Report

of the

Working Group on

Centre's Financial Resources

Prepared in connection with

Twelfth Five Year Plan (2012 - 2017)

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Chapter-1
Introduction

The Working Group on Centre's financial resources for the Twelfth Five Year Plan was constituted by the Planning Commission vide order No. 3/2/2010-FR dated April 1, 2011 with Prof (Dr.) Kaushik Basu, Chief Economic Adviser, Ministry of Finance as the Chairperson. The composition and terms of reference of the working group is given at **Annexure-I**. The Group was mandated to assess the resource position of the Centre in light of the recent developments like the implementation of the Thirteenth Finance Commission award, resumption of the process of fiscal consolidation after two years of purposeful expansion, the recommendations of the High level Expert Committee on Efficient Management of Public Expenditure chaired by Dr. C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister and take into reckoning likely policy changes such as the introduction of the goods and services tax (GST) etc. Based on the assessment, the Group was required to make projections of resources and expenditure for the Twelfth Five Year Plan and present its scheme of financing the Plan.

The Approach Paper to the Twelfth Five Year Plan, which has been prepared on the basis of extensive consultations with stakeholders, indicates that the Indian economy continues to be characterised by strong macro fundamentals, and good performance over the Eleventh Plan period, though clouded by some perceptible slowdown in growth in the current year, continuing concern about inflation and a sudden increase in uncertainty about the global economy. The Approach Paper documents the significant achievements in terms of growth as well as indicators of the inclusive agenda in the Eleventh Plan and continuing with the focus on the theme of faster, sustainable and more inclusive growth. The Approach Paper has explored two alternative targets for economic growth in the Twelfth Five Year Plan. The first is a restatement of the Eleventh Plan target of 9 percent growth, which on a sustained basis, is yet to be achieved. The second is an even higher target of 9.5 per cent average growth for the Twelfth Five Year Plan. After using several macro-economic models to examine the feasibility of attaining these targets in terms of internal consistencies and inter-sectoral balances, it considers the likely size of the Public Sector Plan based on the preliminary estimates made available by this Group for that purposes. Thus, the size of the Plan is in a way critical to the achievement of the outcomes of the Plan; notwithstanding the likely efficiency gains in terms of the focus on governance reform.

The Working Group went about its task through constituting four Sub-Groups to undertake comprehensive assessment of the major components determining the financial resources of the Centre: (i) Tax Revenues, (ii) Non-Tax Revenues, (iii) Non-Plan Expenditure and (iv) Internal and Extra Budgetary Resources (IEBR) of Central Public Sector enterprises (CPSEs). The composition of the Sub-Groups, including co-opted additional members/invitees from outside the Group, is at **Annexure-II.** The four Sub-Group reports were used as inputs for this Report. The Report has been organised in the following manner: a brief introduction on the economic backdrop to the assessment of the resource requirement, its approach and the projected level of resources for the Twelfth Plan is in this introductory chapter; this is followed by Chapter 2 on assessment of the Tax Revenues for the Twelfth Five Year Plan; Chapter 3 addresses the available Non–Tax Resources and Other Capital Receipts available for financing the Plan; Chapter 4 discusses the Non-Plan Expenditure to analyse the aggregate resources available for the Plan and details the assumptions behind the projections; and Chapter 5 details the IEBR of the CPSEs and proceeds likely in the next five years.

The central mandate of this Group is to make forecasts on the available resources for the next five years for financing the Plan. While the Group did so using the best data and models available, it is worth remembering that economic forecasts and, for that matter, all forecasts in life, however carefully made, are subject to error. The four different Sub-Groups consisting of members with specialist knowledge in their respective domains have estimated the key parameters under certain assumptions using a particular method which is used as a baseline forecast in this Report. The Working Group has considered other available estimates through different methods and ultimately arrived at a judgemental forecast in this Report for key variables. This Working Group had at least two important earlier estimates, albeit somewhat dated, in the form of the projections made in the Thirteenth Finance Commission and the Government Debt Report 2010. One of the terms of reference of this Group was to consider the Report of the Expert Group headed by Dr. C. Rangarajan, which however could not be done as the projections were made much before the Expert Group Report was available. This Working Group, therefore, had to rely on the traditional methods of classification; but with a focus on the total expenditure rather than on artificial plan and non-plan distinction.

The traditional way of determining the available budgetary resources for the Plan is a residual method whereby the first claims on resources are laid on committed Non-Plan Expenditure; Balance from Current Revenues (BCR) are estimated and provision made for Non-Plan Capital Expenditure. The funds that remain together with Borrowings and Non-Debt Capital Receipts are the available Gross Budgetary Support (GBS) for financing the plan. GBS net of the Central Assistance provided to States/UTs together with the IEBR of the CPSEs determine the Total Plan Outlay for the Centre. There are certain binding constraints within which the Centre's financial resources available for the Plan are to be estimated. The first being the level of resources committed on account of the Thirteenth Finance Commission award. The second is the operation of the limits to borrowing set by the revised Fiscal Responsibility and Budget Management (FRBM) framework, which is yet to be made known. Third, the use of Disinvestment Receipts for financing the expenditure, which currently is being allowed by a relaxation of policy up to 2011-12. The policy on disinvestment as announced by Union Budget 2006-07 was that the proceeds from this source would be credited to National Investment Fund (NIF) and only interest income would be used to finance expenditure. This was relaxed in 2009-10 as a temporary measure to meet social expenditure. The first two constraints are statutorily binding and the third is policy driven and the Group has assumed certain further relaxation in this regard. In so far as the second constraint as to the revised FRBM frame work is concerned, the Group has used the available mandatory indicators as per the Medium Term Fiscal Policy Statement in this regard. Given the above constraints, the level of the GBS is contingent upon the movements in committed revenue and capital expenditure of the non-plan variety on the one hand and the level of aggregate resources on the other hand.

The central tenet of the FRBMA is inter-generational equity. The public finances of the Central Government really started deteriorating in the 1980s. A positive revenue deficit appeared for the first time in 1979-80; but, still there was a surplus in the non-plan revenue balance to finance the plan. The practice of using capital receipts to finance revenue deficit was started in 1980s. This eventually culminated in the problem of macroeconomic crisis through the twin deficit problem. Following the adoption of the FRBMA, this trend was reversed and in 2004-05, GBS exceeded the level of borrowings for that year. While, some part of the expansionary fiscal policy stances in 2008-09 and 2009-10 was on account of the front loading of plan expenditure; as larger part of the stimulus was on the non-plan side, the levels of borrowing exceeded the GBS. In 2011-12, (BE) this has again been sought to be reversed (Table 1.1).

It would also be instructive to compare the levels of resources that were mobilised and expended across plans. It might be seen that the Tenth and Eleventh Plan have been able to push up the GBS substantially as a proportion of GDP. In terms of compound annual growth rate clearly the Eleventh Plan has the distinction of having the highest in the recent past. It must be also instructive to note that there are certain accounting changes that distort the

Table 1.1

Centre's Resources for Eleventh Plan

(₹ crore)

Sl. No.	Items/ Year	2006-07 Actual	2007-08 Actual	2008-09 Actual	2009-10 Actual#	2010-11 Prov.	2011-12 BE
1	**Current Revenue (a+b)(CR)**	**434387**	**541864**	**540259**	**572811**	**794277**	**789892**
a.	Tax Revenue (Net to Centre)(TR)	351182	439547	443319	456536	572790	664457
b.	Non-Tax Revenue(NTR)	83205	102317	96940	116275	221487	125435
2	**Non-debt Capital Receipts (c+d)(NDCR)**	**6427**	**43895**	**6705**	**33194**	**35599**	**55020**
c.	Recoveries of Loans (RoL)	5893	5100	6139	8613	12752	15020
d.	Other Receipts	534	38795	566	24581	22846	40000
3	**Borrowings and Other liabilities(BOL)**	**142573**	**126912**	**336992**	**418483**	**369043**	**412817**
4	**Non-Plan Expenditure (5+6)(NPE)**	**413527**	**507589**	**608721**	**721097**	**821569**	**816182**
5	Non-Plan Revenue Expenditure(NPRE)	372191	420861	559024	657925	726767	733558
6	Non Plan Capital Expenditure(NPCE)	41336	86728	49697	63172	94802	82624
7	**Balance from Current Revenue (1-5)(BCR)**	**62196**	**121003**	**-18765**	**-85114**	**67510**	**56334**
8	**Aggregate Resources(1+2+3) (AR)**	**583387**	**712671**	**883956**	**1024488**	**1198919**	**1257729**
9	**Gross Budgetary Support(7-6+2+3=8-4) (GBS)**	**169860**	**205082**	**275235**	**303391**	**377350**	**441547**
10	**Internal & Extra budgetary resources (I &EBR)**	**117719**	**143668**	**183949**	**188011**	**203638**	**256936**

inter-temporal comparisons like the debt swap scheme, the discontinuance of the practice of intermediation of the loans by the Centre and the acquisition of the shares of the SBI by the Government from the RBI. This is best illustrated by the fact that plan expenditure expressed as a proportion of total expenditure as exceeded the 30 per cent mark in the Eleventh Plan and was placed at 35.1

per cent in 2011-12(BE).

Recent fiscal developments

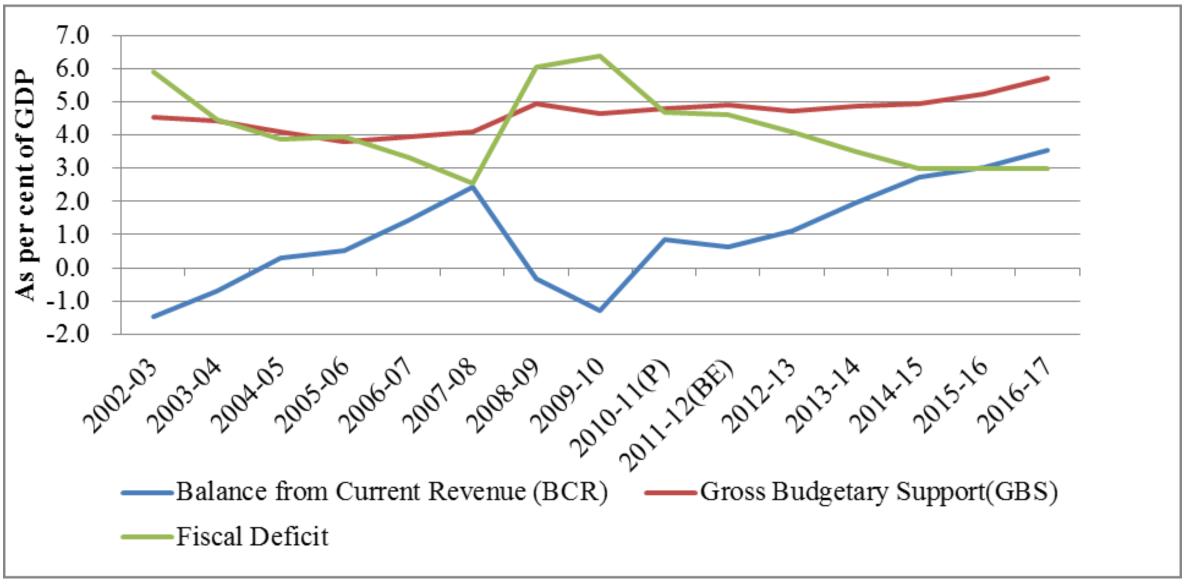
The level of aggregate resources has a critical bearing on the size of the Plan. Of the three components of aggregate resources, namely Current Revenues, Non-Debt Capital Receipts and Borrowings, the largest component hitherto has been Borrowings. The implementation of the FRBMA had implications for the size of the Tenth Plan in two ways: it limited the level of borrowings under the path laid down by the rules; and in seeking a graduated path to eliminate revenue deficit it compressed the level of the revenue expenditure. The Balance from Current Revenues turned positive in the Tenth Plan on account of the latter. In the Eleventh plan, the fiscal policy stance was broadly expansionary (except 2007-08) and appropriately so considering the macroeconomic environment that was affected by the global crisis. For the purposes of this Report the BE 2011-12 has been reckoned in all calculations for the Eleventh Five Year Plan and used as a base year for making projections for the Twelfth Five Year Plan.

Gross tax revenue, which had grown at an Average Annual Growth Rate (AAGR) of 20.5 per cent in the Tenth Plan, has slowed down in the Eleventh plan with AAGR at 15 per cent. A part of the growth owes to the performance in 2007-08; otherwise growth was muted due to indirect tax cuts and demand slowdown. Non-tax revenues have grown at an AAGR of 17 per cent in the Eleventh Plan as against 4.3 per cent in the Tenth Plan; much of the jump owes to the one-off nature of proceeds of 3G/BWA telecom spectrum auctions in 2010-11. Thus current revenues for the Eleventh Plan as a whole have grown by 13.7 per cent as against a level of 16.7 per cent in the Tenth Plan.

The proportion of Non-Debt Capital Receipts to aggregate resources over the years has come substantially. As such, these have not been a major source of finance in so far as Centre's resources are concerned; more so since the disintermediation of the Central loans as per recommendation of the Twelfth Finance Commission and on account of changes in the policies on use of disinvestment proceeds for expenditure. Thus, growth on AAGR basis for the Eleventh Plan was at 191 per cent (12.3 per cent in the Tenth Plan). Given the fiscal stimulus, borrowings had gone up by 35.8 per cent on AAGR basis in the Eleventh Plan as against a level of 0.7 per cent in the Tenth Plan. This was reflected in the growth of 16.8 per cent in AAGR basis in aggregate resources. The movements in key indicators reflect break in the trend (Fig 1 and 2).

Fig.1:

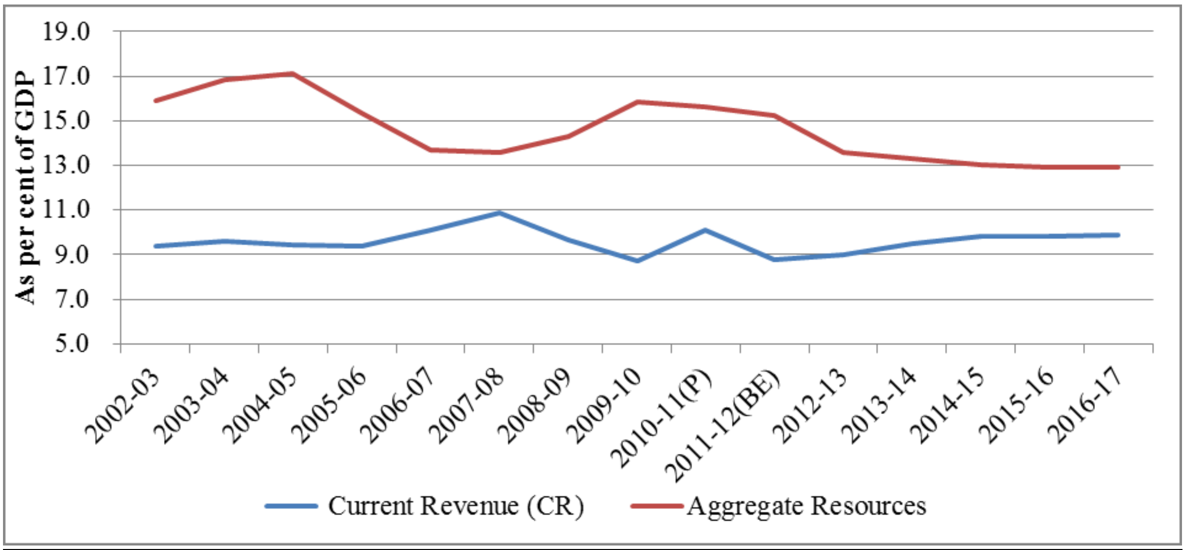
Balance from Current Revenue, Gross Budgetary Support and Fiscal Deficit



On the expenditure side, for the purposes of the determination of the level of GBS, it is the ability to keep the non-plan expenditure at lower levels that is important. Non-plan revenue expenditure grew on AAGR basis by 9.2 per cent in the Tenth Plan and 15 per cent in the Eleventh Plan. As a proportion of total expenditure, non-plan expenditure has evinced a clear declining trend (Fig 3). Plan expenditure composition, however, has now been preponderantly of the revenue variety given the focus on inclusive agenda. In the Tenth Plan when the FRBM was broadly on the mandated track, the Balance from Current Revenues turned positive and rose to reach a level of ₹121,003 crore in 2007-08. In the Eleventh Plan, the BCR went down on account of the higher non-plan expenditure growth on account of pay revision, increased expenditure on subsidies and fiscal concessions. As mentioned earlier, this is sought to be reversed in 2011-12 (BE).

Fig.2:

Current Revenue and Aggregate Resources



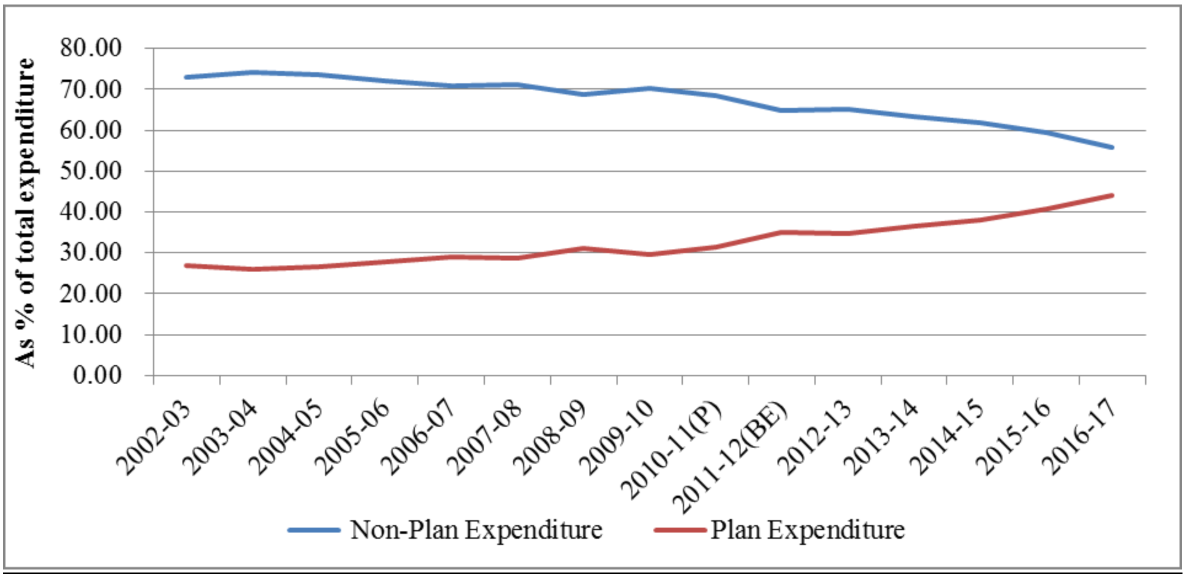
Based on the above facts, it is clear that there has been no obvious trend in the way the fiscal indicators have moved. There is a break in trend on account of the global crisis and the fiscal stimuli to boost growth. Given that by far the fiscal deficits are structural components, the fuller reversion to mandated fiscal consolidation would need to be phased and it is useful to keep the mandate of the Medium Term Fiscal Policy Statement (MTFPS) as the limits for Centre's borrowings. Given that BE 2011-12 has sought to raise the GBS above the level of the borrowings, there is a need to maintain this going forward and in fact get increasingly higher resources through Balance from Current Revenues. The Group's final estimates reflect this.

The Group's final estimates indicate that the GBS will grow progressively by

10 per cent in the first year and reach a peak of 25 per cent in the terminal year. This given the assumptions on nominal GDP growth (of 14.5 per cent) and the mandated fiscal deficit targets as per the MTFPS is based on the growth of 14.1

Fig.3:

Plan and Non-plan Expenditure



per cent in Net Tax Revenues and 15 per cent in Non-Plan Revenue Expenditure in AAGR terms. As a proportion of GDP, GBS would initially fall to 4.7 per cent and later pick up to 5.7 per cent of GDP with Balance from Current Revenues driving the growth in the later part of the Plan period. Given that nominal GDP is likely to be higher than estimated at the BE stage, there might be further corrections when Advance Estimates for the same are released in February 2012. The summary of the projections are detailed below (Table 1.2).

The projections given below are based on a number of assumptions driving the key variables and detailed in subsequent Chapters. These may not turn out in the same sequence and same measure as per projections in view of the risks that are clouding the macroeconomic environment in the current conjecture. The actual year-to-year allocation of GBS by the Budget would factor the contexts and accordingly calibrate the resources available. But, it is the Group's belief that on an overall basis the resources projected may be close to reality as it is unlikely that the economy would not be in a slowdown mode for the next five

Table 1.2.

Gross Budgetary Support during Twelfth Plan

(₹ crore)

SN	Items/Year	2011-12 (BE)	2012-13	2013-14	2014-15	2015-16	2016-17	Total 2012-17
1	**Current Revenue (CR) (a+b)**	**789892**	**926656**	**1116836**	**1326826**	**1509406**	**1741454**	**6621178**
	(a) Tax Revenue (Net to Centre)(TR)	664457	808867	990921	1191581	1369353	1591425	5952147
	(b) Non-Tax Revenue(NTR)	125435	**117789**	**125915**	**135245**	**140053**	**150029**	669031
2	**Non Debt Capital Receipts(NDCR) (c+d)**	**55020**	**46027**	**39471**	**15178**	**15930**	**16785**	**133391**
	(c)Recoveries of Loans (RoL)	15020	16027	14471	15178	15930	16785	78391
	(d) Other Receipts	40000	30000	25000				55000
3	**Borrowings and other liabilities (BOL)**	**412817**	**421606**	**412095**	**404441**	**463085**	**530233**	**2231461**
4	**Non-Plan Expenditure (NPE)(e+f)**	**816182**	908587	995274	1081617	1180655	1278764	5444897
	(e) Non-Plan Revenue Expenditure(NPRE)	733558	814249	887532	958534	1040010	1118011	4818336
	(f) Non-Plan Capital Expenditure(NPCE)	82624	94338	107742	123083	140645	160753	626561
5	**Balance from Current Revenue(BCR) (1-4e)**	**56334**	**112406**	**229304**	**368292**	**469396**	**623443**	**1802842**
6	**Aggregate Resources (AR) (1+2+3)**	**1257729**	**1394289**	**1568402**	**1746446**	**1988421**	**2288472**	**8986030**
7	**Gross Budgetary Support(GBS) (6-4)**	**441547**	**485702**	**573128**	**664828**	**807767**	**1009708**	**3541133**
	Gross Budgetary Support(GBS) (as per cent of GDP)	**4.9**	**4.7**	**4.9**	**4.9**	**5.2**	**5.7**	**5.2**

years as it seems at present. This is best indicated by a perusal of the AAGR across recent plans (Table 1.3). There is likelihood that the economy would revert to the pre-crisis growth trajectory at least in terms of overall plan basis; even though there are serious short-term concerns and uncertainties. These concerns have been adequately addressed in sequencing the growth in the first year of the Plan. As indicated earlier, the Group could not deliberate on the

Report of HLEC Chaired by Dr. C. Rangarajan on the plan and non-plan distinction and factor such a holistic approach to projection based on total expenditure; but, firmly stands by the merits of the suggestions contained therein.

Table 1.3:

Annual Average Growth

S. N.	Items	Tenth Plan 2002-07	Eleventh Plan 2007-12	Twelfth Plan 2012-17
1	**Current Revenue (CR) (a+b)**	**16.7**	**13.7**	**17.2**
	Gross Tax Revenue	**20.5**	**15.0**	**20.2**
	(a) Tax Revenue (Net to Centre) (TR)	21.4	14.1	19.1
	(b) Non-Tax Revenue(NTR)	4.3	17.0	3.8
2	**Non-Debt Capital Receipts (NDCR) (c+d)**	**12.3**	**191.0**	**-16.4**
	(c) Recoveries of Loans (RoL)	14.0	22.6	2.4
	(d) Other Receipts	44.0	2275.5	
3	**Borrowings and Other liabilities (BOL)**	**0.7**	**35.8**	**5.4**
4	**Non-Plan Expenditure (NPE) (5+6)**	**9.8**	**14.9**	**9.4**
5	Non-Plan Revenue Expenditure (NPRE)	9.2	15.0	8.8
6	Non Plan Capital Expenditure (NPCE)	24.3	26.3	14.2
7	**Balance from Current Revenue (BCR) (1-5)**	**26.7**	**27.3**	**64.9**
8	**Aggregate Resources (AR) (1+2+3)**	**10.1**	**16.8**	**12.7**
9	**Gross Budgetary Support (GBS) (7-6+2+3=8-4)**	**11.0**	**21.3**	**18.1**
10	**Fiscal Deficit**	**0.7**	**35.8**	**5.4**

Chapter-2
Tax Revenue

Estimating tax revenues for five years is a challenging task in itself, it is more so in an economic environment wherein there was a structural break in the recent past and in a milieu of uncertainty in domestic as well as the global economy. The uncertain economic environment is only a transitory phase and should not cloud the judgment or forecast of the medium term. The use of trend growth rate to estimate the tax revenue for the Twelfth Plan would be clearly inappropriate because of the structural break. The period 2004-08 witnessed a surge in growth in direct taxes as well as service taxes attributable to a widening of the tax base. Following the global crisis and demand slowdown, fiscal stimulus package with a cut in indirect taxes resulted in moderation. While apparently some spill over is still there in terms of negative impact, it is unlikely to continue in the next plan period. It is in this context that for estimating the Twelfth Plan resources, there is a need to use a robust judgment even as methodical estimates are considered.

Base Line Forecast

The Sub-Group on Tax Revenue used projections based on a moving average of the year-on-year changes in tax ratios with some variations. This Group considered the sub-Group's estimates as a base line forecast. Under this base line forecast, the assumed nominal GDP growth rate is 14.5 per cent and moving averages from 2003-04 – 2011-12 (BE) are taken for projecting the available resources for the Twelfth plan. The following paragraphs summarise the base line forecast:

Direct Taxes

The growth in nominal GDP was taken as the key variable for projecting the major direct taxes, i.e. tax on the income of corporations (corporation tax) and tax on other incomes (personal income tax). The forecast is based on the actual data for 2003-04 to 2010-11 and on 2011-12 (BE). The growth in corporate taxes was taken as a function of the growth rate in GDP, the inflation rate, the statutory tax rate and the statutory tax base. In the case of corporation tax, the tax rates, inclusive of surcharge and cess, have been lowered from around 36 per cent to around 32.5 per cent in the period between 2003-04 and 2010-11. This has also been accompanied by measures to widen the statutory tax base by increasing the rate of Minimum Alternate Tax (MAT) on corporate incomes. The corporate tax to GDP ratio has risen year-on-year in five and fallen in two years in this period. Going forward, corporate tax rates as proposed in the Direct Taxes Code Bill, 2010 are slated to go down further to 30 per cent (from the current 32.4 per cent). Though tax concessions like profit linked deductions are being phased out, the effect of the concessions which will be availed for the unexpired period will impact the collection over the next plan period. Similarly, for personal income-tax, the exemption limits have been enhanced during this period, the income slabs have been expanded and the highest rate, inclusive of surcharge and cess, has been lowered from around 34 per cent to about 31 per cent and to 30 per cent, going forward. Thus, the tax rates are slated to be lowered and the tax slabs (for personal income tax) are to be expanded as envisaged in the Direct Taxes Code Bill, 2010. These changes in the tax base and rates make it arduous to base projections on a trend growth rate in view of the complex adjustment required to smoothen data.

The method used to project direct tax collections over the five year period is to use a year on year moving average of the change in the ratio of tax collections to the GDP. For projecting the corporate tax to GDP and personal income tax to GDP ratios for 2012-13, the average of the year on year change in these ratios between the year 2003-04 and 2011-12 (BE) has been computed. For the subsequent year's projections, the same method has been followed by adopting the moving average method after dropping the first year projection and including the projection made for the immediately previous year. A refinement in the projections is to first project the gross collections and then separately reduce the refunds from these projections by increasing the base refund amount by the yearly growth rate projected for corporate income tax and personal income tax respectively.

In the case of the minor taxes, i.e., wealth tax and securities transaction tax (STT), the method has been modified. For wealth tax, based on previous trends, a buoyancy factor of 1 has been taken. STT has been in force only from 2005-06 onwards and is based on the number of transactions in the stock exchange as well as their value and has recorded increases below the nominal growth rate of GDP. It has been projected by taking a uniform growth of one-fifth of the nominal GDP growth.

Indirect taxes

For projecting indirect tax revenues, the growth in nominal GDP has again been taken as the key variable for the projections.

Customs: In the case of customs, the other variables are the imports to GDP ratio for Petroleum, Oil and Lubricants (POL) and for Non-POL goods. These imports to GDP ratios are then projected by the moving average method. This implies that for projecting the imports to GDP ratios for both POL and Non-POL imports for 2012-13, the average of the year on year change in these ratios has been projected for 2012-13. For the subsequent year's projections, the moving average method has been adopted by dropping the first year's projection and including the projection made for the immediately previous year. The bifurcation between POL and Non-POL components of imports has been taken in the ratio of 30:70 based on historical trends. To estimate the collections from customs duties on these projected imports figures, separate collection rates have been applied to the POL (2.1 per cent) and Non-POL (10.6 per cent) imports based on import duty structure and historical trends. The underlying assumption for fixed collection rates is that the rates of customs duty prevailing in the base year would be maintained during the entire Twelfth Plan period.

Central Excise: In the case of central excise duties, there is no observed correlation between the growth in the POL component of the excise base and the GDP growth rate. For 2011-12 (BE), the POL component of excise duties is estimated at around 52 per cent of the budgeted excise collections and consequently the Non-POL component comes to 48 per cent of the budgeted excise collections. The rates of Central Excise Duty applicable to major POL products viz. petrol and diesel are specific (and not ad valorem). For the POL component of excise duties, based on historical trends, a volume growth of 10 per cent has been estimated year on year for the Twelfth Five Year Plan period. In case these specific rates are indexed year-on-year for inflation, the composite rates of growth taking into account both volume and rate increase would work out to 15.5 per cent. Owing to the fact that, historically, full indexation of rates has not been undertaken, an average rate of growth of 12.75 per cent has been taken for year-on-year growth in POL revenue. For the non-POL component of excise duties, the historical collections between 2003-04 and 2010-11 are greatly skewed because of the changes in various excise rates including the standard rate. In the wake of the global financial crisis in 2008-09 and as part of the fiscal stimulus, the standard rate of Central Excise Duty for Non-POL items was reduced from 14 per cent ad valorem to 8 per cent in two instalments between December, 2008 and February, 2009. This was retained at 8 per cent during 2009-10 and restored partially to 10 per cent only with effect from February 27, 2010. Going forward, the policy imperative is to align rates to the standard GST rate, which is yet to be decided. Therefore, the current standard excise rate of 10 per cent on Non-POL manufacturers has been taken as a constant for projections for the Twelfth Plan period. This is projected to result in a growth of 18 per cent, year on year, in the excise collections from non-POL manufacture.

Service Tax: For estimation of service tax, it is observed that the historical buoyancy has been quite high but this was on a small base and in the period 2003-04 to 2010-11, the statutory base has also expanded to include additional services on which service tax is to be levied. Consequently, the scope for future increase in the statutory base for service tax is limited. The estimates for service tax have, therefore, been taken by frontloading the buoyancy, i.e. a higher growth rate of 18.5 per cent (buoyancy 1.28) has been projected for 2012-13 which tapers down to 14.5 per cent (buoyancy 1) in 2017-18, i.e., the final year of the Twelfth Plan period.

Base line Projections:

The tax-wise breakup of the projections is at Annexure-III. The resultant tax revenue projections and tax-GDP ratios are reported in the Table 2.1.

Table 2.1:

Overall Tax Revenues

(₹ crore)

Financial year	2011-12 (BE)	Projection				
		2012-13	2013-14	2014-15	2015-16	2016-17
Centre's Tax Revenue	930469	1087790	1285135	1516421	1774298	2062799
Centre's tax GDP ratio	10.36	10.58	10.92	11.25	11.50	11.67

Other Method Considered

The Group also considered other methods of estimating revenue; including buoyancies and elasticities in respect of key taxes. The buoyancy method implicitly assumes that there are little discretionary changes in the tax system. Instead of estimating buoyancy on the basis of actual data, the Group considered the estimates using buoyancy assumptions for two major direct taxes - low (historical low in the last 5 Plans), high (historical high in the last 5 Plans) and a judgmental one used by the Group. Apparently the buoyancy is at the highest in the Tenth Plan and low in the Seventh Plan (Table 2.2). The Group considered that a buoyancy of 1.30 in direct taxes to be a reasonable level that could be considered.

Table 2.2:

Buoyancy in Tax Revenue

Plan Period	Tax Buoyancy	
	Corporate Income Tax	Personal Income Tax
Seventh Plan	0.96	1.27
Eighth Plan	1.29	1.45
Ninth Plan	1.62	1.73
Tenth Plan	1.94	1.23
Eleventh Plan	1.04	0.80

The third option was using elasticities for direct taxes. Details of the alternative approaches for buoyancies and elasticities are in Annexure-IV.

Here, it is instructive to first look at the relative merits of the various methods. The moving averages used essentially smoothens volatilities in the annual data on taxes that were affected by the crisis and resultant demand slowdown in the economy. However, the use of moving averages on tax-GDP ratio, which is a composite variable, may not be fully appropriate given that large part of the volatility post-crisis is also in the nominal GDP and that is what has suppressed the actual tax-GDP ratio than what the assumed 'GDP growth' in the Eleventh Plan would indicate. GDP is a proxy for tax base; the base itself is dependent on income distribution across deciles, sectors or sub-sectors of the yearly growth. An egalitarian distribution of GDP growth would moderate the tax growth, Corporate taxes would moderate if their pricing power and hence profitability is hampered.

The demerits of buoyancy and elasticity approach are known as they seek to reflect the trend, which has been affected by the crisis. But it is here that a judgmental mix could be useful. While it may not be reasonable to expect the buoyancy of 2003-04 to 2007-08 to be repeated in 2012-13 to 2016-17, a minimum buoyancy of 1.20 has been achieved across three plans needs to be kept in mind. Therefore, a buoyancy of 1.3 for direct tax has been used to arrive at the revenues therefrom (Table 2.3).

Table 2.3:

Net Tax Revenue and Direct Tax

(₹ crore)

Items/Year	2012-13	2013-14	2014-15	2015-16	2016-17
Tax Revenue (Net to Centre)(TR)	808867	990921	1191581	1369353	1591425
Direct Tax	480487	605083	740769	844794	982474

For Indirect Taxes, the use of buoyancies may not be appropriate given that earlier these tended to estimate revenues incorrectly. Revenues from customs duty are essentially a function of the value of dutiable imports and weighted average duties thereon. Given the levels of computerization in customs, it should be possible at least in the future to project revenues in a detailed disaggregate manner down to the level of at least major Customs Tariff heads. For the present, it would be useful to stick to the proxy estimation method of treating customs duty as a function of the value of imports and the collection rate assuming that composition does not change. The Group, therefore, endorsed the indirect tax forecast detailed earlier. The final projections are detailed in the Table 2.4.

Table 2.4:

Tax Revenue Projections

(₹ crore)

Financial year	2011-12 (BE)	Projection				
		2012-13	2013-14	2014-15	2015-16	2016-17
Centre's tax revenue (Net to Centre)		808867	990921	1191581	1369353	1591425
Centre's gross tax GDP ratio	10.3	10.92	11.69	12.81	12.86	13.05
Centre's net tax GDP ratio	7.40	7.87	8.42	8.84	8.87	9.00

Chapter-3

Non-Tax Revenue and Non-Debt Capital Receipts

Non-Tax Revenues (NTR) of the Government comprise receipts from heterogeneous sources such as return on assets in the form of dividend and interest; fees, fines and miscellaneous receipts collected in the exercise of sovereign functions; regulatory charges and license fees and user charges for publicly provided goods and services. For budgetary purposes, non-tax revenue receipts of the Government are grouped into five broad categories, *viz.,* (i) interest receipts, (ii) dividends and profit share, (iii) a large residual group of 'other non-tax revenue' comprising fees, user charges, royalty, license fees, (iv) external grants and (v) non-tax revenues of union territories (without legislature) etc. Though non-tax revenue (NTR) has shown some positive overall growth in each plan, relative to tax revenues, this has not been high and compositionally a lot of fluctuations in individual receipts under this head are observed (Table 3.1). The total non-tax receipts was ₹72,290 crore in 2002-03 which increased to ₹83,205 crore in 2006-07 showing a growth of 15 per cent during the Tenth Plan period. In the Eleventh Plan, the total non-tax revenue increased from ₹1,02,317 in 2007-08 to ₹1,25,435 crore in 2011-12 indicating 22.59 per cent growth during the plan period.

The overall non-tax revenue was projected to grow annually by 5.63 per cent over the Five Year Plan period. The highest growth rate of 10 per cent was assumed in Fiscal Services, Social Services, Other General Services and Receipts from UTs without legislature. Economic Services and Grants-in-Aid were assumed to grow at about 8 per cent while Interest Receipts were assumed to decline by 1.59 per cent. However, the actual achievement of NTR exceeded the projection made for the Eleventh Five Year Plan. The overall trend growth of NTR achieved during the period is 13 per cent. Fiscal Services, Social Services and Other General Services registered more than 20 per cent growth while Economic Services grew by 22.95 per cent.

Table 3.1:

Achievement of NTR during 11th Plan

(₹ crore)

Eleventh Plan Achievement								
S. N.	Items	2007-08 Actual	2008-09 Actual	2009-10 Actual	2010-11 Revised	2011-12 BE	Growth in 2011-12 over 2007-08	Trend Growth Rate
1	Interest Receipts	21060	20717	21756	19728	19578	-7.04	-1.93
2	Dividends and Profits	34499	38607	50248	48727	42624	23.55	6.78
3	Other General Services	5164	7350	9153	10285	11494	122.58	21.36
4	Fiscal Services	87	59	113	193	128	47.13	21.62
5	Social Services	595	503	676	731	2354	295.63	36.68
6	Economic Services	37378	26113	29970	136586	45915	22.84	22.95
7	UTs without legislature	811	797	1218	1143	1169	44.14	11.54
8	Grants in Aid and contributions	2723	2794	3141	2756	2173	-20.20	-4.54
	Total NTR	102317	96940	116275	220149	125435	22.59	13.06

However, the growth of non-tax revenue has not followed any specific pattern. This has been due to heterogeneous nature of the individual receipts comprising the total non-tax revenue and their volatility arising from sectoral or other policy changes. Hence, the projection of non-tax revenue cannot be made merely on the basis of historical trend alone. While the projection of some items is based on past trend, others are projected individually taking into account the existing policy implications. These receipts have been projected individually in the following paragraphs.

Interest Receipts

Interest Receipts are one of the major components of Non-Tax Revenue Receipts which accrue from State and UT Governments, Railways and the PSUs, Port Trusts, other Statutory Bodies, Cooperatives, Government Servants, etc. The decline in interest receipts observed in the Tenth plan continued through Eleventh Plan also due to consolidation and rescheduling of outstanding loans of States at lower rates of interest as per Twelfth Finance Commission award and dis-intermediation of Central Government loan assistance to States except for externally aided loans.

The Thirteenth Finance Commission has also recommended that central loans given to State Governments for Centrally Sponsored Schemes/Central Plan Schemes through Ministries other than Ministry of Finance and outstanding at the end of 2009-10 be written off, subject to States legislating/amending FRBM Acts. It is anticipated that it will result in a decline in interest receipts over Twelfth Plan period as even the remaining States will earn the debt consolidation and interest rate concession under the Twelfth FC award. As interest receipts from Union Territories are found to be static, a marginal annual growth rate of 5 per cent per annum is applied for the plan period.

The interest receipts from the Railways are in the nature of dividend on capital invested from General Revenues. The projections for these receipts have been made on the basis of 6 per cent on the cumulative Gross Budgetary Support to Railways plus Dividend assumed in Budget Estimate 2011-12 i.e. ₹6,735 crore. The Gross Budgetary Support to Railways is assumed to grow at 15 per cent per annum over BE 2011-12 of ₹20, 000 crore.

The other Interest Receipts comprising receipts from PSUs, Port Trusts, etc. are projected based on the past trends.

Table 3.2:

Projection of Interest Receipts for 12th Plan

(₹ crore)

Items/Year	2010-11 RE	2011-12 BE	Projection				
			2012-13	2013-14	2014-15	2015-16	2016-17
From State/U.T.Gov.	10852	10313	9332	8655	8311	7478	6832
On Railway Capital	4917	6735	8138	9725	11551	13649	16063
Other Interest Receipts	3959	2530	2800	2900	3000	3100	3200
Total	**19728**	**19578**	**20270**	**21280**	**22862**	**24227**	**26095**

Dividend

Dividend receipts of the Central Government comprise dividend from PSUs, Public Sector Banks and Financial Institutions and transfer of surplus from the RBI. The major PSU contributors to dividend receipts of the Government are the Reserve Bank of India, Public Sector Banks, and PSUs in sectors like petroleum, power, steel, heavy industries and coal. The overall dividend receipts showed an increasing trend in the first three years of the Eleventh Plan followed by continuous decline in the last two years of the plan.

While making projection for dividend receipts, the views of the Administrative Ministries were sought. This was considered important to take into account the likely evolution of output and input prices and the expansion plans and hence retained earning decisions of the relevant organizations. Due to rise in input costs partly due to rise in crude prices and plans for capacity expansion to meet the rising demand in petroleum sector, the profit margins of PSUs are likely to decline based on current prices, estimated output, sales and profit after tax. Projections in Coal & Steel sectors are assumed to be static during Twelfth Plan. Disinvestment of Government holdings in these PSUs have also been accounted while projecting the dividend.

Reserve Bank of India has made the projections for the Twelfth Plan on the average of past six years. The surplus to be transferred to Government of India

(GoI) is assumed to increase by 5 per cent each year during the Twelfth Plan period. Public Sector Banks are the other major contributors of dividend receipts. The dividend pay-out by banks to GoI is assumed to increase by 10 per cent each year over the dividend paid for previous years during the Twelfth Plan period.

As regards other sectors an annual growth of 5 per cent is applied for the plan period. Overall dividend receipts are projected to grow at an average of 5.98 per cent during the Twelfth Plan. Year to year increase is 7.2 per cent during 2012-13, 5.4 per cent during 2013-14, 5.2 per cent during 2014-15, 4.6 per cent during 2015-16 and 7.5 per cent during 2016-17.

Table 3.3:

Projection of Dividends for the 12th Plan

(₹ crore)

Items	2010-11 RE	2011-12 BE	Projection				
			2012-13	2013-14	2014-15	2015-16	2016-17
Profit from RBI & Banks[1]	22749	19129	22943	24242	25565	27003	28620
Other Dividend & Profits	25978	23495	22741	23894	25048	25945	28286
(i) Petroleum	11654[2]	7984	6860	7291	7364	7162	8217
(ii) Power	5415	5235	5414	5628	6134	6567	7183
(iii) Coal	2828	3067	2786	2786	2786	2786	2786
(iv) Heavy Industry	855	1008	1204	1433	1716	2066	2423
(v) Steel	2171	2033	2000	2000	2000	2000	2000
(vi) Insurance companies	1384	1493	1668	1806	1951	2112	2262
(vii) Others	1670	2675	2809	2950	3097	3252	3415
Total	**48727**	**42624**	**45684**	**48135**	**50614**	**52949**	**56906**

Other Non-tax Revenue

The receipts from Other Non-tax Revenue are grouped in four sub-categories of Fiscal Services, Other General Services, Social Services, and Economic Services.

[1] Includes transfer of surplus from RBI of ₹18759 crore in 2010-11 RE and ₹15000 crore in 2011-12 BE
[2] Includes special dividend of ₹ 7453 crore from ONGC

Table 3.4:

Projection of other NTR for the 12th Plan

(₹ crore)

Other Non-tax Revenue		2010-11 RE	2011-12 BE	Projection				
				2012-13	2013-14	2014-15	2015-16	2016-17
Fiscal Services		193	128	134	141	148	156	163
Other General Services		10285	11494	11566	12187	12844	13539	14258
i	Telecommunication (subscription and contribution)	1750	1800	2039	2162	2291	2428	2556
ii	MHA (Police)	3201	3801	3529	3705	3890	4085	4289
iii	MEA (Passport & Visa Fee)	2470	2800	2750	2911	3082	3267	3465
iv	Others	2864	3093	3248	3410	3581	3760	3948
Social Services		731	2354	792	831	873	916	962
Economic Services		136586	45915	35986	39965	44505	44841	48188
i	Tele-communication	120807	29648	15135	15891	16686	17521	18377
ii	MP&NG	8555	10000	14204	17094	20489	19626	21733
iii	Corporate Affairs	1265	1265	1395	1465	1540	1615	1695
iv	Others	5959	5002	5252	5514	5790	6080	6384
Total Other NTR		**147795**	**59891**	**48478**	**53124**	**58371**	**59453**	**63572**

Other than the commercial receipts, the other major elements under each sub-category are as under:

Fiscal Services

Receipts on account of profits from circulation of coins representing the difference between their face value and their metal value are included in this group. A growth of 5 per cent per annum is applied for Twelfth Plan period.

Other General Services

Police receipts on account of Central Para-Military Forces deployed in States & with other parties, Passport & Visa Fees, Subscriptions and contribution towards Pension and other Retirement Benefits, Sale proceeds of surplus and obsolete stores, Receipts relating to Government printing presses, Sale of stationery, Gazettes and Government publications, Examination fees of UPSC & SSC are included in this group. Projections in respect of Passport/Visa fees for the Twelfth Plan are incorporated as per the assumptions made by concerned Ministry. Police receipts have been projected to grow at 5 per cent annually. For other sectors, a growth of 5 per cent per annum is applied for the Twelfth Plan period.

Social Services

Contributions for CGHS, Charges realized from patients for hospital and dispensary services, Sale proceeds of sera and vaccine and Entry fees at museums and monuments etc. A growth of 5 per cent per annum is assumed for the Twelfth Plan period.

Economic Services

The receipts under economic services include Petroleum Receipts relating to Profit Petroleum, Royalty on crude oil and gas produced off-shore and Licence Fee for exclusive exploration of oil and gas in off-shore areas, Telecom Receipts relating to licence fee and spectrum charges, Receipts from national highways (other than those under NHAI) and Receipts of Survey of India, Indian Meteorological Department, etc. For making projections in respect of Telecom Receipts (Licence fee), Profit Petroleum & Royalty and receipts on account of regulation of Joint Stock Companies, the concerned Ministries/ Departments were consulted. Based on their inputs, the projections for the receipts have been made for the Twelfth Plan.

Ministry of Petroleum & Natural Gas has furnished the projections in consultation with Oil & Natural Gas Corporation and Directorate General of Hydrocarbons. Profit Petroleum & Royalty have been computed based on production, and Field Development Plan. The calculation is based on crude oil sale price of US$ 95/bbl. Exchange rate has been considered at ₹45/ US$. As regards ONGC, net realization rate of US$ 60/bbl for crude oil from nomination blocks has been considered. The Telecom Receipts have been projected for the existing licenses. While the renewal of a set of licenses may fall during the Plan period, the same will depend on the policy adopted by the Government for renewal of these licenses and the decisions to be taken by Courts and Appellate Tribunal in some cases. It was decided that these resources being uncertain could not be included in the projection exercise.

The Non-Tax Revenues of Union Territories have been projected to grow at 5 per cent per annum. Grants-in-aid and contributions include the receipts from external donor agencies in form of cash or kind. Due to policy of the Government regarding bilateral aid, this item has been slowly but steadily declining and has been projected at the historic average rate.

Table 3.5:

Projection of NTR for UTs for the 12th Plan

(₹ crore)

Items/Year	2010-11 RE	2011-12 BE	2012-13	2013-14	2014-15	2015-16	2016-17
UTs without Legislature	1143	1169	1227	1289	1353	1421	1492
Grants-in-aid/contributions	2756	2173	2130	2087	2045	2004	1964

Total Non-Tax Revenue

The total non-tax revenue is projected to increase from ₹1,17,789 crore in 2012-13 to ₹1,50,029 crore in 2016-17. This implies about 27.37 per cent increase over the plan period. The projection of the non-tax revenue by major items is given below in Table no. 3.6.

Table 3.6:

Total Non-Tax Revenue Projected for the 12th Plan

(₹ crore)

S. N.	Items	Budget	Projection				
		2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
1	**Non-Tax Revenue**	**125435**	**117789**	**125915**	**135245**	**140053**	**150029**
2	Fiscal Services	128	134	141	148	156	163
3	Interest Receipts	19578	20270	21280	22862	24227	26095
4	Dividends and Profits	42624	45684	48135	50614	52949	56906
5	Other General Services	11494	11566	12187	12844	13539	14258
6	Social Services	2354	792	831	873	916	962
7	Economic Services	45915	35986	39964	44505	44842	48189
8	Union Territories without Legislature	1169	1227	1289	1353	1421	1492
9	Grants-in-aid/contributions	2173	2130	2087	2045	2004	1964

Non-Debt Capital Receipts

Non-Debt Capital Receipts, comprising mainly of ‘recoveries of loans’ and ‘other receipts’, witnessed sharp fluctuations during the Eleventh Plan period primarily due to fluctuation in the receipts of disinvestment proceeds. Disinvestment receipts have been projected by Department of Disinvestment based on the current disinvestment plan. Regarding disinvestment receipts, the policy of the Government has been not to use it for financing Government programmes/schemes directly but to invest the receipts in a fund for investment and use the return from these investments for financing programmes/schemes. A departure was made in 2009-10 wherein Cabinet approved use of disinvestment receipts for directly financing social sector programmes/schemes, to enable the stimulus package, till the year 2011-12.

Recovery of Other loans has not been following any trend in the past and has witnessed sharp fluctuations. This is mainly because of sanction of loans to PSUs has not been as per any consistent trend. Consequently, the recovery does not follow any set trend. These have been projected to grow at 5 per cent over the average receipts of last three years including the current year BE (after removing one time recovery of loan of ₹5,000 crore given to FCI in 2010-11).

Table 3.7:

Projection of Non-Debt Capital Receipts for the 12th Plan

(₹ crore)

Items	2010-11 RE	2011-12 BE	Projection				
			2012-13	2013-14	2014-15	2015-16	2016-17
Repayment of Loan from State & UTs	7633	8416	9094	9250	9696	10174	10741
Repayment of Loan from Foreign Govt.	345	324	340	357	375	394	414
Repayment of other loans & advances	1023	6280	1845	1937	2034	2135	2242
Disinvestment of Equity	22744	40000	0	0	0	0	0
Total Capital Receipts	**31745**	**55020**	**11279**	**11544**	**12105**	**12703**	**13397**

Chapter-4
Non-Plan Expenditure

The principal components of the Non-Plan Expenditure under the revenue head include (a) Interest Payments, (b) Defence Revenue Expenditure, (c) Subsidies (comprising food, fertilizers, petroleum and other subsidies), (d) Pay and Allowances, (e) Pensions, (f) Police (g) Grants to States and UTs and (h) Other Non-Plan Expenditure. Under the capital head of Non-Plan Expenditure, the principal components are (a) Defence Capital, (b) Loans to States and Union Territories, (c) Loans to Public Sector Enterprises and (d) Other Capital Expenditure.

Table 4.1:

Non-Plan Expenditure in the Eleventh Plan

(₹ crore)

Items/Year	2007-08 Actuals	2008-09 Actuals	2009-10 Actuals	2010-11 (R.E.)	2011-12 (B.E.)	Eleventh Plan total	(%) Increase during 11th Plan
Non Plan Expenditure (A+B)	507589	608721	721096	821552	816182	3475140	60.80
A. Revenue Expenditure	420861	559024	657925	726750	733558	3098118	74.30
A1. Interest Payments	171030	192204	213093	240757	267986	1085070	56.69
A2. Defence	54219	73305	90669	90749	95216	404158	75.61
(i) Pay and Allowances	26833	42737	62139	57523	61286	250518	128.40
(ii) Others	27386	30568	28530	33226	33930	153640	23.90
A3. Total Subsidies	70926	129708	141351	164153	143570	649708	102.42
(i) Food Subsidy	31328	43751	58443	60600	60573	254695	93.35
(ii) Fertilizer Subsidy	32490	76603	61264	54976	49998	275331	53.89
(iii) Petroleum Subsidy	2820	2852	14951	38386	23640	82649	738.30
(iv) Other Subsidy	4288	6502	6693	10191	9359	37033	118.26
A4. Pay & Allowances	16448	24508	37249	38587	40005	156797	143.22
A5. Pensions	24261	32940	56149	53262	54521	221133	124.73
A6. Police	13924	19904	25999	27587	29685	117099	113.19
A7. Grant to States/UTs	35769	38161	45946	52606	66311	238793	85.39
A8. Other Non-Plan Exp.	34284	48294	47469	59049	36264	225360	5.78
B. Capital Expendiure	86728	49697	63171	94802	82624	377022	-4.73
B1. Defence Capital	37462	40918	51112	60833	69199	259524	84.72
B2. Loans to States/UTs	86	86	83	85	85	425	-1.16
B3. Loans to foreign Governments	42	833	124	0	0	999	-100.00
B4. Other Capital Exp.	49138	7860	11852	33884	13340	116074	-72.85
GDP	4986426	5582623	6550271	7877947	8978215		
Non Plan Expenditure as a percent of GDP	10.18	10.90	11.01	10.43	9.09		

Non-Plan Expenditure

A broad assessment indicates that total Non-Plan Expenditure increased sharply during the Eleventh Plan from ₹5,07,589 crore in 2007-08 to ₹8,16,182 crore projected in B.E. 2011-12, resulting in a increase of 60.8 per cent as compared to a 37 per cent increase during the Tenth Plan period from ₹3,01,778 crore to ₹4,13,527 crore. The details of component-wise Non-Plan Expenditure during the Eleventh Plan are indicated in Table 4.1.

The projections made by the Group in respect of Non-Plan Expenditure are based on the aggregate of individual components.

Revenue Expenditure

Non-Plan Revenue Expenditure has increased during the Eleventh Plan by 74.30 per cent from ₹4,20,861 crore in 2007-08 to ₹7,33,558 crore in 2011-12 (BE) compared to 39.32 per cent during the Tenth Plan period. As per the estimates of the Sub-Group, revenue expenditure is projected to increase from ₹7,33,558 crore in 2011-12 to ₹11,31,272 crore in the terminal year of the Twelfth Plan (2016-17), implying an average annual rate of growth of 9.10 per cent. The projections on Revenue Expenditure are based on the aggregate of individual components, which are discussed below:-

Interest Payments: Expenditure on Interest Payments increased during the Eleventh Plan by 56.69 per cent from ₹1,71,030 crore in 2007-08 to ₹2,67,986 in 2011-12, as compared to a percentage growth of 27.6 per cent during the Tenth Plan. The Group noted that for Interest Payments, the Thirteenth Finance Commission has used projections consistent with the growth in adjusted debt stock allowed by the FRBM path. The Commission projected interest payments using an average interest rate of 7.35 per cent for debt contracted till 2009-10 and 7.5 per cent for the subsequent years on the incremental borrowing required to finance the fiscal deficit of the previous year. This would imply that interest payments as a proportion of non-plan expenditure is expected to fall in the range between 35.21 per cent and 39.99 per cent during the award period of the Thirteenth Finance Commission.

As per the Medium Term Fiscal Policy Statement (MTFPS) 2011-12, during the period 2004-05 to 2007-08, fiscal consolidation aided with lower interest rate regime had helped the Government in bringing down interest payment as percentage of net tax revenue of Central Government to 38.8 per cent in 2007-08 from a high of 56.5 per cent in 2004-05. However, higher fiscal deficit during the crisis period, resulted in higher interest outgo which coupled with moderation in net tax revenue, has pushed up the proportion of interest payment to net tax revenue to Centre to 46.7 per cent in 2009-10. With resumption of fiscal consolidation by the Central Government, this proportion is estimated to improve to 40.3 per cent in BE 2011-12. This indicates that any slippage on fiscal front even for one or two financial years may entail lower resources for developmental expenditure in future as interest payment will elbow out other expenditures from Government's net tax revenue. In the medium term, this proportion is projected to further improve to 38.4 per cent and 36.1 per cent in 2012-13 and 2013-14 respectively. Interest payment as a proportion of GDP is estimated to decline from 3.3 per cent in 2009-10 to 3.0 per cent in BE 2011-12 and 2.9 per cent by 2013-14. As per the Statement, the risk associated with the above projections are a significant change in interest rate in the coming years or larger than projected fiscal deficit for the corresponding period.

The projections made by the group are based on the assumed GDP growth of 14.5 per cent in nominal terms and assume an interest rate of 8.7 per cent for net incremental borrowing adding to the stock. On the opening balance of the stock, interest is assumed at effective interest rate. Interest payments during the Twelfth Plan period are therefore calculated as under:-

Table 4.2:

Interest Payment Projection for the 12th Plan Period

(₹ crore)

Year	Projected GDP	FD Targets	FD in numbers	Interest payment liability	Incremental Interest Liability	% of (5) over (2)
1	2	3	4	5	6	7
2011-12	8978215	4.6	412817	267986		2.98
2012-13	10280056	4.1	421482	303901	35915	2.96
2013-14	11770664	3.5	411973	340570	36669	2.89
2014-15	13477411	3	404322	376412	35842	2.79
2015-16	15431635	3	462949	411588	35176	2.67
2016-17	17669222	3	530077	451864	40277	2.56
Total	**68628988**	**3.32***	**2230803**	**1884335**	**183879**	**2.75***

***Average for the 12th Plan.**

Defence: During the Eleventh Plan period, Defence Revenue Expenditure increased sharply by 75.61 per cent from ₹54,219 crore in 2007-08 to ₹95,216 crore in 2011-12 as compared to a growth equal to 27 per cent during the Tenth Plan. Defence Revenue expenditure consists of two components, (i) Pay and Allowances of Defence Forces and (ii) Non Salary Items like stores, repairs and refits, renewals and replacements etc.

The Thirteenth Finance Commission Report states that for Defence Expenditure, the Ministry of Finance had projected a growth rate of 7 per cent per annum for defence revenue expenditure. Capital expenditure was projected to grow at 10 per cent per annum. The Ministry of Defence had emphasized before the Thirteenth Finance Commission the need to provide adequately for enhanced force multipliers. Recognizing the need to provide for some real growth in defence revenue expenditure to allow for adequate depreciation and maintenance, the Commission was of the view that the Finance Ministry's projections addressed these needs and therefore, adopted them. The resultant projection made by the Thirteenth Finance Commission worked out to an overall annual growth rate on defence expenditure of 8.33 per cent.

As per the MTFPS (2011-12), Defence Services expenditure on revenue account is estimated to marginally increase to ₹95,217 crore in BE 2011-12 reflecting a growth of 4.9 per cent over RE 2010-11. As a proportion of GDP, this component is estimated to come down from 1.4 per cent in 2009-10 to 1.1 per cent in B.E. 2011-12.

As defence revenue expenditure includes pay and allowances for Defence Forces Personnel, the Group went into the breakup of defence revenue expenditure classifying it as expenditure on pay and allowances and that on other non-plan revenue expenditure. Taking into account the fact that pay and allowances of Defence Force Personnel include a much larger number of allowances as compared to civilians as also the fact that a Military Service pay has separately been granted to Defence Services Personnel, the Group assumed a growth rate of 8 per cent per annum on the expenditure on pay and allowances of Defence Service Personnel. For the remaining portion of Defence Revenue Expenditure, a growth rate of 6.5 per cent per annum has been assumed. The Group also noted that the projections made by the Working Group for assessment of financial resources during the Eleventh Plan period were based on an average annual growth rate of 7.2 per cent.

Subsidies: Total expenditure on subsidies increased by 102.42 per cent from ₹70,926 crore in 2007-08 to ₹1,43,570 in 2011-12. The Thirteenth Finance Commission was of the view that without subsidy reform it would not be possible to improve the supply of national public goods and also maintain fiscal prudence. They felt that the time was opportune to implement reforms in the administration of key subsidies pursuant to the recommendations of the various high-powered committees and other institutions that have provided valuable suggestions in this regard. They also consulted the line ministries concerned on the subject to ensure that such reforms can be implemented without adversely affecting the consumption capabilities of the target groups.

The Thirteenth Finance Commission therefore made normative projections with regard to future expenditure on subsidies, keeping in mind the need for reform as well as the need to better target subsidies to enhance the access of target sections of the population to key merit goods. In this respect, the Commission digressed from the estimates of Ministry of Finance which had assumed an annual growth of 5 per cent for food, fertilizer and fuel subsidies.

As per the MTFPS 2011-12, the medium term projection for subsidies has factored in 5 per cent year on year increase in absolute terms. It has been stated that the policy on subsidies has to be reworked along with reforms in delivery mechanism in order to not exceed the above mentioned projections. Any slippage on this account would impact the future fiscal consolidation process. The document also states that Government has firmly established the practice of providing petroleum and fertilizer subsidy in cash instead of securities. Government would like to continue with this practice of extending Government subsidy in cash. This is a major step towards bringing in all subsidy related liabilities into Government's fiscal accounting and overall correction in subsidy outgo may be seen in this context.

The practice of providing working capital loan assistance to FCI on market linked rate has helped in reducing their reliance on high cost funds. This in turn has reduced the interest cost for providing food security. This practice will be continued in the coming years. FCI may consider the possibility of further rationalizing their administrative cost and States are being requested to join the Decentralised Procurement System in order to bring down the overall cost of delivering food security to the nation.

Based on the assumptions that current price level may prevail during 2011-12 in the world commodity markets and factoring in impact of reform measures, provision for fertilizer subsidy has been kept at ₹49,998 crore in B.E. 2011-12. Food subsidy is estimated at ₹60, 573 crore in B.E. 2011-12. In BE 2011-12, petroleum subsidy including the oil marketing companies to compensate for under recoveries are also provided at ₹23, 640 crore. It was mentioned that the present level of subsidy provision was premised on the assumption that there would not be major variations in the international market in fertilizer and petroleum product prices during the entire span of 2011-12. At the same time, it was also assumed that the allotted quantity outgo under Targeted Public Distribution System (TPDS) and procurement costs would by and large remain stable during the year. It is further stated that there is a need to focus on further measures and means to ensure the effective utilization of these provisions and cap this expenditure to create further fiscal space for increased investment in physical and social infrastructure.

The projections of the Group are based on the aggregate of individual subsidies discussed below:

Food Subsidy: Expenditure on Food Subsidy is projected to increase during the Eleventh Plan by 93.35 per cent from ₹31,328 crore in 2007-08 to ₹60,573 crore in 2011-12 (BE). During the Tenth Plan period, however, this subsidy remained more or less static. While making its estimation on Food subsidy, the Thirteenth Finance Commission stated that the intention behind providing food subsidy was to improve the food security of the vulnerable sections of society. With this in mind, the Commission allowed for 50 per cent subsidy on the minimum support price (MSP) to BPL families and full subsidy for the beneficiaries under Antyodaya Anna Yojna (AAY). These subsidy figures were based on the calculations of the Department of Food and Public Distribution which assumed MSP to increase 10 per cent annually. On this basis, the average annual growth in food subsidies projected by the Thirteenth Finance Commission is 8.87 per cent.

The Group was informed that FCI has stated that it is not possible to make an estimate at this stage as procurement and offtake depend on several factors which cannot be predicted for the long term and, further, the exact impact of the proposed Food Security Bill on offtake quantity is yet to be ascertained. Also, the major components of Food Subsidy are linked to decisions on MSP & CIP which are currently unknown for the Twelfth Plan. However, as per estimates of Ministry of Food, if the impact of the Food Security Act is not taken into account, the subsidy projections for the Twelfth Plan period will add upto ₹5,49,814 crore with the figure for 2011-12 being reassessed by Ministry of Food at ₹80,587 crore. These are based on the following assumptions:-

(a) Procurement and offtake will remain at current levels

(b) Effect of additional allocations made during the current year has not been taken into account but additional allocation of 50 lakh tonnes of food grains at BPL rate taken into account

(c) No abnormal increase in MSP of paddy/rice from 2012-13 or increase in CIP.

The Group, however, noted that the Food Security Bill is likely to be introduced soon and it would therefore be necessary to include the requirements on account of the Food Security Act in the projections for the Twelfth Plan period. Based on current estimates, it is expected that the average annual food subsidy bill during the Twelfth Plan period would be around ₹80,000 crore. This may vary for individual years depending on when the Bill is passed and the per cent of offtake in each year. For the purpose of making projections, however, the expenditure on food subsidy has been kept at ₹80,000 crore in each of the years of the Twelfth Plan period.

Fertilizer Subsidy: Expenditure on Fertilizer Subsidy increased during the Eleventh Plan by 53.89 per cent from ₹32490 crore in 2007-08 to ₹49998 crore in 2011-12.

The Thirteenth Finance Commission has stated that the fertilizer subsidy needs to be targeted to ensure food security and self-sufficiency while preventing wasteful and suboptimal use of fertilizers. They also said that they have been informed that given the oligopolistic nature of the global fertilizer market, with India as a large buyer of key fertilizers, restraining inefficient fertilizer consumption would also result in price benefits in the medium term. The Department of Fertilizers, in their interaction with the Commission, also made the point that a reworking of the subsidy regime would promote optimal use of fertilizers as well as better targeting of the subsidy. With these considerations in view, the Commission took a reference point, the recommendation of the PM’s Economic Advisory Council (EAC) to restrict this subsidy to 120 kilograms of fertilizer per cultivator household. *[The report of the Economic Advisory Council (2007) states that 120 kg of fertilizer (comprising 80 kg of nitrogenous fertilizer, 30 kg of phosphatic fertilizer and 10 kg of potassic fertilizer) provide a well-balanced total of 60 kg of nutrient].* This will meet the full requirement of small and marginal farmers and will also meet the self-consumption food requirement of medium and large farmers. The balance requirement is to be met from the free market. On this basis, the estimated financing requirement for this subsidy was ₹10,980 crore in 2006-07. The Commission considered this to be reasonable target for 2014-15 if oil prices (which are closely aligned with the freight on board (FOB) unit price of the fertilizer basket) remain around US $70 per barrel. To achieve this, in the terminal year, the 2009-10 (BE) figure were reduced equi-proportionately each year so that the forecasted subsidy provision in 2014-15 is equal to the target figure of ₹10,980 crore. The Commission did not allow for any inflation as it expected trend prices to be lower than those existed in 2006-07, not least due to the expected inhibition of cartel formation in international fertilizer supply during the Finance Commission award period.

In the Fiscal Policy Strategy Statement 2011-12, it has been stated that in order to keep the overall expenditure under the estimated level, Government has taken certain decisions to control the growth of expenditure on subsidies and other related items. The decision of the Government to move towards nutrient based subsidy (NBS) regime in fertilizer subsidy along with increase in the MRP of urea have helped in containing expenditure on fertilizer subsidy during 2010-11 when compared to 2009-10. At the same time, NBS regime is also expected to promote balanced use of fertilizer with increase in agricultural productivity. Unshackling of fertilizer industry is also expected to attract fresh investments in this sector. Based on successful introduction of NBS policy for other fertilizers except urea, Government is actively considering the extension of NBS regime to cover urea as well. It is also proposed to encourage the use of bio and organic fertilizers to reduce reliance on imported fertilizers.

The Department of Fertilizer's projections to the Group were based on a correction of the 2011-12 BE figures from ₹49,998 crore to ₹84,844 crore stating that while finalizing the budget proposals for 2011-12, Department of Fertilizer had projected a requirement of ₹76,605 crore (gross) based on assumptions with regard to cost of fertilizers and estimated sales but this was not provided. For P&K fertilizers, NBS rates of 2010-11 were adopted. As, the prices of fertilizers in the international market have gone up and based on current rates of subsidy announced, fund requirement for fertilizer subsidy was projected at ₹84,844 crore in 2011-12 by Department of Fertilizer and thereafter a 5 per cent growth is projected during the Twelfth Plan Period.

However, keeping in view the points made in the Statements placed with the Budget 2011-12 under the FRBM Act, the Group felt that there was scope for rationalization of fertilizer subsidy in view of the introduction of the NBS regime including that on urea. The Group, therefore, took the base as the fertilizer subsidy expenditure in 2010-11 i.e ₹63,000 crore (net) and assumed a

5 per cent growth thereon from 2011-12 onwards during the Twelfth Plan period.

Petroleum Subsidy: Expenditure on Petroleum Subsidy increased during the Eleventh Plan by 738.30 per cent from ₹2820 crore in 2007-08 to ₹23,680 crore in 2011-12.

The Thirteenth Finance Commission kept the reassessed base year figures constant in nominal terms over the projection period, reflecting the need to control this subsidy if the parameters underlying the calculation (chiefly oil prices) do not change in this duration. The Commission's assumption is that any real growth will be financed through efficiency savings.

In the statements under the FRBM Act, it has been mentioned that with respect to rationalization of petroleum subsidy, Government has already decontrolled the pricing of petrol. In a departure from the past practice, the Government has started providing petroleum subsidy for under recoveries of oil marketing companies in cash instead of securities from the year 2009-10. In order to arrest the diversion of subsidized kerosene oil, LPG and fertilizers and to ensure greater efficiency, cost effectiveness and better delivery, the Government will move towards direct transfer of cash subsidy to people living below poverty line in a phased manner.

While the projections made by Ministry of Petroleum to the Group were based on an international crude price of US $110 per barrel and cash assistance assumed at 2/3rd of total under recoveries, the Group felt that an average crude price of US $100 per barrel would be more realistic for the purpose of making projections. Further, keeping in view the fact that in 2010-11, the cash assistance provided worked out to roughly 50 per cent of the under-recoveries and decision on the percentage of cash assistance to be borne by Government not yet having been taken, the Group's projections assume 50 per cent of under-recoveries as cash assistance. The Group's projection has been based on this and on the other assumptions of Ministry of Petroleum that:

(i) Sales volume will be as per the preliminary estimates prepared by Twelfth Five Year Plan Group. *(However these figures might undergo a change when the report will be finalized by the Group handling the matter)*

(ii) In 2010-11, the share of PSU OMCs in sale of Diesel was 97.5 per cent. For Twelfth Five Year Plan, the share will decrease by 1 per cent every year on account of increased sale by private oil marketing companies.

(iii) PSU OMCs share in sale of PDS Kerosene & Domestic LPG will be at 100 per cent.

Apart from the above, the Group has retained the subsidy figures pertaining to PDS kerosene and domestic LPG at 2013-14 levels since the scheme itself has been continued only upto 2013-14 at present. Based on the above, as compared to Ministry of Petroleum's projections, the total Petroleum Subsidy during the Twelfth Plan period works out to be as follows:

Table 4.3:

Subsidy Outgo for the 12th Plan

(₹ crore)

Item/Year	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**Total XII Plan**
	SUBSIDIES					
PDS Kerosene and domestic LPG	3200	3400	3400	3400	3400	**16800**
Freight Subsidy for Far Flung Areas	26	28	28	28	28	**138**
Cash Subsidy from Government	36494	37585	38651	39661	40540	**192930**
Subsidy for Natural Gas in NE Region	560	560	560	560	560	**2800**
GRAND TOTAL	**40280**	**41572.5**	**42639**	**43648.5**	**44528**	**212668**

Other Subsidies: For each of their projection years, the Thirteenth Finance Commission had kept constant in nominal terms the number equivalent to the figure in the base year, reflecting the need for some real reduction in these subsidies. They stated that such reduction in subsidies was important to improve equity as well as growth in the economy. As per a study undertaken by National Institute of Public Finance and Policy (NIPFP), these subsidies are regressive, in the sense that in per capita terms, they are relatively higher for the higher income States. Further, large subsidies, such as in fertilizers and LPG, are likely to be regressive on an inter-personal basis also, as fertilizer subsidies are higher in per capita terms in irrigated areas and LPG subsidies are higher in per capita terms in urban areas. The reduction of these subsidies, by freeing up fiscal space, will facilitate increase in the supply of public goods such as schools, village roads and irrigation, which will lead to higher growth by inducing greater private investment.

Following the rationale adopted by the Thirteenth Finance Commission, the Group has retained the BE 2011-12 figures for these subsidies during the Twelfth Plan period.

Pay and Allowances: Expenditure on Pay and Allowances (excluding Police & Defence personnel) increased during the Eleventh Plan period by 143.22 per cent from ₹16,448 crore in 2007-08 to ₹40,005 crore in 2011-12. A sharp increase is on account of the implementation of the recommendations of the Sixth Central Pay Commission. During the Twelfth Plan period, however, pay and allowances have been assumed to grow at 6.5 per cent per annum, taking into account increases on account of dearness allowance and normal increments.

Pensions: Expenditure on Pensions increased during the Eleventh Plan by 124.73 per cent from ₹24261 crore in 2007-08 to ₹54521 crore in 2011-12. A significant portion of the increase can be attributed to the implementation of the recommendations of the Sixth Pay Commission. In the projection made by the Thirteenth Finance Commission, pensions have been projected to grow at an annual rate of 9 per cent during the award period. They have stated that the Ministry of Finance had projected this to grow at 9 per cent for the first three years and 10 per cent for the two subsequent years. In view of the fact that the effect of increased outgo on pension has already been factored into the 2009-10 (BE) figures, the Commission did not perceive any rationale for providing a differentiated growth rate for this item of expenditure.

The projection made in the Budget documents, however, assumes that pension related expenditure may grow at 5 per cent in the coming years. It has been estimated that pension payments would reduce to 0.5 per cent of GDP by 2013-14 and would decline to 6.5 per cent of net tax revenue to Centre in the same year. The assumption made above is associated with risk of large attrition rate in coming years which would result in higher than estimated expenditure in the coming years. In terms of the estimates submitted by the concerned Accounting Units/Departments to the Group, the total expenditure on pensions is expected to go up from ₹60,350 crore in FY 2012-13 to ₹85890 crore in the terminal year of the Twelfth Five Year Plan, i.e. 2016-17. In respect of civil pensions, these estimates are based on an increase of 13 per cent per annum in the rates of dearness relief and a 3 per cent accretion (net) to the stock of pensioners on a year-on-year (YOY) basis. The figures related to Defence Pensioners assume a 10 per cent increase per annum on dearness relief.

The Group, however, felt that the assumption made by the Thirteenth Finance Commission was more realistic and allowed a percentage increase of 9 per cent per annum.

Police: Expenditure on Police can be divided into Salary related expenditure and Other expenditure. Expenditure on Police increased during the Eleventh

Plan by 113.91 per cent from ₹13,924 crore in 2007-08 to ₹29,685 crore in 2011-12, a significant portion being on account of implementation of the Sixth Central Pay Commission. For police expenditure, the Thirteenth Finance Commission had projected growth at an annual rate of 7.5 per cent per annum over the reassessed base year figure, given the need to provide adequately for non-wage operational expenditure and taking into account the expected increase in the strength of the central police force. The Group felt that the increase provided was reasonable and assumed a growth rate of 7.5 per cent per annum on police expenditure after adding ₹1100 crore to the base figures of B.E. 2011-12 as the B.E. 2011-12 figures for expenditure on pay and allowances were stated to be under pitched.

Grant to States and UTs: Expenditure on Grant to States and UTs increased during the Eleventh Plan by 85.39 per cent from ₹35769 crore in 2007-08 to ₹66311 crore in 2011-12. As per the MTFPS 2011-12, in compliance with the recommendations of the Thirteenth Finance Commission, non-plan grants have increased significantly from ₹45,947 crore in 2009-10 to ₹66,311 crore in B.E. 2011-12. Under the following categories, grants have been recommended by the Thirteenth Finance Commission and the same have been provided in BE 2011-12 and factored in the estimates for 2012-13 and 2013-14:

Post-devolution Non-plan Revenue Deficit (NPRD), Performance Incentive, Elementary Education, Improving Outcomes, Environment related, Road Maintenance, State-specific, Local Bodies, Disaster Relief and GST Implementation (not included in BE 2011-12 but factored in for 2012-13 and 2013-14). The total grants recommended during Thirteenth Finance Commission award period is ₹3,18,581 crore and is much higher than the grants recommended by the Twelfth Finance Commission.

In 2010-11, the Central Government continued its commitment to compensate the State/UT Governments for loss of revenue that might arise on account of phasing out of Central Sales Tax (CST). A provision of ₹14,000 crore has been made in R.E. 2010-11 and ₹12,000 crore in B.E. 2011-12 for this purpose. Based on the recommendations of the Thirteenth Finance Commission and likely other non-plan grants, total non-plan grants to States and UTs have been estimated at 0.7 per cent of GDP in 2012-13 and 2013-14. The Group, for the years 2012-13 and 2013-14, has retained the Grants to States and UTs at 0.7 per cent of GDP. Thereafter a 5 per cent growth has been applied for the remaining period.

Other Non-Plan Expenditure: Other Non-Plan expenditure covers expenditure on election, social economic services, general services (excluding police and pension). On these figures a percentage increase of 5 per cent per annum during the Twelfth Plan period has been made.

Capital Expenditure

Defence Capital: During the Eleventh Plan period, Defence Capital Expenditure grew from ₹37,462 crore to ₹69,199 crore resulting in a 84.72 per cent increase. The Group was informed that the Services' Long Term Perspective Plan (2012-27) was under finalization and the plan projections based on the proposals therein, would be known only towards end of November, 2011. Thus, projections of fund requirement on account of approved plans/schemes could not be made at this juncture. The group has assumed an annual growth of 15 per cent for Defence Capital Expenditure for the Twelfth Plan period and based on this, such expenditure will increase to ₹1, 39,184 by 2016-17.

Loans to States and UTs: Loans to States and UTs have been kept at BE 2011-12 levels for the Plan period.

Loans to Foreign Governments: Loans to Foreign Government have also been kept at the same level as in BE 2011-12 for the duration of the Twelfth Plan.

This figure for 2010-11 and 2011-12 has been '0' since such loans are reportedly being operated on the Plan side.

Others: Other capital expenditure includes capital outlays of various Ministries/Departments including MHA but excluding Defence, recapitalization of Public Sector Banks, Construction works etc. Other capital expenditure has been assumed to grow at 10 per cent per annum.

Non-Plan Expenditure – Projections

Table 4.4:

Base line Projections for the 12th Plan

(₹ crore)

Items	2012-13	2013-14	2014-15	2015-16	2016-17	Twelfth Plan Total	Growth rate Twelfth Plan
Non Plan Expenditure (A+B)	944824	1030245	1111927	1197133	1292025	5576155	36.75
A. Revenue Expenditure	850487	922503	988844	1056488	1131272	4949594	33.01
A1. Interest Payments	303901	340570	376412	411588	451864	1884335	48.69
A2. Defence	102324	109968	118188	127029	136536	594046	33.43
(i) Pay and Allowances	66189	71484	77203	83379	90049	388304	36.05
(ii) Others	36135	38484	40986	43650	46487	205742	28.65
A3. Total Subsidies	199097	203862	208575	213414	218313	1043261	9.65
(i) Food Subsidy	80000	80000	80000	80000	80000	400000	0.00
(ii) Fertilizer Subsidy	69458	72930	76577	80406	84426	383797	21.55
(iii) Petroleum Subsidy	40280	41573	42639	43649	44528	212669	10.55
(iv) Other Subsidies	9359	9359	9359	9359	9359	46795	0.00
A4. Pay and Allowances	42605	45375	48324	51465	54810	242579	28.65
A5. Pensions	59428	64776	70606	76961	83887	355659	41.16
A6. Police	33094	35576	38244	41112	44196	192222	33.55
A7. Grant to States/ UTs	71960	82395	86514	90840	95382	427092	32.55
A8. Other Non-Plan Exp.	38077	39981	41980	44079	46283	210401	21.55
B. Capital Expendiure	94338	107742	123083	140645	160753	626561	70.40
B1. Defence Capital	79579	91515	105243	121029	139184	536549	74.90
B2. Loans in States/UTs	85	85	85	85	85	425	0.00
B3. Loans to foreign Governments	0	0	0	0	0	0	0.00
B4. Other Capital Exp.	14674	16141	17756	19531	21484	89586	46.41
GDP	10280056	11770664	13477411	15431635	17669222		71.88
Non Plan Expenditure as a per cent of GDP	9.19	8.75	8.25	7.76	7.31		

Based on the aggregate of individual elements discussed above, total Non-Plan Expenditure is projected to increase from ₹816182 crore in 2011-12 to ₹1292025 crore in the terminal year of the Twelfth Plan (2016-17), implying a percentage increase of 58.30 per cent. In terms of percentage of GDP, Non-Plan Expenditure stood at 9.09 per cent of GDP in 2011-12 and in the terminal year of the Twelfth Plan, it is expected to be 7.31 per cent. The detailed component-wise breakup on the projections in respect of Non-Plan Expenditure is indicated above in Table 4.4.

The above projections do not mention the impact of two likely major events during the Twelfth Plan period, namely, the recommendations of the Fourteenth Finance Commission which would be applicable from 2015-16 and that of the Seventh Pay Commission. As far as the impact of the Fourteenth Finance Commission is concerned, since all States have enacted the FRBM legislation and would be on the path of fiscal consolidation, the projections already made by the Group on grant to States are expected to accommodate the impact of the Fourteenth Finance Commission. No change is therefore suggested in the earlier projections on this account.

The Group has not taken the impact of the next Pay Commission into account on the assumption that the date of effect of the recommendations of the next Pay Commission is likely to be 01.01.2016 and as in the past, the Report would be submitted a year or so later, by which time the Twelfth Plan period would be over. However, the Thirteenth Finance Commission has recommended that the Pay Commission's report should be implemented prospectively. If that has to be done and the date of effect remains 01.01.2016, an increase of around 15 per cent in the pay and pensions bill of the Government per annum can be expected on a very rough assessment. In 2015-16, the impact would be felt for 3 months and 2016-17 for the full year. This has, therefore, been factored in the projection. Based on the above, the projections work out as under:

Table 4.5:

Revised Base Line Projections for the 12th Plan

(₹ crore)

Items/Year	2012-13	2013-14	2014-15	2015-16	2016-17	Twelfth Plan Total
Non Plan Expenditure (A+B)	944824	1030245	1111927	1206283	1328623	5621902
A. Revenue Expenditure	850487	922503	988844	1065638	1167870	4995342
A1. Interest Payments	303901	340570	376412	411588	451864	1884335
A2. Defence	102324	109968	118188	130155	149043	609680
(i) Pay and Allowances	66189	71484	77203	86506	102556	403937
(ii) Other non-Plan Revenue Exp.	36135	38484	40986	43650	46487	205742
A3. Total Subsidies	199097	203862	208575	213414	218313	1043261
(i) Food Subsidy	80000	80000	80000	80000	80000	400000
(ii) Fertilizer Subsidy	69458	72930	76577	80406	84426	383797
(iii) Petroleum Subsidy	40280	41573	42639	43649	44528	212669
(iv) Other Subsidy	9359	9359	9359	9359	9359	46795
A4. Pay and Allowances	42605	45375	48324	53395	62530	252229
A5. Pensions	59428	64776	70606	79847	95431	370089
A6. Police	33094	35576	38244	42319	49023	198256
(i) Pay and Allowances	25905	27848	29937	33389	39423	156503
(ii) Other Non-Plan Expenditure	7189	7728	8307	8930	9600	41754
A7. Grant to States and UTs	71960	82395	86514	90840	95382	427092
A8. Other Non-Plan Expenditure	38077	39981	41980	44079	46283	210401
B. Capital Expenditure	94338	107742	123083	140645	160753	626561
B1. Defence Capital	79579	91515	105243	121029	139184	536549
B2. Loans in States and UTs	85	85	85	85	85	425
B3. Loans to foreign Governments	0	0	0	0	0	0
B4. Others	14674	16141	17756	19531	21484	89586
GDP	10280056	11770664	13477411	15431635	17669222	
Non Plan Expenditure as a per cent of GDP	9.19	8.75	8.25	7.82	7.52	

The above forecast is base line forecast which assumes a business-as-usual model of NPR expenditure policies. Substantial gains might accrue in the reform initiatives later contemplated in key subsidies and other items of expenditure. As the reforms to yield such gains, which could be of the order of 3.7 per cent of NPRE, the projections stand modified as per Table 4.6.

Table 4.6:

Final Projections for the 12th Plan

(₹ crore)

NPRE/Year	2011-12 (BE)	2012-13	2013-14	2014-15	2015-16	2016-17	Total 2012-17
Non-Plan Revenue Expenditure(NPRE)	733,558	814,249	887,532	958,534	1,040,010	1,118,011	4,818,336

Chapter-5
Internal and Extra Budgetary Resources (IEBR)

Internal and Extra Budgetary Resources (IEBR)

The central plan outlay consists of budgetary support for central plan (Plan Budget) and Internal and Extra Budgetary Resources (IEBR) of Central Public Sector Enterprises (CPSEs). The plan budget relates to plan programmes and schemes implemented directly by Ministries/Departments concerned. Out of the budgetary support for central plan, some budgetary support is also provided for financing investment by Central Public Sector Enterprises. The rest of the investment of the CPSEs is financed through IEBR. Thus, the total investment by public sector enterprises is financed through (i) budgetary support provided by Central Government and (ii) IEBR raised by CPSEs of their own.

The internal resources (IR) of CPSEs comprise mainly of retained profits-net of dividend to Government, depreciation provision and carry forward of reserves and surpluses. On the other hand, the Extra Budgetary Resources (EBR) consist of receipts from issue of Bonds, Debentures, External Commercial Borrowing, Suppliers' credit, Deposit receipts and Term Loans from financial institutions. Broadly speaking, while the Internal Resources arise out of the profit earnings of the enterprise, the Extra Budgetary Resources represent the quantum of domestic and external borrowings raised by the undertakings.

IEBR plays very substantial role in financing central plan outlay. During the Eleventh Plan period, the total Plan outlay of Central Government was financed through budgetary support to the extent of 55.3 per cent and the remaining was financed through IEBR contribution of the CPSEs. In absolute terms, out of total central plan outlay of ₹2200,712 crore, budgetary support was of ₹1216,094 crore and IEBR of ₹984,618 crore. As regards the Plan investment of the CPSEs, however, the major portion of the investment was financed through

IEBR (86.5 per cent) and budgetary support constituted only 13.5 per cent of the total investment. The details of central plan outlay and plan investment of the CPSEs are given in the following tables.

Table 5.1:

Central Plan Outlay

(₹ crore)

Year	Plan Outlay	Budgetary Support	I&EBR	Internal Resources	Extra-Budgetary Resources
2007-08 (RE)	292,337.01	148,669.28	143,667.73	88,303.84	55,363.89
2008-09 (RE)	388,077.90	204,128.31	183,949.59	89,975.27	93,974.32
2009-10 (RE)	425,590.05	229,163.18	196,426.87	101,989.21	94,437.66
2010-11 (RE)	502,249.82	298,611.74	203,638.08	123,351.76	80,286.32
2011-12 (BE)	592,456.99	335,521.00	256,935.99	140,706.59	116,229.40
Total	**2200,711.77**	**1216,093.51**	**984,618.26**	**544,326.67**	**440,291.59**

Table 5.2:

Plan Investment by CPSEs

(₹ crore)

Year	Plan Outlay	Budgetary Support
2007-08(RE)	163303.38	19635.65
2008-09(RE)	207502.84	23553.25
2009-10(RE)	228284.28	31857.41
2010-11(RE)	241414.73	37776.65
2011-12(BE)	297060.82	40124.83
Total	**1137,566.05**	**152,947.79**

The projection of IEBR for the Twelfth Five Year Plan is based on the information provided by the Ministries/Departments controlling the CPSEs. The projected IEBR includes data on all CPSEs which are generating resources of their own either through internal resources or raising debt resources or both. Thus, CPSEs which have negative internal resources but are raising debt resources are included in the projection of IEBR. The details of the projection of IEBR made for the Twelfth Five Year Plan are given in Table 5.3.

Table 5.3:

Projected IEBR for the 12th Plan

(₹ crore)

Year	2012-13	2013-14	2014-15	2015-16	2016-17	Total
Internal Resources	151045	159101	177366	184055	184055	**855621**
Extra Budgetary Resources	134631	144596	135061	128905	169083	**712276**
IEBR	**285676**	**303697**	**312427**	**312960**	**353138**	**1567897**

Out of the Total IEBR, 54.6 per cent is contributed through Internal Resources, with the remaining 45.4 per cent coming as Extra Budgetary Resources. During Eleventh Plan, the major contributing Ministries were Ministry of Petroleum and Natural gas (30.08%), Ministry of Power (19.16%), Ministry of Steel (6.37%) and Ministry of Railways (13.17%). The projected IEBR for the Twelfth Plan indicates Ministry of Petroleum and Natural gas as major contributor with 26.98 per cent of the total followed by Ministry of Power (18.77%), Ministry of Steel (14.07%) and Ministry of Railways (10.23%).

Should IEBR be a part of the Plan?

Right from the First Five year Plan, PSEs (both Centre and State) were considered part of the public sector plan. The development programmes of the Central and State Governments and also of the commercial enterprises owned by them is included in the Public Sector plan. The Plan investments and resources (IEBR) of the CPSEs have always been important components of the Central Plan. In the Eleventh Plan, out of the total projected Central Plan resources of ₹21.5 lakh crore, the CPSE resources (IEBR) was projected at ₹10.6 lakh crore (49 per cent of the total). The resources of SPSEs in the Eleventh Plan were projected at ₹128,824 crore, which was 8.7 per cent of the total plan resources of States and UTs. The Eleventh Plan projections for resources of CPSEs and SPSEs taken together amounted to ₹11.9 lakh crore, which was 32.6 per cent of the total resources of public sector plan of ₹36.4 lakh crore.

While the Centre has consistently followed the practice of including the investment plans of a large number of Central Public Sector Enterprises (CPSEs) as central plan outlay in the annual budgets, there are a number of issues in this context:

(a) PSEs are generally companies registered under Companies Act or statutory corporations/entities. Most of them follow the accrual system of accounting, which is different from the cash system of accounting followed in Central and State budgets. As per the current practice, the entire finances of the PSEs, as in the total sales turnover on account of all its operations, are not included in the Central or State Plan outlay. The PSEs have separate Income/expenditure and balance sheets for accounting purposes. However, *investment* outlays, which are planned through their IEBRs, are included in the Central or State Plan outlay;

(b) There is an apprehension that the resource estimates of the CPSEs do not capture the entire quantum of resources available- a portion of the available resources being treated outside the Plan. Even the PSEs that are included in the Plan show minor variations from year to year[3];

(c) All the CPSEs may not get included in the Central Plan outlay in the annual budget of a particular year, as only the CPSEs having investment plans in that year need to be included. CPSEs incurring losses or not generating resources (IEBR) will not contribute to plan resources or plan outlays;

(d) At the State Level, the practice of including the State Public Sector Enterprise (SPSE) plans in the Annual Plans of the States has not been followed uniformly by all States. While some States include the SPSE plans in their annual Plans, quite a few States are keeping them outside their Annual Plans;

[3] 11th Five Year Plan

(e) In several economic and even in some social services, public sector investments are made and services delivered through CPSEs and SPSEs. **But, whether all the investment decisions of CPSEs qualify for being Plan activities of the Central Government is a moot point.**

As such, it is felt that while there is a case for including Investments by Central PSUs, financed even in part through the Budgetary Support, in the Plan, the practice of including investments financed entirely through their own resources as part of Plan expenditure of the Central Government needs to be looked into afresh. This becomes even more relevant in the context of increased financial autonomy being granted to 'Ratna CPSEs', whose number is now significant.

The Rangarajan Committee on efficient management of Public expenditure has recommended the inclusion of investment made through IEBR in the Plan.

The Role of SPVs, PPPs, and other innovative methods of Additional Resource Mobilization by Central Government in Financing Plan Expenditure

There have been huge gaps in the demand and supply of essential social and economic infrastructure and services. These infrastructure shortages are key constraints in sustaining and expanding India's economic growth and making it more inclusive for the poor. Given the large resource requirements for investment and the budgetary constraints, Government of India has been encouraging private sector investment and participation in all sectors.

PPP is a mode of providing public infrastructure and services by Government in partnership with private sector. It is a long term arrangement between Government and private sector entity for provision of public utilities and services. While the investments being made or management is provided by the private sector entity, there is risk sharing as well as performance linked payments to be paid by Government to the private entity. PPP concessions can either be sustained by user charges to be collected by the concessionaire or through annuity payments to be made by the Government. In case annuity payments are made they are typically borne by the Government out of the annual budgetary allocations spread over time and are essentially in the nature of deferred budgetary payments.

The projects that can be amenable to PPP include construction projects, high value projects which need to be completed on time and within budget, infrastructure areas where presently the quality of service is very poor, etc. Projects such as highways can be taken up either on toll or on annuity basis depending on the revenues they are likely to generate.

Investment in infrastructure is expected to be around 8.37 per cent of GDP in the base year of the Twelfth Plan. If GDP in the Twelfth Plan period grows at a rate above 9 per cent, it should be possible to increase the rate of investment in infrastructure to around 10.70 per cent in the terminal year of the Twelfth Plan period as indicated in Table 5.4 below:

Table 5.4:

Infrastructure Investment

(₹ crore at 2006-07 prices)

Items/Year	Base Year (2011-12)	2012-13	2013-14	2014-15	2015-16	2016-17	Total 12th Plan
GDP at market prices	6314265	6882549	7501978	8177156	8913100	9715280	41190064
Rate of growth of GDP (%)	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Infrastructure investment as % of GDP	8.37	9.00	9.50	9.90	10.30	10.70	9.95
Infrastructure investment	528316	619429	712688	809538	918049	1039535	4099240

Projected Investment in Infrastructure during the Twelfth Five Year Plan

These projections imply that the investment in the infrastructure sector during the Twelfth Plan would be of the order of ₹40,99,240 crore or US$ 910.94 billion (@1US$= ₹45). ***At least 50 per cent of this should come from the***

private sector. This would imply that there would be a three-fold scale-up in the private sector investment in infrastructure, which would increase from an estimated amount of ₹7,42,912 crore in the Eleventh Plan to around ₹20,49,620 crore in the Twelfth Plan at 2006-07 prices.

Table 5.5:

IEBR of 11th and 12th Plan

(₹ crore)

Name of Enterprise	11th Plan Total			12th Plan Total		
	IR	EBR	IEBR	IR	EBR	IEBR
Agriculture and cooperation				1,424		1,424
Ministry of Coal	24,001	7,668	31,669	99,240	9,004	108,244
Ministry of Civil Aviation	11,234	30,316	41,549	19,802	8,549	28,351
Commerce	2	0	2	10,909		10,909
Ministry of Chemicals and petro chemicals	0	0	0	-366	1	-365
Environment and Forest	0	0	0	25		25
Food and Public Distribution	354	0	354	1,183		1,183
Fertilizer	7,240	0	7,240	9,450	8,514	17,964
Ministry of HUPA	2,435	28,934	31,369	5,685	122,265	127,950
Ministry of Heavy Industries and Public Enterprises	9,095	2,707	11,802	16,049	1,486	17,534
Information and Broadcasting	883	936	1,819	-59		-59
Ministry of Mines	6,262	252	6,514	32,404	2,260	34,664
Ministry of MSME	148	970	1,118	293	1,550	1,843
Ministry of New and Renewable Energy	2,342	2,328	4,670	915	12,977	13,892
Ministry of Petroleum and Natural Gas	208,182	88,011	296,192	405,522	150,039	555,560
Ministry of Power	56,818	131,868	188,686	126,227	260,290	386,517
Pharmaceutical	0	0	0	-682		-682
Ministry of Road Transport & Highways	0	24745	24745		77,981	77,981
Science and Technology	0	0	0	1.39		1
Department of Shipping	12,030	8,724	20,754	64,384	12,132	76,516
Ministry of Steel	62,754	0	62,754	272,043	30,605	302,648
Ministry of Tourism	0	84	84	155		155
Telecommunication	56,321	22,367	78,688	46,897	6,403	53,299
Ministry of Urban Dev.	1,543	10,684	12,227	-504	8,221	7,717
Water Resources	0	0	0	165		165
Department of Atomic Energy	8,271	5,407	13,678	24,975		24,975
Ministry of Railways	74,413	55,290	129,703	210,590		210,590
Ministry of Rural Development	0	19,000	19,000			
GRAND TOTAL	**544,327**	**440,292**	**984,618**	**1,346,725**	**712,276**	**2,059,001**

Annexure-I

Composition and Terms of Reference of the Working Group on the assessment of the Centre's Financial Resources

Composition of the Working Group

1.	Chief Economic Adviser	Department of Economic Affairs, Ministry of Finance	Chairman
2.	Chairman (CBDT)	Central Board of Direct Taxes, Ministry of Finance	Member
3.	Chairman (CBEC)	Central Board of Excise & Customs, Ministry of Finance	Member
4.	Chairman (RB)	Railway Board, Ministry of Railways	Member
5.	Controller General of Accounts	Department of Expenditure, Ministry of Finance	Member
6.	Joint Secretary (PF-II)	Department of Expenditure, Ministry of Finance	Member
7.	Joint Secretary (Budget)	Department of Economic Affairs, Ministry of Finance	Member
8.	Joint Secretary (TPL)	Department of Revenue, Ministry of Finance	Member
9.	Joint Secretary (TRU)	Department of Revenue, Ministry of Finance	Member
10.	Executive Director (RBI)	Reserve Bank of India	Member
11.	Financial Adviser	Ministry of Petroleum & Natural Gas	Member
12.	Financial Adviser	Department of Fertilizer	Member
13.	Financial Adviser	Department of Food	Member
14.	Financial Adviser	Department of Telecom	Member
I5.	Financial Adviser	Ministry of Power	Member
16.	Prof. Pinaki Chakravarty	Professor, NIPFP	Member
17.	Adviser (PP)	Planning Commission	Member
18.	Adviser (FR)	Planning Commission	Member
19.	Shri H. K. Hajong	Director (FR), Planning Commission	Member Secretary

Terms of reference of the Working Group are as follows:

(i) To analyze the resource position of the Centre in light of the implementation of the recommendations of the Thirteenth Finance Commission, fiscal responsibility legislation(s), recommendations of the High level Expert Committee chaired by Dr. C. Rangarajan, introduction of GST and other relevant policy changes.

(ii) On the basis of the above, to suggest the basis for making projections for 'resources' and 'expenditure' for the Centre for the 12^{th} Plan period.

(iii) To prepare and present projection(s) on the scheme of financing for the 12^{th} Plan for the Centre (including UTs without legislature).

Annexure-II

Composition of Sub Groups and their TOR

<table>
<tr><th>Sub Group on</th><th colspan="2">Composition of Sub Group</th></tr>
<tr><td rowspan="6">Tax Revenue</td><td>Sh. Ashutosh Dikshit - Joint Secretary (TPL)</td><td>Convener</td></tr>
<tr><td>Sh. Vivek John - Joint Secretary (TRU)</td><td>Member</td></tr>
<tr><td>Sh.T.K. Pandey - Adviser (FR)</td><td>Member</td></tr>
<tr><td>Sh. K.L. Prasad -Adviser (DEA)</td><td>Member</td></tr>
<tr><td>Sh. Brajendra Navnit - DS (FRBM), Budget</td><td>Member</td></tr>
<tr><td>Prof. Pinaki Chakraborty - NIPFP</td><td>Member</td></tr>
<tr><td rowspan="3">Terms of Reference</td><td colspan="2">1) To analyze the gross and net tax revenues in the light of the implementation of the recommendations of the Thirteenth Finance Commission, fiscal responsibility legislation, other policy changes in that regard.</td></tr>
<tr><td colspan="2">2) Suggest basis for making projections for resources for the Centre for the Twelfth Plan</td></tr>
<tr><td colspan="2">3) To make projections for the resources for the Centre, for the Twelfth Plan period.</td></tr>
<tr><td rowspan="7">Non Tax Revenue</td><td>Sh. Shaktikanta Das - AS (Budget)</td><td>Convener</td></tr>
<tr><td>Sh. B.D.Virdi - Adviser (PP)</td><td>Member</td></tr>
<tr><td>Sh. V.L.V.S.S Subharao - Joint Adviser (Petroleum)</td><td>Member</td></tr>
<tr><td>Mrs. Vandana Sharma - CCA, Ministry of Finance</td><td>Member</td></tr>
<tr><td>Shri Maruthi P. Tangirala -DDG (Licensing & Finance I), Telecom</td><td>Member</td></tr>
<tr><td>Sh. D. Mohanty - Executive Director (RBI)[4]</td><td>Member</td></tr>
<tr><td>Representative from Department of Disinvestment</td><td>Member</td></tr>
<tr><td rowspan="4">Terms of Reference</td><td colspan="2">1) To analyze the Non-Tax revenues of the Centre in the light of the implementation of the recommendations of the Thirteenth Finance Commission, fiscal responsibility legislation, other policy changes in that regard.</td></tr>
<tr><td colspan="2">2) Suggest basis for making projections for resources for the Centre for the Twelfth Plan</td></tr>
<tr><td colspan="2">3) To make projections for the resources for the Centre for the Twelfth Plan period.</td></tr>
<tr><td colspan="2">4) To make projections for the Non-Debt Capital Receipts of the Centre for the Twelfth Plan period.</td></tr>
<tr><td rowspan="2">Non Plan Expenditure</td><td>Smt. Madhulika P.Sukul - Joint Secretary (Pers)</td><td>Convener</td></tr>
<tr><td>Smt. Veena Prasad - Additional Financial Adviser & Joint Secretary, Ministry of Defence</td><td>Member</td></tr>
</table>

[4] Mr. D Bose, Director (FAD), RBI represented

	Dr. Sanjeev Mishra - CCA, Ministry of Home Affairs	Member
	Director/DS from the Budget Division	Member
	Representatives of Financial Advisers from MOP&NG, fertilizers and food	Member
Terms of Reference	1) To analyze the expenditure position of the Centre in the light of the implementation of the recommendations of the Thirteenth Finance Commission, fiscal responsibility legislation, other policy changes in that regard.	
	2) Suggest basis for making projections for expenditures for the Centre for the Twelfth Plan	
	To make projections for the expenditures for the Centre for the Twelfth Plan period	
IEBR	Smt. Meena Agarwal - Joint Secretary (PF II)	Convener
	Director/DS from the Budget Division	Member
	Sh. H.K.Hajong - Director (FR)	Member
	Sh. Raju Sharan - CA, MoF	Member
	JS/Director (Public Enterprises)	Member
Terms of Reference	1) Examine resource mobilization through Internal and Extra - budgetary Resources of PSUs (Central)	
	2) To analyze the expenditure position of the Centre in the light of the implementation of the recommendations of the Thirteenth Finance Commission, fiscal responsibility legislation, other policy changes in that regard.	
	3) Examine whether and to what extent investments by Central PSUs financed through IEBR should continue to be part of the Plan	
	1) Examine the role of SPVs, PPP, and other innovative methods of additional resource mobilization by Central Governmentt, in financing plan expenditure	
	2) Suggest basis for making projections for expenditures for the Centre for the Twelfth Plan	
	3) To make projections for the expenditures for the Centre for the Twelfth Plan period.	

Nomination of Official/Academician special invitees of the Working Group

In addition to the above members, the following officials/academicians were nominated as special invitees of the Working Group.

A. Official Special Invitees
   1. Sh. K.L. Prasad, Adviser, DEA, MoF
   2. Smt. Madhulika P Sukul, JS(Pers), DoE, MoF
   3. Sh. V.S. Chauhan, Director, FIPB

B. Academician Special Invitees
   1. Prof. Sudipto Mundle, NIPFP
   2. Prof. Pulin Nayak, Delhi School of Economics

Annexure – III

	Items/Year	2011-12 BE	2012-13	2013-14	2014-15	2015-16	2016-17
A. Direct Taxes							
	1. Corporation Tax (CIT)	359992	431380	515823	616465	727828	853909
	2. Taxes on Income other than corporation Tax (PIT)	164526	191882	224651	264703	308416	353223
	3. Securities Transaction Tax (STT)	7500	7718	7941	8172	8409	8652
	4. Wealth Tax (WT)	635	727	833	953	1091	1250
	Total direct taxes	**532653**	**631707**	**749248**	**890293**	**1045744**	**1217034**
	Direct Tax to GDP Ratio	**5.93**	**6.14**	**6.37**	**6.61**	**6.78**	**6.89**
B. Indirect Taxes							
	5. Customs	153440	184595	219251	257908	301579	352022
	6. Union Excise Duties	162376	174318	202461	235206	273344	317836
	7. Service Tax	82000	97170	114175	133014	153631	175907
	Total Indirect tax	**397816**	**456083**	**535887**	**626128**	**728554**	**845765**
	Indirect tax to GDP ratio	**4.43**	**4.44**	**4.55**	**4.65**	**4.72**	**4.79**
C. Total taxes		**930469**	**1087790**	**1285135**	**1516421**	**1774298**	**2062799**
D. Total tax to GDP ratio		**10.36**	**10.58**	**10.92**	**11.25**	**11.50**	**11.67**

Annexure – IV

(A) Log Values of CIT, PIT and GDP (at current prices)

Five Year Plan	Year	GDP market price	CIT	PIT	Indirect Tax	LN		
						CIT	PIT	GDP
Seventh Plan	**1985-86**	**281330**	**2865**	**2511**	**22571**	7.96	7.83	12.55
	1986-87	314816	3160	2879	26602	8.06	7.97	12.66
	1987-88	357861	3433	3192	30918	8.14	8.07	12.79
	1988-89	424531	4407	4241	35649	8.39	8.35	12.96
	1989-90	487684	4729	5010	41631	8.46	8.52	13.10
Annual Plans	**1990-91**	**569624**	**5335**	**5371**	**45158**	8.58	8.59	13.25
	1991-92	**654729**	**7853**	**6731**	**50367**	8.97	8.81	13.39
Eighth Plan	**1992-93**	**752591**	**8899**	**7888**	**54608**	9.09	8.97	13.53
	1993-94	865805	10060	9123	53890	9.22	9.12	13.67
	1994-95	1015764	13822	12025	64543	9.53	9.39	13.83
	1995-96	1191813	16487	15592	76806	9.71	9.65	13.99
	1996-97	1378617	18567	18231	88918	9.83	9.81	14.14
Ninth Plan	**1997-98**	**1527158**	**20016**	**17097**	**89741**	9.90	9.75	14.24
	1998-99	1751199	24529	20240	95871	10.11	9.92	14.38
	1999-00	1952035	30692	25654	112450	10.33	10.15	14.48
	2000-01	2102314	35696	31764	118681	10.48	10.37	14.56
	2001-02	2278952	36609	32004	116125	10.51	10.37	14.64
Tenth Plan	**2002-03**	**2454561**	**46172**	**36866**	**131284**	10.74	10.52	14.71
	2003-04	2754620	63562	41387	147294	11.06	10.63	14.83
	2004-05	3242209	82680	49268	170936	11.32	10.81	14.99
	2005-06	3692485	101277	55985	199348	11.53	10.93	15.12
	2006-07	4293672	144318	75093	241538	11.88	11.23	15.27
Eleventh Plan	**2007-08**	**4986426**	**192911**	**102644**	**279031**	12.17	11.54	15.42
	2008-09	5582623	213395	106046	269433	12.27	11.57	15.54
	2009-10	6550271	244725	122370	244737	12.41	11.71	15.70
	2010-11	7877947	299422	139148	345739	12.61	11.84	15.88
	2011-12	8980860	359990	164526	397250	12.79	12.01	16.01

(B) Buoyancy of CIT and PIT during Seventh to Eleventh Plans

Five Year Plan	CIT	PIT
	Buoyancy	
Seventh Plan	0.96	1.27
Eighth Plan	1.29	1.45

Ninth Plan	1.62	1.73
Tenth Plan	1.94	1.23
Eleventh Plan	1.04	0.80

(C) Elasticities of Tax Revenue for Tenth and Eleventh Plans

Item	**Five Year Plan Period**	
	Tenth	**Eleventh**
Elasticity	1.41	1.09