words, the fiscal space will be used for increasing public expenditure for infrastructure development, human resource development, and welfare of the citizens on an ongoing basis.

Chapter 2

Evaluation of Fiscal Performance

14. After achieving a revenue surplus status in 2004-05, Karnataka Government has consistently striven to sustain and improve its fiscal parameters. Table 5 below shows the State's fiscal performance since 2005-06 in terms of various indicators, comparing the actual achievement with targets set for each year. In respect of 2008-09 the likely performance as per the revised estimates is compared with the budget estimates. The performance is based on the latest available data on GSDP.

Table 5

Fiscal Framework

Rs. Crores

Item	2005-06 BE	2005-06 A/c	2006-07 BE	2006-07 A/c	2007-08 BE	2007-08 A/c	2008-09 BE	2008-09 RE
Revenue Receipts of which	29218	30352	35875	37587	40762	37655	47240	42818
State' Own Tax Revenues	18680	18632	22534	23301	26691	25987	31876	28764
Non Tax Revenues	4090	3875	4088	4098	1857	3358	1932	1906
Resources from the Centre								
- Devolution	3760	4213	4609	5374	6300	6779	7982	7152
- Grants	2688	3632	4644	4813	5914	1531	5450	4996
Revenue Expenditure of which	28364	28041	34341	33435	39135	37375	45713	42050
Interest	4029	3765	4366	4236	4818	4506	5278	4778
Salaries	6169	5750	6724	6545	8547	8667	11403	11440
Pensions	2427	2237	2666	2496	3416	3241	3500	4200
Subsidies (Food, Transport	1573	2099	1741	1991	2517	3128	1492	1775
Housing & Industry)								
Power Subsidy	1750	1821	1800	2370	2150	2297	2410	1860
Devolution to ULBs	1160	1159	1530	1639	1904	1926	2995	2516
Major O&M (Roads,Buildings & Irrigation)	513	262	1018	1011	810	740	834	729
Other O & M (Edn, Health,RD,WS,Agr, Forest)	2778	2716	3438	3477	8663	4076	8388	2087
Administrative Expenditure	559	557	687	559	799	688	921	790
Other Revenue Expenditure	7406	7677	10372	9112	5511	8107	8492	11875
Capital Receipt (Non Debt)	30	124	45	60	749	298	3070	271
Revenue Deficit	**-854**	**-2311**	**-1535**	**-4152**	**-1627**	**-280**	**-1527**	**-767**
Expenditure on Capital Formation	3774	3591	5088	6349	7523	4288	10678	9639
Fiscal Deficit	**4714**	**3687**	**5211**	**4688**	**6305**	**5331**	**7030**	**9357**
Total Debt Stock	52727	49794	56148	54676	61492	59852	67578	69162
Interest	4029	3765	4366	4236	4818	4506	5278	4778

Item	2005-06 BE	2005-06 A/c	2006-07 BE	2006-07 A/c	2007-08 BE	2007-08 A/c	2008-09 BE	2008-09 RE
Debt Services	4925	4576	5320	5986	6117	5756	7085	6510
Salary+Pension+Interest	12625	11751	13756	13278	16780	16413	20181	20418
Gross Off Budget Borrowings	**899**	**1078**	**845**	**242**	**720**	**103**		
Net Off Budget Borrowings	**-135**	**-816**	**-146**	**-1246**	**-58**	**-1136**	**-679**	**-640**
Consolidated interest	4820	4508	5077	5299	5198	4888	5548	5017
Consolidated Revenue Deficit	**-63**	**-1568**	**-824**	**-3089**	**-1247**	**102**	**-1258**	**-528**
Consolidated Capital Formation	4673	4668	5933	6591	8243	4391	10678	9639
Consolidated Fiscal Deficit	**4579**	**2871**	**5064**	**3442**	**6247**	**4196**	**6350**	**8717**
Consolidated Debt Stock	59216	56274	61337	59717	66223	63655	70921	72375
Cnsldtd Rev Deficit/ GSDP	**-0.04%**	**-0.93%**	**-0.44%**	**-1.54%**	**-0.58%**	**0.04%**	**-0.52%**	**-0.20%**
GSDP at Current Prices	166228	167975	186757	200922	213503	233802	244043	268138
Inflation	5.00%	5.00%	4.00%	4.00%	5.00%	5.00%	8.00%	4.00%
GSDP Annual Real Growth	7.00%	7.00%	7.00%	7.00%	8.00%	8.00%	7.00%	9.00%
Revenue Receipts of which	17.58%	18.07%	19.21%	18.71%	19.09%	16.11%	19.36%	15.97%
State' Own Tax Revenues	11.24%	11.09%	12.07%	11.60%	12.50%	11.11%	13.06%	10.73%
Non Tax Revenues	2.46%	2.31%	2.19%	2.04%	0.87%	1.44%	0.79%	0.71%
Resources from the Centre - Devolution	2.26%	2.51%	2.47%	2.67%	2.95%	2.90%	3.27%	2.67%
- Grants	1.62%	2.16%	2.49%	2.40%	2.77%	0.65%	2.23%	1.86%
Revenue Expenditure of Which	17.06%	16.69%	18.39%	16.64%	18.33%	15.99%	18.73%	15.68%
Interest	2.42%	2.24%	2.34%	2.11%	2.26%	1.93%	2.16%	1.78%
Salaries	3.71%	3.42%	3.60%	3.26%	4.00%	3.71%	4.67%	4.27%
Pensions	1.46%	1.33%	1.43%	1.24%	1.60%	1.39%	1.43%	1.57%
Subsidies (Food,Transport Housing & Industry)	0.95%	1.25%	0.93%	0.99%	1.18%	1.34%	0.61%	0.66%
Power Subsidy	1.05%	1.08%	0.96%	1.18%	1.01%	0.98%	0.99%	0.69%
Devolution to ULBs	0.70%	0.69%	0.82%	0.82%	0.89%	0.82%	1.23%	0.94%
Major O&M (Roads,Buildings & Irrigation)	0.31%	0.16%	0.54%	0.50%	0.38%	0.32%	0.34%	0.27%
Other O & M (Edn, Health,RD,WS,Agr, Forest)	1.67%	1.62%	1.84%	1.73%	4.06%	1.74%	3.44%	0.78%
Administrative Expenditure	0.34%	0.33%	0.37%	0.28%	0.37%	0.29%	0.38%	0.29%
Other Revenue Expenditure	4.46%	4.57%	5.55%	4.53%	2.58%	3.47%	3.48%	4.43%
Revenue Deficit	**-0.51%**	**-1.38%**	**-0.82%**	**-2.07%**	**-0.76%**	**-0.12%**	**-0.63%**	**-0.29%**
Capital Receipt (Non Debt)	0.02%	0.07%	0.02%	0.03%	0.35%	0.13%	1.26%	0.10%
Expenditure on Capital Formation	2.27%	2.14%	2.72%	3.16%	3.52%	1.83%	4.38%	3.59%
Fiscal Deficit	**2.84%**	**2.19%**	**2.79%**	**2.33%**	**2.95%**	**2.28%**	**2.88%**	**3.49%**
Off Budget Borrowings/GSDP	**0.54%**	**0.64%**	**0.45%**	**0.12%**	**0.34%**	**0.04%**		
Consolidated Revenue Deficit/GSDP	**-0.04%**	**-0.93%**	**-0.44%**	**-1.54%**	**-0.58%**	**0.04%**	**-0.52%**	**-0.20%**
Consolidated Capital expenditure/GSDP	2.81%	2.78%	3.18%	3.28%	3.86%	1.88%	4.38%	3.59%
Consolidated Fiscal Deficit/GSDP	**2.75%**	**1.71%**	**2.71%**	**1.71%**	**2.93%**	**1.79%**	**2.60%**	**3.25%**
Consolidated Debt Stock/GSDP	**35.62%**	**33.50%**	**32.84%**	**29.72%**	**31.02%**	**27.23%**	**29.06%**	**26.99%**

15. The revenue balance position reached a peak surplus of Rs.4152 crore in the financial year 2006-07. Thereafter, there is a declining trend with the surplus being reduced to Rs.767 Crore in 2008-09 RE. The revenue surplus has come down as a result of increased expenditure towards salaries and pensions due to implementation of the Pay Commission award, welfare measures like social security pensions, and enhanced subsidies for the agriculture sector. During the current year, lower than expected growth in the revenue receipts due to the prevailing difficult macro-economic conditions has also impacted the revenue balance position adversely. The declining revenue surplus affects the ability of the Government to increase capital expenditure. This is resulting in increased accessing of market borrowings to finance capital expenditure.

16. Every year since 2004-05, the actual revenue surplus has been more than the Budget Estimate of the year. The fiscal deficit has been less than the Budget Estimates by 0.46 percent to 0.67 percent upto 2007-08. At the same time, the capital expenditure has been maintained around the Budget Estimates upto 2007-08. The actual performance with reference to MTFP targets indicates a conservative approach in the Budget Estimates.

17. The Revised Estimate for 2008-09 presents a situation different from the past trend. The revenue surplus is expected to come down from the Budget Estimate of Rs.1527 Crore to Rs.767 Crore, while the fiscal deficit is expected to be higher than the Budget Estimate of Rs. 7030 Crore at Rs.9357 Crore. The Plan capital expenditure is expected to be Rs.10395 Crore, almost 10.6 percent lower than the Budget Estimate of Rs.11627 Crore. The revenue expenditure is expected to be lower at Rs.42050 Crore from the Budget Estimate of Rs.45713 Crore. The adherence to the MTFP targets is estimated to result in proportionately larger allocation on the capital expenditure.

18. The revised estimates include impact of the major expenditure items in the supplementary estimates that are to be presented to the Legislature. The outlays in the supplementary estimates are expected to be financed from the overall savings, and additional fiscal space of 0.5 percent of GSDP being created through amendment to KFRA as a one-time measure. The control on fresh recruitment, debt swap, and debt consolidation and relief facility from GOI has helped in limiting growth of expenditure on salaries, pensions and interest. Following the implementation of the 5th State Pay Commission recommendations, the salary expenditure is likely to go up from 3.42 percent of GSDP in 2005-06 to 4.27 percent in 2008-09 RE. The retirement age was increased to 60 years during 2008-09. This change is expected to result in moderation in the pension expenditure.

19. Off-budget borrowings have been eliminated from 2008-09 to bring transparency to the fiscal performance. This arrangement is would be continued in the MTFP period. Only such organizations would be allowed to borrow who can service the debt out of their own resources, without depending on the State's budget.

Chapter 3

Macro Economic Outlook

a. GSDP

20. Table-6 below shows the contribution of various sectors to Gross State Domestic Product in the last few years. The Services sector continues to be the dominant contributor to the GSDP. The contribution of agriculture sector is declining progressively.

Table 6

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

Rs. in crore

Industry	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 QE	2008-09 AE
Primary	26538	24672	21850	27013	28135	27684	32023	30374
Secondary	26384	29180	30762	32322	38080	40618	44091	46664
Tertiary	52638	56508	61561	66125	73806	80769	89388	97616
Total	**105560**	**110360**	**114173**	**125460**	**140021**	**149071**	**165502**	**174654**
Percentage share of different sectors								
Primary	25.1	22.4	19.1	21.5	20.1	18.6	19.3	17.4
Secondary	25.0	26.4	26.9	25.8	27.2	27.2	26.6	26.7
Tertiary	49.9	51.2	53.9	52.7	52.7	54.2	54.1	55.9

Source: Economic Survey 2008-09, Directorate of Statistics AE: Advance Estimates. QE: Quick Estimates

b. GSDP growth in 2008-09 and prospects for 2009-2010

21. The real annual GSDP growth rate in 2008-09 is estimated at 5.5 percent (constant prices) as against 11 percent in 2007-08 percent (at constant prices). The latest available estimates from Directorate of Economics Statistics, point to a subdued outlook for GSDP growth in 2009-10. Agriculture, which witnessed a growth of 15.6 percent in 2007-08, is estimated to show a negative growth at (-)5.7 percent due to poor monsoon. The industrial sector, which had a growth of 8.8 in 2007-08, is expected to grow at a reduced rate of 5.8 percent in 2008-09. The services sector growth, which was 10.7 percent in 2007-08, is estimated to decline to 9.2 percent in 2008-09. Considering the

uncertainties in the national economy, this subdued outlook is not surprising.

22. Taking into account the external economic outlook, and national macroeconomic scenario as detailed in the Macroeconomic Framework Statement for 2009-10 presented by Central Government, it is projected that the State's economy would grow at a real growth rate of *6* percent in 2009-10. Considering the low inflation prospects in 2009-10, the GSDP at current market prices is estimated to be Rs. 2,94,952 crore in 2009-10, as compared to Rs. 2,68,138 crore in 2008-09.

23. At the national level the macro economic trends suggest a moderation of economic growth mainly due to the contagion effect of the global economic crisis. The moderation is across the sectors. Slowing down of the global economy is expected to adversely impact the export oriented industry and services sectors more intensely, and the shock is likely to continue into the medium term. Karnataka with a high share of the services sector, information technology and textile based industries is likely to significant strain on the state economy. However, beyond 2009-10, it is expected that the growth will improve to the potential level of 9%.

c. Inflation trends

24. The high inflation that was witnessed during the major part of 2008-09 has gradually given way to a low inflation regime which is currently at 4.34 percent for the week ending January 31,2009. Given the uncertainties in oil and other commodity prices and other associated cost push factors in the supply chain of manufacturing sector, defining a more probable inflation path for the year 2009-10 is difficult. However, taking a cue from the Union Budget and the deficit targets fixed for Central budget, the medium term inflation is assumed at 4 percent.

d. Policy interventions

25. To sustain the present growth of the economy, the State's strategy for all the three sectors will be to identify and address the factors impeding accelerated growth, and to put the economy on the path of quick recovery. The additional borrowing during the year enabled through one-time amendment to KFR Act will be utilized for capital expenditure through equity investment and asset creation. To generate an optimal solution for the investments and for quality in growth with minimum time lag, it is necessary to initiate many associated institutional reforms that enhance efficiency in public service delivery and improve governance. Such measures include streamlining of the purchase of land, minimizing time for permissions and statutory approvals, speedier dispute resolution, easing of compliance norms, enabling provisions for private investment in agriculture, skill development including through private partnership, etc., which need to be implemented earnestly during the year.

Chapter 4

Revenue Reforms and Projections

a. Strategy and Projections for Major Own Tax Revenues

26. The improvement in the State's financial position owes to a large extent to the consistent growth in tax revenues during the period of fiscal correction. The prudent tax policies ensured that the tax to GSDP ratio moved up from 9.73 percent in 2003-04 to 11.11 percent during 2007-08.

27. The State has consciously followed the policy of widening the tax base while moderating the rate of tax. Table 7 shows the growth in the State's revenues under major taxes during the period 2002-03 to 2007-08. During the KFRA regime upto 2007-08, the average growth rate of commercial taxes, excise, motor vehicles tax, stamps and registration was 20.91 percent, 19.26 percent, 20.95 percent and 29.16 percent respectively. However, reflecting the downward trend in the economy during 2008-09, the growth rate of revenue as projected in the budget from these tax sources has not materialized, leading to a shortfall of Rs.3143 Crores. This is further leading to an unprecedented fiscal stress for the reasons not wholly associated with Government's policies, but attributable majorly to the global crisis.

Table 7

Actuals in Rs. crore

Year	Commercial Tax			Excise Tax		
	Actuals	Growth Rate	Buoyancy	Actuals	Growth Rate	Buoyancy
2002-03	6313	3.85%	0.38	2094	5.93%	0.59
2003-04	7733	22.49%	2.68	2334	11.45%	1.37
2004-05	10057	30.05%	2.13	2806	20.20%	1.43
2005-06	11484	14.19%	0.95	3397	21.07%	1.41
2006-07	13714	19.42%	1.89	4495	32.34%	3.15
2007-08	15552	13.40%	0.55	4767	6.03%	0.25
2008-09 RE	17595	13.14%	0.89	5574	16.94%	1.15
Trend Growth Rate	18.62%			18.85%		

Year	Motor Vehicle Tax			Stamps & Registration Tax		
	Actuals	Growth Rate	Buoyancy	Actuals	Growth Rate	Buoyancy
2002-03	676	-5.15%	-0.51	1115	30.44%	3.00
2003-04	800	18.41%	2.20	1356	21.55%	2.57
2004-05	983	22.86%	1.62	1760	29.81%	2.11
2005-06	1105	12.46%	0.83	2212	25.70%	1.72
2006-07	1374	24.34%	2.37	3206	44.91%	3.71
2007-08	1650	20.05%	0.83	3409	6.33%	0.26
2008-09 RE	1762	6.77%	0.46	3110	-8.76%	-0.60
Trend Growth Rate	18.10%			21.79%		

(i) Commercial Taxes

28. Commercial taxes are the biggest contributor to the State's own tax revenues of which Tax on sale of goods is the major item. From 2005-06 onwards the State has adopted the Value Added Tax system as per the national design. The transition to Value Added Tax resulted in negligible growth in revenues in 2005-06 and around 20% growth in 2006-07. During the first half of 2008-09, despite increase in the global oil prices, States could not derive tax revenue benefits as the practice of administered prices was continued by GoI. Further, when a decision for increasing the prices was taken by the Central Government, the State Government partly rolled back the tax on petroleum products to cushion the impact on the common man. Subsequently, when oil prices decreased the government has undergone a significant loss of Rs. 300 crore on account of the reduced prices. Also there has been a slowing down of sale of articles of mass consumption, as well as in the construction industry, which has contributed to the sluggishness in the economy and, to decreased realization.

29. From 2008-09 there is no support from Government of India to compensate for the loss arising out of the lower than projected normative growth rates under the Value Added Tax. Thus it is crucial for the State to adjust to the uniform Value Added Tax system without financial incentives. The consensus evolved by the Empowered Committee of State Finance Ministers of not resorting to competitive

rate wars needs to be carried forward in letter and spirit to preserve the integrity of the system and to prevent it from relapsing into the pre-2000 era of competitive exemptions and tax rates leading to erosion of the tax base. State specific procedures and rates not only impact tax revenues but also raise compliance costs and hinders the evolution of a seamless common market. Reduction in Central Sales Tax (CST) from 3 percent to 2 percent by GoI during 2008-09 in preparation for GST has affected the revenues adversely. The State is engaging GoI for this considerable loss of CST revenues, and a continued compensation package to address the erosion of tax.

30. The State has to prepare itself to the challenge adjusting to the introduction of the Goods and Services Tax (GST) which is likely to be effective from the year 2010 onwards as part of Comprehensive Indirect Tax reforms leading to a common market in the country. However, in the absence of specific details, there are apprehensions that a switchover to GST may have adjustment problems in the initial years of its implementation including substantial adverse financial implications to Karnataka, if a robust system of compensation is not put in place in advance. These uncertainties/apprehensions have also been highlighted before the Thirteenth Finance Commission, which recently visited the State.

(ii) State Excise

31. After the imposition of ban on the sale of arrack, there has been a significant shift in the consumption of IML, mainly to the lower price band. The price band spectrum, the various levies, and the socio-economic milieu combine to determine alcohol consumption. In the present economic scenario, the excise target appears quite achievable and a 15% growth has been considered for 2009-10.

(iii) Stamps & Registration

32. The slump in the stamps and registration which led to a revenue shortfall of about Rs.800 crore in 2007-08 has continued into this year also. There is a possibility that a shortfall of about Rs.1000 crore will occur in 2008-09 as compared to the BE target. The general slowing down of the economy has greatly stressed the real estate market. Inspite of the liquidity injection measures by RBI, and the fiscal stimulus packages by the central government, the demand remains sluggish. The allied sectors of steel, cement, etc. are also facing the collateral effect which is also washing onto the commercial taxes arena.

(iv) Motor Vehicles Tax

33. Growth in the revenue from the Motor Vehicles Taxes was satisfactory in 2007-08 and it exceeded the budget estimates. However, during 2008-09, the automobile industry has been hard hit due to global factors. In order to revive the industry the GoI has reduced excise duty on motor vehicles by 4 percent as part of its fiscal stimulus package in December 2008. It is seen that even the public transport operators have scaled down the purchase due to the economic slowdown. But a more serious slowdown has been seen in private vehicles purchase, and 2008-09 achievements would be less by about Rs.300 crores than the target. This has led to a conservative projection for 2009-10 as hopes of recovery appear bleak inspite of measures taken to reduce costs by giving tax breaks. A method of increasing the tax collection is by rigorous enforcement, which would provide the severely required buoyancy.

(v) Revenue from Royalty on Major & Minor Minerals

34. Royalty rates on major minerals, which were due for revision in 2007-08, have not been revised by the Central Government. Receipts from royalty on major & minor minerals in 2008-09 continue to be

lower mostly due to decline in demand in the international market, especially after the Beijing Olympics. The revenue in 2008-09 is likely to fall short by Rs. 150 crore as compared to BE. The Government of India has been approached repeatedly, regarding the revision of royalties. Substantial resources could be available for the development needs of the State when the royalty and rates are revised. Expecting a revision of royalty rates on major minerals by GOI, 6.35 percent growth in revenues has been assumed.

(vi) Receipts from Sale of Land

35. Large tracts of Government land in and around Bangalore are under encroachment as per the State's Legislature Committee Report. It is important to safeguard these precious assets by suitably fencing and securing it at the first instance. Land protection and its disposal needs to be part of public policy to fuel growth, generate employment and enhance productivity. Use of these lands needs to be done keeping in view the present and future requirements for public purposes.

36. MTFP 2008-12 had anticipated sale of government land in and around Bangalore to unlock potential value of land assets for financing development. The same has not materialized due to a general sluggishness in the real estate sector. With a plan size of Rs.29500 crore in 2009-10, it is imperative that these vital assets are capitalized and substantial funds are available to achieve the objectives as set out. Even though a target of Rs.3000 crores was been set for 2008-09, probably about Rs.200 crores only may be realized. For 09-10, a target of Rs.1900 crore has been factored, and it is expected that the newly formed Karnataka Land Estate Corporation would act expeditiously in disposal of the land. Long term lease of the government land near the international airport is also planned during 2009-10.

Chapter 5

Expenditure Management & Projections

37. As stated in the MTFP 2008-12, there is a need for continued improvement in the quality of expenditure to obtain better outputs and outcomes to realize value for money from increased allocations for productive/priority sectors. In this direction, the State has taken up two key initiatives, namely, Monthly Programme Implementation Calendar (MPIC) and Programme Performance Budgeting (PPB) during the current year, which have been explained in chapter 6 of MTFP 2009-13.

38. As explained earlier, the state has undertaken a number of measures towards better expenditure management. It has been able to recast its expenditure in favour of social and economic services. Expenditure on Social Services as a percentage of GSDP has increased from 5.71 percent in 2002-03 to 8.6 percent in 2008-09 (BE). Similarly expenditure on Economic Services as a percentage of GSDP increased from 6.34 percent to 7.84 during the same period. The State has also taken a number of steps to keep the growth of salary expenditure. In this regard it is worth noting that RBI, in one of its Reports (State Finances – A study of State Budgets, 2007-08) has mentioned that expenditure on salaries in Karnataka as percentage of total revenue expenditure at 22 percent is one of the lowest as compared with the all-State average of 29 percent.

39. As part of its expenditure strategy, the State has been trying to earmark increased outlays in various high priority development sectors. The following section outlines the expenditure strategy in priority development sectors.

a. Agriculture

40. As shown in Chapter 3, the contribution of Agriculture to the total Gross State Domestic Product is declining, as its growth has not been able to keep pace with the other sectors of the economy. However the number of people depending upon agriculture has not been declining leading to stagnation of per capita income levels. Therefore agricultural productivity has been one of the prime areas of concern for the State Government. Agriculture, which contributes 85% of the primary sector has witnessed a negative growth rate of 5.7 percent during 2008-09, as per Economic Survey 2008-09. Responding to such an alarming decline will require not only substantial resources to be allocated to agriculture but also in the rural development sector to prevent unemployment in rural areas.

41. Action has been taken along the lines of the recommendations of the Official Group to provide concrete incentives for the farm sector. Dovetailing the funds available under RKVY and also by applying the States own resources, consciously schemes are in place for extension activities and providing timely credit and IEC facilities. Steps have been taken to increase the irrigated area as well as providing free power to farmers using IP sets less than 10HP.

42. A conscious move to increase the absorption of workers in more remunerative professions using skill development schemes, are being actively encouraged. With the small size of holdings, farmers in the state find it difficult to get economic returns in agriculture unless they diversify for which substantial investment would be necessary.

Table 8

Outlay under Agriculture & Horticulture, Rural Development

Rs. crore

Years	Agriculture & Horticulture	Growth	Rural Development	Growth
2004-05	787		1326	
2005-06	674	-14.36%	1639	23.60%
2006-07	874	29.74%	2016	23.00%
2007-08	1264	44.62%	2549	26.44%
2008-09 (RE)	1506	19.15%	2831	11.06%
2009-10 (BE)	1685	11.89%	3064	8.23%

b. Rural Development

43. In keeping with the avowed objective of providing connectivity and clean, reliable and safe drinking water, there has been an increased focus on roads to villages as well as drinking water schemes. For the comprehensive development of villages, schemes like Nirantara Jyoti. Mukhya Mantri Grameena Yojana, NREGA, Total sanitation campaign, etc. are being implemented on a mission mode to facilitate development of villages

c. Power

44. The power sector requires substantial investments both in generation and transmission, not only because the State power deficit, but also because of substantial T/D losses of more than 25%. Recognising the criticality of this the Government has decided to infuse equity of Rs.500 crore into the Karnataka Power Corporation. A long term vision of establishing multiple power projects either individually by GoK, or in association with private entrepreneurs is being increasingly explored.

d. Health & Education

45. The sectors of Health and Education are of critical importance to the State's development. Table 9 shows outlays under Health and Education. The State will be able to realize the benefits of the demographic dividend only if its population is healthy and educated. Therefore, the State is making substantial investments in both these areas. The Government recognizes that in the medium term perspective, expenditure on education and health and family welfare needs to be raised to 5 percent and 1.5 percent respectively of the GSDP from their prevailing levels of 3.7 percent and 1 percent. Considering the magnitude of the expenditure in this regard Government has requested the Thirteenth Finance Commission to consider a Special Grant.

46. Emphasis is being given to not only primary education but also to High school and college education. As a policy decision the government has started numerous first grade colleges in various districts. Emphasis is also being given to having Science as a subject in these institutions. To facilitate meritorious needy students, interest subsidy to study loans is also being offered. The challenge here is not the mere achievement of passing high school or obtaining a degree but also the quality of education which is a critical determinant of employability and learning life skills. It is a critical endeavour as to how this young task force is given requisite skills to make them productively employed. Learning via direct government support, or by partnership with the industry, needs to make the student adequately capable of being absorbed in the workforce. The Knowledge Commission and Skill Mission are in the forefront of this endeavour

Table 9

Outlay under Health & Education

Rs. in crore

Years	Health	Growth	Education	Growth
2004-05	1044		4286	
2005-06	1147	9.81%	4793	11.83%
2006-07	1353	18.02%	5631	17.50%
2007-08	1769	30.75%	6859	21.81%
2008-09 (RE)	2202	24.48%	8643	26.01%
2009-10 (BE)	2281	3.59%	8888	2.83%

e. Redressal of Regional Imbalances

47. An Eight Year Special Development Plan (SDP) was initiated for addressing regional imbalances through the Budget for 2007-08 by earmarking Rs.1571 crore in plan allocation to the backward areas of the State as per the High Power Committee Report on Regional Imbalances (HPCRRI) popularly known as Dr. Nanjundappa Committee Report. In 2009-10, Rs. 2574 crore has been allocated under the SDP. This allocation is mainly directed in the areas of rural development, power, transport, agriculture and irrigation. Considering the financing needs for addressing regional imbalances in the State, the Government has also put up a request to the Thirteenth Finance Commission for a Special Grant. In order to facilitate convenient identification of SDP schemes at the object head a unique number has been allocated. A high power committee continuously supervises the implementation of the schemes.

f. Interest Payments, Salaries, Pensions& Subsidies

48. The expenditure on interest payments, salaries, pensions & subsidies is expected to be 8.28 per cent of GSDP in 2008-09 RE, declining from 9.0 per cent in 2002-03. By the year 2012-13, these expenditures are estimated to be within 8.19 percent, leaving large fiscal space for development expenditure.

Chapter 6

Public Finance Management and Systemic Reforms

49. The Khajane project implemented in the State Treasury 7 years back has helped in automating the processes within the Treasury. The Government needs for sound management of State finances, have overgrown the capabilities of Khajane project. In the coming year, a major information technology based initiative is planned for comprehensive management of State finances. The project will aim to enable electronic flow of authorization, funds and information among all stakeholders such as public, banks, line departments and Accountant General. The focus will be on improving ease and consistency for the stakeholders and not merely on improving processes within the Treasury.

50. The avoidable rush of expenditure in the last month of a financial year compromises the quality of expenditure, and also leads to parking of funds in personal deposit accounts, which give an illusion of increased expenditure during the year. In pursuance of the commitment in MTFP 2007-08 and MTFP 2008-09, the Government has launched the Monthly Programme Implementation Calendar (MPIC) with effect from December 2008 for all schemes at State and District level. MPIC while subsuming the existing format used for monitoring the Plan Schemes, also enables every programme manager, at State level, district level and upto Taluk level to monitor the processes involved in the implementation of a scheme. The overarching aim of MPIC is to improve the quality and pace of expenditure and minimize asymmetry in the flow of revenues and expenditure. Guidelines issued in December 2008 have been evolved after extensive consultations. The key officials from line departments have been given intensive orientation in the use of prescribed formats. As such full utilization of the new monitoring tool is likely to be realized in the year 2009-10 by line departments and thus help in better budget management.

51. Similarly, the government is keen to roll out Programme Performance Budgeting (PPB) in all the departments. Action has been initiated to simplify the existing PPB formats to make it more citizen-friendly. Nodal officers nominated by ten major spending departments are a part of the team for simplification of the PPB formats and to implement PPB in these departments starting from 2009-10. It is seen that the presence of a large number of schemes dilutes focus and compromises on effective implementation and efficiency in services delivery. Further, a large number of schemes lead to thin spread of scarce resources where by under-funding of focus areas occur. As a measure to address the issue, PPB would be utilized to consolidate schemes into programmes and tie-up programme implementation to inputs, outputs and outcomes.

52. In order to enhance and streamline the procedure for release of funds under various budget heads, the Government has delegated more powers in respect of release of funds for revenue and capital expenditure and for according administrative sanction for expenditure. These orders also make it mandatory for all Departments to seek concurrence of Finance Department for release of funds in the latter part of the financial year so as to have an effective oversight mechanism for estimating the progress of expenditure, as well as to facilitate any corrective action to be taken to guide departments about trend of spending, and to identify savings which could be better applied in priority areas.

53. Power, food and social subsidies have considerable merit in the face of ensuring welfare to the citizens. However, improper selection, inefficiency in the system of delivery and lack of accountability take considerable toll on governance related issues, and have a moral and financial hazard, which can prove to be an unsustainable burden in the long run and would crowd out effective application of public finances in

critical areas. To tackle these challenges effective use of IT tools by point of sales instruments, biometrics, and metering utilizing rated instruments would aid in ensuring accountability and enable to get specifics on the actual quantum disbursed or supplied. These measures would also help in utilising the space made available, by savings thus generated, for more effective and equitable distribution of subsidies.

Chapter 7

Medium Term Fiscal Plan Projections 2009-13

Rs. Crore

Item	2007-08 A/c	2008-09 BE	2008-09 RE	2009-10 BE	2010-11 Proj.	2011-12 Proj.	2012-13 Proj.
Revenue Receipts of which	37655	47240	42818	48389	52772	61998	72936
State' Own Tax Revenues	25987	31876	28764	32721	38252	46067	55318
Non Tax Revenues	3358	1932	1906	2130	2308	2517	2748
Resources from the Centre - Devolution	6779	7982	7152	7645	8769	10058	11502
- Grants	1531	5450	4996	5893	6482	7130	7843
Revenue Expenditure of which	37375	45713	42050	47238	50847	56072	61836
Interest	4506	5278	4778	5578	6499	7522	8681
Salaries	8667	11403	11440	11522	12674	13941	15336
Pensions	3241	3500	4200	4001	5237	5760	6337
Subsidies (Food, Transport Housing & Industry)	3128	1492	1775	1960	2080	2209	2347
Power Subsidy	2297	2410	1860	2400	2640	2904	3194
Devolution to ULBs	1926	2995	2516	2720	3161	3791	4536
Major O&M (Roads,Buildings & Irrigation)	740	834	729	750	1281	1414	1567
Other O & M (Edn, Health,RD,WS,Agr, Forest)	4076	8388	2087	4413	4824	5268	5747
Administrative Expenditure	688	921	790	832	877	925	975
Other Revenue Expenditure	8107	8492	11875	13063	12791	13882	15074
Capital Receipt (Non Debt)	298	3070	271	1977	585	643	102
Revenue Deficit	**-280**	**-1527**	**-767**	**-1151**	**-1925**	**-5927**	**-11100**
Expenditure on Capital Formation	4288	10678	9639	10441	11016	16428	23268
Fiscal Deficit	**5331**	**7030**	**9357**	**8493**	**9325**	**10571**	**11983**
Total Debt Stock	59852	67578	69162	77177	85688	96259	108242
Interest	4506	5278	4778	5578	6499	7522	8681
Debt Services	5756	7085	6510	7782	11172	14328	17811
Salary+Pension+Interest	16413	20181	20418	21100	23192	25678	28396
Gross Off Budget Borrowings	**103**						
Net Off Budget Borrowings	**-1136**	**-679**	**-640**	**-697**	**-637**	**-580**	**-337**
Consolidated interest	4888	5548	5017	5870	6607	7593	8683
Consolidated Revenue Deficit	**102**	**-1258**	**-528**	**-860**	**-1817**	**-5855**	**-11098**
Consolidated Capital Formation	4391	10678	9639	10441	11016	16428	23268
Consolidated Fiscal Deficit	**4196**	**6350**	**8717**	**7796**	**8688**	**9991**	**11646**
Consolidated Debt Stock	63655	70921	72375	80003	89197	99400	111192
Cnsldtd Rev Deficit / Rev Rct	**0.27%**	**-2.66%**	**-1.23%**	**-1.78%**	**-3.44%**	**-9.44%**	**-15.22%**
Cnsldtd Rev Deficit/ GSDP	**0.04%**	**-0.52%**	**-0.20%**	**-0.29%**	**-0.58%**	**-1.66%**	**-2.78%**
GSDP at Current Prices	233802	244043	268138	294952	310841	352369	399446
Inflation	5.00%	8.00%	4.00%	4.00%	4.00%	4.00%	4.00%
GSDP Annual Real Growth	8.00%	7.00%	9.00%	6.00%	9.00%	9.00%	9.00%
Revenue Receipts of which	16.11%	19.36%	15.97%	16.41%	16.98%	17.59%	18.26%
State' Own Tax Revenues	11.11%	13.06%	10.73%	11.09%	12.31%	13.07%	13.85%
Non Tax Revenues	1.44%	0.79%	0.71%	0.72%	0.74%	0.71%	0.69%
Resources from the Centre - Devolution	2.90%	3.27%	2.67%	2.59%	2.82%	2.85%	2.88%
- Grants	0.65%	2.23%	1.86%	2.00%	2.09%	2.02%	1.96%
Revenue Expenditure of which	15.99%	18.73%	15.68%	16.02%	16.36%	15.91%	15.48%

Item	2007-08 A/c	2008-09 BE	2008-09 RE	2009-10 BE	2010-11 Proj.	2011-12 Proj.	2012-13 Proj.
Interest	1.93%	2.16%	1.78%	1.89%	2.09%	2.13%	2.17%
Salaries	3.71%	4.67%	4.27%	3.91%	4.08%	3.96%	3.84%
Pensions	1.39%	1.43%	1.57%	1.36%	1.68%	1.63%	1.59%
Subsidies (Food, Transport Housing & Industry)	1.34%	0.61%	0.66%	0.66%	0.67%	0.63%	0.59%
Power Subsidy	0.98%	0.99%	0.69%	0.81%	0.85%	0.82%	0.80%
Devolution to ULBs	0.82%	1.23%	0.94%	0.92%	1.02%	1.08%	1.14%
Major O&M (Roads,Buildings & Irrigation)	0.32%	0.34%	0.27%	0.25%	0.41%	0.40%	0.39%
Other O & M (Edn, Health,RD,WS,Agr, Forest)	1.74%	3.44%	0.78%	1.50%	1.55%	1.50%	1.44%
Administrative Expenditure	0.29%	0.38%	0.29%	0.28%	0.28%	0.26%	0.24%
Other Revenue Expenditure	3.47%	3.48%	4.43%	4.43%	4.12%	3.94%	3.77%
Revenue Deficit	**-0.12%**	**-0.63%**	**-0.29%**	**-0.39%**	**-0.62%**	**-1.68%**	**-2.78%**
Capital Receipt (Non Debt)	0.13%	1.26%	0.10%	0.67%	0.19%	0.18%	0.03%
Expenditure on Capital Formation	1.83%	4.38%	3.59%	3.54%	3.54%	4.66%	5.82%
Fiscal Deficit	**2.28%**	**2.88%**	**3.49%**	**2.88%**	**3.00%**	**3.00%**	**3.00%**
Administrative Expdr as % of RR	**1.83%**	**1.95%**	**1.85%**	**1.72%**	**1.66%**	**1.49%**	**1.34%**
Total Debt Stock	25.60%	27.69%	25.79%	26.17%	27.57%	27.32%	27.10%
Interest/Revenue	11.97%	11.17%	11.16%	11.53%	12.32%	12.13%	11.90%
Debt Services/Revenue	15.29%	15.00%	15.20%	16.08%	21.17%	23.11%	24.42%
(Salary+Pension+Interest)/Revenues	43.59%	42.72%	47.69%	43.61%	43.95%	41.42%	38.93%
Debt Services/GSDP	2.46%	2.90%	2.43%	2.64%	3.59%	4.07%	4.46%
(Salary+Pension+Interest)/GSDP	7.02%	8.27%	7.61%	7.15%	7.46%	7.29%	7.11%
Consolidated Interest/revenue	12.98%	11.74%	11.72%	12.13%	12.52%	12.25%	11.90%
Off Budget Borrowings/GSDP	**0.04%**						
Consolidated interest/GSDP	2.09%	2.27%	1.87%	1.99%	2.13%	2.15%	2.17%
Consolidated Revenue Deficit/GSDP	**0.04%**	**-0.52%**	**-0.20%**	**-0.29%**	**-0.58%**	**-1.66%**	**-2.78%**
Consolidated Capital expenditure/GSDP	1.88%	4.38%	3.59%	3.54%	3.54%	4.66%	5.82%
Consolidated Fiscal Deficit/GSDP	**1.79%**	**2.60%**	**3.25%**	**2.64%**	**2.79%**	**2.84%**	**2.92%**
Consolidated Debt Stock/GSDP	**27.23%**	**29.06%**	**26.99%**	**27.12%**	**28.70%**	**28.21%**	**27.84%**