2

Macroeconomic Framework

2.1 The Eleventh Five Year Plan (2007–12) had set a target of 9 per cent average growth over the five years of the Plan. This was an increase from the target of 8 per cent that had been set for the Tenth Five Year Plan (2002–07). The higher target was entirely consistent with the very strong performance in the last two years of the Tenth Plan, which had recorded growth in excess of 9.5 per cent. The levels of investment and savings that were felt to be necessary for 9 per cent growth had been achieved to a great extent in the very first year of the Eleventh Plan.

GLOBAL CRISIS

2.2 The global economic and financial crisis that developed during 2007–08 and blew up into a crisis in the summer of 2008 undermined the ability of the Indian economy to achieve the eminently realizable 9 per cent growth trajectory. The growth rate fell from 9.2 per cent in 2007–08 to 6.7 per cent in 2008–09, and was estimated to be 7.4 per cent in 2009–10.

2.3 There is no reason to revise the estimate of an average 9 per cent growth rate as being achievable for the Indian economy under more or less normal global conditions. Of course, global conditions are not expected to be normal for some time and the recent emergence of a possible sovereign debt crisis, especially in the European region has increased this uncertainty. Nevertheless, it is the assessment of the Planning Commission that with the world economy slowly recovering to normal we should be able to achieve a higher rate of growth approaching 8.5 per cent in 2010–11 and return to the 9 per cent growth trajectory in 2011–12. The return to growth at 9 per cent can be achieved if the slower growth in exports is offset by rapid growth in some elements of domestic demand. Ideally, this should be investment in infrastructure where India has a large deficit. The critical requirement for policy in the next two years is, therefore, to ensure a healthy growth in investment in infrastructure.

ELEVATED INVESTMENT LEVEL

2.4 The Eleventh Plan document had projected that the investment rate would increase from an estimated 32.4 per cent in the Tenth Plan period, to 36.7 per cent in the current Plan period (see Table 2.1). The revised data of the Central Statistical Organisation (CSO) show that the investment rate during the Tenth Plan period actually averaged 31 per cent of GDP, that is, slightly lower than what had been estimated when the Eleventh Plan document was finalized. Nonetheless, the investment rate in the first three years of the Eleventh Plan averaged over 36 per cent, which is comparable to the target set for the Eleventh Plan period, despite some erosion in the pace of investment in both 2008–09 and 2009–10 due to the effects of the global crisis. However, with a continued favourable economic climate and a policy supportive of investment, there is a good chance of the Plan target being realized, if not exceeded.

TABLE 2.1
Broad Macroeconomic Parameters for the Indian Economy

		Averages for Plan Periods				XI Plan				
		VII Plan 1985–90	VIII Plan 1992–97	IX Plan 1997–2002	X Plan 2002–07	Expectation 2007–12	Annual 2007–08	2008–09	2009–10	Likely 2007–12
		Growth over period in per cent per annum								
1	GDP—rate of growth	5.7	6.5	5.5	7.8	9.0	9.2	6.7	7.4	8.1
1.1	Farm sector GDP	3.0	4.8	2.5	2.3	4.0	4.7	1.6	0.2	3.0
1.2	Industrial sector GDP	6.6	7.3	4.3	9.4	10.0–11.0	9.5	3.9	9.3	8.0
1.3	Services sector GDP	7.4	7.3	7.9	9.3	9.0–11.0	10.5	9.8	8.5	9.6
1.4	Per capita real GDP	3.4	4.4	3.5	6.2	7.5	7.7	5.2	6.2	6.6
2	Investment in fixed assets	7.1	8.0	6.4	14.3		15.2	4.0	5.2	10.3
2.1	*of which* private corporate	4.4	18.2	–4.3	28.4		20.6	–5.1	4.5*	9.9
		Proportion to GDP at market and current prices								
3	Investment rate	22.3	24.2	24.3	31.0	36.7	37.7	34.9	36.0*	37.0
3.1	*of which* fixed investment	21.4	22.7	23.1	27.9		33.0	33.0	32.4	33.5
3.2	Investment in infrastructure			4.6	5.2	7.3	6.0	6.2		
4	Savings rate	20.0	23.1	23.7	31.2	34.8	36.4	32.5	34.0*	34.7
4.1	*of which* private sector	16.8	20.8	24.3	29.4	30.3	31.3	31.0	31.8*	31.8
5	Current account balance	0.0	–1.2	–0.6	0.2	–1.9	–1.3	–2.4	–2.9	–2.4
5.1	*of which* trade balance	0.0	–2.6	–2.6	–2.3	–9.6	–4.4	–6.1	–5.8	–5.7
6	Capital account balance	0.0	2.4	2.1	3.4	3.5	8.6	0.5	4.1	4.6
		Average annual rate of inflation								
7.1	WPI inflation rate	6.7	8.7	4.9	5.0		4.7	8.5	3.9	6.0
7.2	*of which* primary food	6.4	10.2	5.2	3.6		5.6	8.0	14.5	6.8
7.3	Manufactured goods	7.5	8.3	3.0	4.4		5.0	8.0	3.0	5.4
7.4	CPI-IW inflation rate	8.0	9.3	6.3	4.6		6.4	9.0	12.5	7.3

Note: * Estimated.

2.5 Investment in the creation of fixed assets (Gross Domestic Fixed Capital Formation or GDFCF) as a proportion of GDP rose from 23.1 per cent of GDP in the Ninth Plan to 28.2 per cent in the Tenth Plan and averaged 33 per cent in the first three years of the Eleventh Plan period. It is pertinent to mention that the acceleration in overall investment derived largely from the increase in the rate of growth of fixed assets, which underpins the productive capacity of the economy. Thus, the average annual rate of growth in fixed asset creation (at constant prices) rose sharply from 6.4 per cent during the Ninth Plan period, to 14.3 per cent in the Tenth Plan. This was the prime mover for the acceleration in the growth momentum during the Tenth Plan which recorded an average growth of 9.6 per cent in the penultimate two years.

2.6 In the first two years of the Eleventh Plan, GDFCF's increase at constant prices was 15 per cent which dropped to 4–5 per cent in the two subsequent years. The decline in the pace of growth in fixed asset creation in 2008–09 and 2009–10 was largely a consequence of the global crisis but from 2010–11 onwards the economy should see a restoration of more rapid growth. However, the overall investment rate, as well as the proportion of fixed asset creation to GDP, has reached a level where it may not be realistic to expect sustained acceleration in the coming years. We should be able to generate economic growth in the region of the target of 9 per cent and do so in a sustained fashion at slightly higher than the current levels.

2.7 Fixed asset creation in the private corporate sector has been a driving force underlying the faster pace of capital formation. Following on economic liberalization, this sector averaged annual rates of growth in GDFCF creation (at constant prices) of

18.2 per cent during the Eighth Plan, but it slumped to (–) 4.3 per cent in the Ninth Plan (1997–2002) as a result of a multitude of factors especially the effects of the Asian Currency Crisis and the collapse of world commodity prices. In the Tenth Plan, real private corporate fixed investment increased at an average pace of 28.4 per cent, a remarkable upturn that was primarily responsible for pushing up the aggregate investment rate of the economy. As a ratio of GDP, private corporate fixed investment increased from 5.7 per cent in 2001–02 to 13.6 per cent in 2007–08.

2.8 Public sector fixed investment increased at an average annual rate of 10.4 per cent (at constant prices), with its proportion to GDP going up from 6.5 per cent in 2001–02, to 8.0 per cent in 2006–07. Though significantly slower than the pace of the pick-up in the private corporate sector, it has nevertheless been accelerating. This dynamism continued into the Eleventh Plan till the crisis erupted in the second year.

2.9 The global crisis and the changed economic circumstances slowed down the expansion (at constant prices) of private corporate investment to 4 per cent in 2008–09 and initial estimates suggest that it may have lifted to just over 5 per cent in 2009–10. It is expected that there will be some recovery of fixed investment in the private corporate sector in the closing months of 2009–10 and a full and complete recovery from 2010–11 onwards. Continued growth in investment activity in the private corporate sector is expected to contribute to the demand expansion needed to restore economic growth towards 8.5 per cent and 9.0 per cent in the final two years of the Eleventh Plan respectively (see Table 2.2).

INVESTMENT IN PHYSICAL INFRASTRUCTURE

2.10 The Eleventh Plan fully recognized the large deficit in physical infrastructure such as electricity, water supply, roads, transportation, and sewage and sanitation that needed to be aggressively tackled. Accordingly, it emphasized the need to increase investment in infrastructure. It also recognized that since public resources were limited, achieving the ambitious infrastructure target required full exploitation of the scope for private investment in this area. The initiative to enhance the involvement of the private sector to a greater extent was through new forms of engagement, of which the Public–Private Participation (PPP) model was proposed as a principal candidate.

2.11 The Eleventh Plan had envisaged that investment in physical infrastructure would rise from 5 per cent of GDP in 2006–07, to 9 per cent for the terminal year of the Eleventh Plan. In the *National Accounts Statistics*, infrastructure does not form a standard category and the Planning Commission, at the time of formulating the document, got the estimates compiled and prepared. The current estimates indicate that investment in physical infrastructure was less than 4.5 per cent of GDP in the Ninth Plan, which went up to 4.8 per cent during the Tenth Plan. In the first two years of the Eleventh Plan, investment in physical infrastructure rose further to over 6 per cent of GDP. In 2009–10 the level is likely to have been around 6.5 per cent of GDP. While the pickup is commendable, it does appear that even with a further rise in investment in 2010–11 and 2011–12, the investment in physical infrastructure is unlikely to greatly exceed 8 per cent of GDP by the terminal year of the Eleventh Plan.

2.12 It is heartening to note that much of the incremental investments in infrastructure in recent years have indeed come from the private sector, some of which is through the PPP model. The share of private investment in infrastructure almost doubled from 1.3 per cent of GDP in 2004–05 to nearly 2.5 per cent in 2008–09. The successful enhancement of the desired total investment in creating new infrastructure assets to 9 per cent of GDP should see a further increase in private sector contribution to this important economic parameter.

HIGHER LEVEL OF SAVINGS

2.13 Alongside the increase in investment and economic growth, domestic savings have also risen as a proportion of GDP. Domestic savings went up from about 23.0 per cent in the 1990s to 31.8 per cent in the Tenth Plan. They were expected to rise further to 34.8 per cent during the Eleventh Plan. This number was almost achieved in the terminal year of the Tenth Plan itself (34.4 per cent) and exceeded (36.4 per cent) in

TABLE 2.2
Investment and Savings by Institutional Classes

	Averages for Plan Periods				XI Plan				
	VII Plan 1985–90	VIII Plan 1992–97	IX Plan 1997–2002	X Plan 2002–07	Expectation 2007–12	2007–08	Annual 2008–09	2009–10	Likely 2007–12
Expressed as percentage of GDP at market prices									
Gross Fixed Capital Formation	21.4	22.7	23.1	27.9		33.0	33.0	32.4	33.5
of which public sector	10.6	8.5	6.7	7.0		8.1	8.6	8.5*	
Private corporate sector	3.7	7.5	6.8	9.0		13.6	12.2	12.5*	
Household sector	7.1	6.7	9.7	11.8		11.3	12.2	11.5*	
Gross Investment	22.3	24.2	24.3	31.1	36.7	37.7	34.9	36.0	37.0
of which public sector	10.8	8.6	7.0	7.2	8.0	8.9	9.4	9.5*	
Private corporate sector	4.6	8.0	6.8	10.2	28.7	16.1	12.7	13.8*	
Household sector	7.8	6.9	10.0	12.5		11.5	12.2	12.7*	
Gross Domestic Savings	20.0	22.9	23.6	31.2	34.8	36.4	32.5	34.0	34.7
of which households	14.9	17.0	20.3	23.3	23.0	22.6	22.6	23.2*	
Private corporate sector	1.9	3.8	4.0	6.1	7.3	8.7	8.4	8.6*	
Public sector	3.1	2.1	–0.7	1.8	4.5	5.0	1.4	2.2*	
of which government admin.	–0.4	–1.7	–4.7	–2.8	0.5	0.6	–2.5	–2.4*	
Memo—Composition of household savings shown as per cent of GDP									
Total Household Savings	14.9	17.0	20.3	23.3		22.6	22.6	23.2*	
Savings in physical assets	7.8	6.9	10.0	12.5		11.5	12.2	11.8*	
Net financial savings**	7.1	10.1	10.3	10.8		11.2	10.4	11.5*	
Gross financial savings and its composition as per cent GDP									
Savings in financial assets (gross of liabilities)	8.5	11.8	12.1	14.3		14.7	13.4	15.1*	
of which bank and other deposits	4.2	5.3	4.9	6.1		7.6	7.8	8.3*	
Insurance, provident, and pension funds	2.1	3.1	4.0	3.9		4.1	3.9	4.1*	
Claims on government	0.9	1.0	1.7	2.3		–0.6	–0.4	0.6*	
Increase in liabilities/borrowings	–2.3	–1.9	–1.8	–3.6		–3.5	–3.0	–3.7*	

Note: * Estimated.
** Gross financial savings adjusted for the increase in liabilities gives the net financial savings.

the first year of the Eleventh Plan. The trends reflect somewhat different behaviour in the three major components, namely, government savings, household savings, and private corporate savings.

Government Savings

2.14 A major factor that was responsible for the increase in the domestic savings rate over the last 10 years was the improvement in government finances. Government dis-savings as a proportion of GDP improved from (–) 4.7 per cent in the Ninth Plan to (–) 2.8 per cent in the Tenth Plan and turned positive at 0.6 per cent of GDP in 2007–08. However, in the second and third years of the Eleventh Plan, the savings rate has seen significant erosion on account of the sharp expansion in the government dis-savings or operating deficits. This partly flows from the policy response to the global crisis and partly due to the severe increase in world prices of crude oil and fertilizers that expanded subsidies as well as the higher salary and pension commitment of the government. Government dis-savings increased in 2008–09 and 2009–10 due to extraordinary fiscal expenditure and depressed tax revenue growth to (–) 2.5 per cent of GDP in 2008–09 and about the same level in 2009–10. The beginning of fiscal consolidation from 2010–11 onwards will see an improvement in the level of government dis-savings and to that extent in the overall domestic savings rate as well.

Household Savings

2.15 The second important ingredient in the increase in the rate of savings from the 1990s to the current levels is higher savings by the household sector (which in India includes unincorporated businesses). Household savings rose from 20 per cent of GDP in the Ninth Plan to about 23 per cent in the Tenth Plan as well as in the first two years of the Eleventh Plan. The savings of households are made either by way of direct physical assets (for example, farm improvement and home building) or in the form of financial assets. They also include investment through retained earnings in the unincorporated Small and Medium Enterprises (SMEs). This component of private savings is in some respect akin to private corporate savings. Within financial assets, bank deposits continue to be the single most important entity with insurance, provident fund and small savings making up most of the balance. Households are also now borrowing in order to purchase homes, as well as durable goods like motor vehicles. However, since the level of savings of households has increased dramatically, their borrowings as the proportion of their savings in recent years is actually comparable with the levels prevailing before 1990.

2.16 It should also be noted that gross financial savings, that is, before being reduced to the extent of borrowing by a household, has been steady at around 15–16 per cent of GDP over the past five years (see Table 2.2). This is an increase of about 2–3 percentage points from the first half of the decade. Household financial savings net of its own borrowing rose marginally to over 10 per cent of GDP at the beginning of the current decade and to a little over 11 per cent in recent years. The government's borrowing programme primarily dips into this pool of available savings, with the balance finding its way to finance corporate investment in both the private and public sectors. In assessing the extent to which the government's financing tends to pre-empt resources, this is indeed the key parameter that should be borne in mind. With the total deficit of the central and state governments reaching around 10 per cent of GDP in 2009–10, it is evident that there would be very little room for financing private sector investment. Hence, the importance of returning to a path of fiscal prudence.

Private Corporate Savings

2.17 The third factor behind the increase in the savings rate over the last decade has been the private corporate sector, which has seen its savings increase from about 4.0 per cent of GDP in the 1990s, to 6.1 per cent in the Tenth Plan, and to well over 8.0 per cent in the first two years of the Eleventh Plan.

2.18 Higher savings by the private corporate sector are reflected in the higher investment by this sector, which rose from 6.8 per cent of GDP in the Ninth Plan to 10.4 per cent in the Tenth Plan, the terminal year of which showed private corporate investment at 14.5 per cent of GDP. In the first year of the Eleventh Plan, private corporate investment stood at 16.1 per cent of GDP. This dipped in 2008–09 on account of the economic crisis and the provisional estimate places it at 12.7 per cent of GDP.

EXTERNAL SECTOR

2.19 The Eleventh Plan document had visualized that the merchandise trade deficit would average 12.2 per cent of GDP, reaching 16 per cent in the last year of the Plan and that the net trade balance on account of services would be at 2.7 per cent of GDP, which together with remittances and other items would result in a current account deficit of 1.9 per cent of GDP. It also expected that net capital flows would average 3.5 per cent of GDP in this period. Merchandise exports were expected to grow annually by 20 per cent and imports to increase annually by 23 per cent, both in dollar terms. The export of services was expected to increase by an average of 24 per cent and net invisibles to grow by 28 per cent annually during the Plan period.

2.20 In the first year of the Eleventh Plan (2007–08), all items on the current and capital account grew at a much faster pace than had been visualized. However, the onset of the global crisis caused both merchandise exports and imports to slow down to a virtual crawl in 2008–09 and suffer some contraction in 2009–10.

The growth of service sector exports and remittances also slowed, although it did not suffer contraction as in the case of merchandise trade. The high prices of crude oil in the first half of 2008–09, brought about an expansion in the current account deficit to 2.4 per cent of GDP, significantly higher than the 1.3 per cent in the previous year. The current account deficit in 2009–10 is expected to be about 2.4 per cent of GDP.

2.21 The export of services is expected to show recovery from 2010–11 onwards. Remittances had been affected adversely in 2008–09 but show signs of recovery in 2009–10 and are expected to show stable growth in the terminal two years of the Eleventh Plan. The net export of services amounted to 3.2 and 4.1 per cent of the GDP in 2007–08 and 2008–09 respectively. The corresponding figure for remittances was 3.4 and 3.6 per cent. These proportions are broadly expected to remain unchanged in 2009–10, as also in the last two years of the current Plan. Overall, the export of services and remittances combined accounted for 5.3 per cent of GDP in the Tenth Plan, which financed a large part of the merchandise trade deficit.

2.22 The overall trade deficit, expressed in terms of goods and services together was 4.3 per cent of GDP in the first year of the Plan and 5.6 per cent in the second. It is estimated to be about 6.0 per cent in 2009–10 (see Table 2.1), which would result in a current account balance deficit of 2.4 per cent of GDP. It is expected that the trade deficit would move up slightly in the final two years of the Plan resulting in slightly higher current account deficits (see paras 2.25 and 2.26).

OUTLOOK FOR EXPORTS—MERCHANDISE AND SERVICES

2.23 The outlook for the remaining years of the Eleventh Plan is that the slow recovery in the advanced economies of the world would bring about conditions conducive to renewed export expansion, but at rates that may be significantly lower than what had prevailed in the years immediately preceding the global crisis. The expected increase in the rate of fixed investment in the last two years of the Plan, in the context of modest growth in exports of goods and services, is likely to result in slightly higher trade deficits.

2.24 Merchandise exports as reported by the Directorate General of Commercial Intelligence and Statistics (DGCI&S) grew rapidly in the first half of 2008–09 and contracted in the second; for the year as a whole exports amounted to US$ 185 billion. The contraction continued for the first seven months of 2009–10 and for the full year the provisional estimate for exports is US$ 177 billion which is about 8.5 per cent higher than that achieved in 2007–08. It is expected that there will be further recovery in 2010–11 to about US$ 205 billion (a growth of about 17 per cent), which will take exports to a level only slightly more than that achieved in 2008–09. A more robust recovery is expected in 2011–12, which should see exports top US$ 240 billion. However, this level would mean an average growth of barely 10 per cent per annum from the pre-crisis levels.

OUTLOOK FOR IMPORTS, TRADE, AND CURRENT ACCOUNT DEFICIT

2.25 Merchandise imports are expected to grow faster than exports. This will be partly due to continued increase in the oil import bill on account of expected hardening of crude oil prices in the context of economic recovery in the developed world. More so, the rise in imports ahead of exports is likely to flow from the increased pace of infrastructure investment resulting in higher volumes of manufacturing activity and capacity expansion in these areas. Imports are expected to increase from an estimated US$ 279 billion (DGCI&S) in 2009–10 to over US$ 350 billion in 2010–11 and to over US$ 410 billion in 2011–12. Consequently, the merchandise trade deficit is expected to be close to 10 per cent of GDP in both 2010–11 and 2011–12. Exports of ICT products grew in a sluggish fashion in 2009–10 due to the recession in its major overseas markets. A modest recovery of 10 per cent is expected in 2010–11 moving up to 15 per cent in 2011–12. Private remittances, which have shown stronger growth in the first half of 2009–10 are also expected to rise in line with software exports.

2.26 The trade deficit, including both merchandise and services, which is estimated to be 6.1 per cent of GDP in 2009–10 will consequently rise to 6.3 per cent in 2010–11 and further to 6.5 per cent of GDP. The current account deficit, which is estimated to be

2.4 per cent of GDP in 2009–10 may remain at this or a slightly higher level in 2010–11 and may edge up to a somewhat higher level in 2011–12, of around 2.5 to 2.8 per cent of GDP.

2.27 For the Eleventh Plan period as a whole, the merchandise trade deficit is expected to be 9.4 per cent of GDP, net service exports to be 3.7 per cent, remittances around 3.9 per cent, and the overall net invisibles at 7.4 per cent of GDP. The current account deficit for the Plan period as a whole is now estimated at 2.3 per cent of GDP. This is compared to the 1.9 per cent that had been projected in the Eleventh Plan document. The higher current account deficit is due to the loss of export momentum caused by the crisis, combined with strong import demand arising from the revival of domestic economic growth.

FOREIGN INVESTMENT FLOWS

2.28 The estimate of net foreign capital flows made in the Eleventh Plan document of 3.5 per cent is likely to be greatly exceeded. In the first year of the Plan, capital flows were as high as 9.2 per cent of GDP. In the second crisis-affected year, this plummeted to 0.8 per cent. In 2009–10, it is expected to recover to 3.5–4.0 per cent of GDP, going up to 4–5 per cent in the last two years of the Plan.

2.29 In-bound foreign direct investment (FDI) rose from less than US$ 9 billion in 2005–06, to US$ 23 billion in the next year. Thereafter, it rose further to average US$ 35 billion in 2006–07 to 2008–09 and is likely to be around this level in 2009–10 also. A step-up is seen likely in the coming years and more so in 2011–12 as the Indian economy consolidates on its economic growth.

PRIVATE EQUITY/VENTURE CAPITAL

2.30 Over the past few years, the private equity industry, which is referred to in regulatory literature in India as 'Venture Capital/Private Equity (VC/PE)', has been instrumental in facilitating the flow of FDI into India. Private equity (PE funding) has been responsible for cumulative investments of approximately US$ 50 billion made into about 1,400 companies over the past 10 years. In 2007–08 it is estimated that over half of the FDI inflows, amounting to US$ 34 billion, was made through PE investments. In 2008–09, it is estimated that this share fell to about one quarter of the total inbound FDI flow of US$ 35 billion. Large beneficiaries of PE investments include telecom (in excess of US$ 4 billion) and the IT-BPO sector (over US$ 6 billion). Infrastructure projects have received around US$ 21 billion of which power, road, construction equipment, and services got more than US$ 7 billion, shipping and logistics got US$ 1.5 billion, and real estate got US$ 8.3 billion. Many prominent Indian companies that have come up well in recent years have been assisted in their formative stages by PE investments.

2.31 The notable feature of PE investments has been that aside from infrastructure and real estate, the average size of such investments has been about Rs 70 crore, that is, in mid-size firms. The PE investments have, along with the capital, also brought in technology and market knowhow, which has contributed to the success and expansion of Indian companies. Private equity operates across many stages from the classic venture capital (seed/start up stage), investment into mid-size corporates for expansion/diversification and buy-outs of existing companies. Many firms operate across this continuum while some focus on specific stages. The other notable feature of private equity is that the investment is made with a view to remaining in the business in the medium term. These funds generally have a lock-in provision for investors of between three to seven years.

2.32 This is a new phenomenon in India of promoting the flow of funds, mostly from foreign and some domestic investors, to bring together Indian entrepreneurs with a promising business model with capital and technological knowhow through fund managers. It has enabled these Indian companies to grow and expand becoming, in some cases, industry leaders. It is believed that private equity has considerable potential in mobilizing more capital over the coming years and which, when combined with technical and managerial assistance to Indian firms and entrepreneurs, holds out value as instruments for economic development. Policy should take cognizance of this potential and encourage these flows.

2.33 Out-bound FDI started rising from 2006–07 as Indian companies began to acquire productive assets overseas. Between 2006–07 and 2008–09 it ranged between US$ 15 and US$ 19 billion and is likely to have been at the lower end of this range in 2009–10. In the coming two years, outbound FDI is likely to increase to cross US$ 20 billion in 2011–12.

2.34 The net FDI flow in 2009–10 is expected to be around US$ 20 billion. This could easily rise to US$ 25 billion in 2010–11, and further to US$ 30 billion in 2011–12, provided macro-policy inspires confidence. Strong portfolio flows at the levels achieved in 2009–10 are likely to continue into the next two years. Commercial loan raising (on net basis) will increase from the current year's levels to about US$ 20 billion in 2010–11 and US$ 30 billion in 2011–12. Thus, total capital flows could be US$ 80 billion in 2010–11 and US$ 90 billion in 2011–12. This would result in accretion to foreign exchange reserves of an order of 2 to 2.5 per cent of GDP (around US$ 35–40 billion) in each of the coming two years which can be absorbed without much difficulty. The expected average net capital flow for the entire Eleventh Plan period is, thus, estimated at 4.6 per cent of GDP.

2.35 The external balance indicators, therefore, present a relatively comfortable picture. The current account deficit will rise to between 2.5 and 3.0 per cent of GDP in the last two years of the Eleventh Plan. This will not be difficult to finance through long-term capital flows, including FDI unless there is a sharp deterioration in global economic conditions.

INFLATION AND PRICE STABILITY

2.36 The Eleventh Plan document had noted that food prices, particularly food grain prices, had begun to show a rising trend worldwide. It had felt that this process was likely to put pressure on Indian agricultural product prices. It had also noted that while the Indian farmer stood to gain from the higher prices, and that improved returns on agriculture would encourage investment in the sector and improve real rural incomes, the consumers of food, who include most of the poor in the country, would be adversely impacted by any undue increase in prices. Balancing this conflicting objective would pose a major problem.

2.37 As seen from Table 2.3, inflation rates, no matter what index is used, tend to show a sustained trend of annual inflation of 5 per cent and higher. This is not only more than that prevalent in the advanced economies but also higher than that obtaining in many developing countries in Asia, especially East Asia. The other significant point that emerges from Table 2.3 is that inflation in primary food products has generally been higher than the overall inflation, and for that matter, inflation in manufactured commodities.

2.38 The inflation rate in primary food has varied widely across Plan periods. The Wholesale Price Index (WPI) for primary food shows that inflation rate rose from 6.4 per cent in the Seventh Plan to 10.2 per cent in the Eighth Plan before falling to 5.2 per cent in the Ninth and then to 3.6 per cent in the Tenth Plan. In the first three years of the Eleventh Plan, including the

TABLE 2.3
Inflation Rates across Plan Periods

(per cent)

	Wholesale Price Index					Consumer Price Index			
	All commodities	Primary food	Primary non-food	Commercial energy	Manufactured products	Industrial worker (IW)	CPI-IW food	Agricultural labour (AL)	Urban non-manual employees (UNME)
VII Plan (1985–90)	6.7	6.4	6.3	6.0	7.5	8.0	7.8	7.5	7.7
VIII Plan (1992–97)	8.7	10.2	8.2	10.8	8.3	9.3	9.9	8.9	9.1
IX Plan (1997–2002)	4.9	5.2	2.8	12.7	3.0	6.3	4.9	3.9	6.7
X Plan (2002–07)	5.0	3.6	4.4	7.4	4.4	4.6	4.3	4.2	4.5
XI Plan (first 3 years: 2008–10)	5.5	9.4	11.9	1.9	5.4	9.3	12.6	10.6	9.1

current financial year (2009–10), average primary food inflation is likely to be close to 9.5 per cent, almost as high as that in the Eighth Plan.

2.39 Except the Tenth Plan period, for every other Plan period since the Seventh Plan, including the first three years of the Eleventh Plan, the inflation rate measured by the three commonly used Consumer Price Index (CPI) indices, namely, that for industrial workers, Agricultural Labour (AL), and urban non-manual employees (UNME) showed higher rates of inflation than the WPI for all commodities. (It should be noted that for CPI [AL], the inflation rate in the Ninth Plan was lower than the WPI inflation.) The persistently high inflation rates, as measured by the CPI indices vis-à-vis the WPI, suggest that at the retail level price mark-ups have consistently risen. This is in all likelihood a function of an underdeveloped and antiquated system of collection, process, and storage and distribution for farm products. This is underscored by the fact that the CPI (IW) food inflation is greater vis-à-vis that reflected in the WPI (primary food) for the first three years of the Eleventh Plan Period.

2.40 The other notable feature is that the inflation rate for manufactured products has come down significantly. Whereas in the Seventh and Eighth Plan periods, manufactured goods inflation was comparable or higher than the headline rate of inflation, since the Ninth Plan, manufactured goods inflation has been significantly lower than the WPI or CPI headline inflation rate. This development certainly flows from greater trade openness which in turn encourages modernization and increased efficiencies in the manufacturing sector.

2.41 The other notable feature is that notwithstanding the big spike in food price inflation in the Eleventh Plan, particularly since 2008–09, and the elevated levels of prices of energy products, the headline rates of inflation have shown a declining trend. The larger weight of food items in the CPI index has caused a reversal in the direction of CPI headline rates in the Eleventh Plan, but the WPI index still displays a lower rate of inflation than was prevalent in the late-1980s and early 1990s.

2.42 The principal factor behind the elevated levels of inflation in the recent period derives from serious constraints in production and distribution, especially that in farm sector products. It is imperative that policy takes a very close look at what the nature of these constraints and deficiencies is, and finds short-term and medium-term solutions to relax these constraints and thus alleviate the inflationary pressure.

2.43 Price stability is imperative for realizing inclusive economic growth since high inflation lowers real incomes in a much more aggravated fashion amongst wage and low income earners. In order to achieve price stability, we need to target a headline rate of inflation for both CPI and WPI indices of 5 per cent and then progressively lower. This was indeed achieved in the Tenth Plan and, therefore, is quite within the realm of possibilities.

SECTORAL DEVELOPMENTS

2.44 Along with the big increase in overall GDP growth in the Tenth Plan to 7.8 per cent, the average growth of per capita income also experienced a very significant improvement to reach 6.2 per cent from the average of 3.5 per cent during the Ninth Plan period. In the Eleventh Plan document, the target annual growth at an average of 9 per cent corresponded to an average growth rate of per capita income of 7.5 per cent. This was indeed achieved in 2007–08 but fell back in 2008–09 to 5.2 per cent due to the drop in overall economic growth because of the global crisis. This adverse impact would be felt in the current year (2009–10) as well, with projected per capita income growth of 5.7 per cent. In the last two years of the Plan, as growth moves up to the desired trajectory, per capita income growth will revert towards 7.0–7.5 per cent per annum (see Table 2.4).

2.45 In the Tenth Plan, the GDP arising in agricultural and allied activities, that is, the farm sector, was expected to increase by 4 per cent per annum. However, the actual achievement was only at 2.3 per cent per annum, about the same as that in the Ninth Plan. The Eleventh Plan placed considerable emphasis on lifting the rate of economic growth in the farm sector, upon which a majority of our population

TABLE 2.4
Sectoral Rates of Growth

	Averages for Plan Periods				XI Plan					Weight of the Sector in GDP			
	VII Plan	VIII Plan	IX Plan	X Plan	Expectation		Annual		Likely				
	1985–90	1992–97	1997–2002	2002–07	2007–12	2007–08	2008–09	2009–10	2007–12	1984–85	1994–95	2004–05	2008–09
1	2	3	4	5	6	7	8	9	10	11	12	13	14
	Growth over period in per cent per annum									Measured at current prices			
Agriculture & allied activities	3.0	4.8	2.5	2.3	4.0	4.7	1.6	0.2	3.0	32.5	28.5	18.9	17.2
Mining & quarrying	9.0	3.6	4.0	6.0	10.0 to 11.0	3.9	1.6	10.6	6.3	2.8	2.5	2.9	2.4
Manufacture	6.3	9.5	3.3	9.3		10.3	3.2	10.8	8.5	16.6	16.7	15.3	15.6
Electricity, water, & gas supply	9.1	7.2	4.8	6.8		8.5	3.9	6.5	6.9	1.9	2.7	2.1	1.6
Construction	5.6	3.5	7.1	11.8		10.0	5.9	6.5	8.5	4.6	4.9	7.7	8.6
Trade, hotels, & restaurants	6.6	9.3	7.5	9.6	9.0 to 11.0	9.5	5.3	9.3	7.0	12.3	13.2	16.1	16.2
Transport, storage, & communication	6.4	7.7	8.9	13.8		13.0	11.6		12.3	5.2	7.0	8.4	7.9
Finance, realty, & business services	10.0	7.0	8.0	9.9		13.2	10.1	9.7	10.5	10.9	12.0	14.7	16.2
Personal & community services	6.9	5.6	7.7	5.3		6.7	13.9	5.6	8.2	13.0	12.6	13.9	14.6
Aggregate GDP	5.7	6.5	5.5	7.8	9.0	9.0	6.7	7.4	8.1	100	100	100	100
						Memo							
Industry	6.6	7.3	4.3	9.4	10–11	9.5	3.9	9.3	8.2	26.0	26.8	28.0	28.2
Services	7.4	7.3	7.9	9.3	9–11	10.5	9.8	8.5	9.6	41.5	44.7	53.1	54.9

is directly or indirectly dependent. There was robust growth in 2007–08 of 4.7 per cent, but it dropped to 1.6 per cent in the subsequent year. In 2009–10, due to severe drought, the GDP arising in the farm sector has been estimated in the Advance Estimate to have expanded by 0.2 per cent. With this, the average for the last three years of the Eleventh Plan stands at 2.2 per cent per annum, considerably short of the desired target of 4.0 per cent average.

2.46 Industrial activity, especially manufacturing, had picked up strong momentum during the Tenth Plan. Manufacturing averaged 9.3 per cent growth in the Tenth Plan and the momentum continued into 2007–08, the first year of the Eleventh Plan (10.3 per cent). However, the global crisis caused industrial activity to stagnate in the second half of 2008–09, and in the first few months of 2009–10. Consequently, GDP growth in the manufacturing sector in 2008–09 was a mere 3.2 per cent. There has been significant improvement since June 2009 and the momentum that has built up in the second half of 2009–10 is expected to sustain and be reinforced through 2010–11 and 2011–12.

2.47 The Eleventh Plan document had expected GDP arising in the industrial sector to grow by 10 to 11 per cent. This would have been a mild acceleration from the average of 9.4 per cent during the Tenth Plan. In the first year of the Eleventh Plan, especially during the second half, there was a slight slump in industrial output growth. This was due to various factors, including a tighter monetary policy environment and high prices of raw materials and intermediates, followed by the global crisis in the second half of the year. The first half of 2008–09 saw an overall growth of 6.1 per cent which, however, collapsed to less than 2 per cent in the second half. In the second quarter of 2009–10, GDP arising in the industrial sector showed a strong recovery by growing by 8.3 per cent and averaging 6.7 per cent in the first half. Strong growth of over 14 per cent was recorded in the third quarter, which is expected to be repeated in the final quarter of 2009–10. The recovered momentum is expected to continue into the two remaining years of the Plan period. For the Eleventh Plan as a whole, the average annual growth of GDP arising in the industrial sector, as well as in the manufacturing component, is thus likely to be 8 per cent or slightly higher.

2.48 The GDP arising in the service sector has accelerated from 7.3 per cent in the Eighth Plan to 7.9 in the Ninth Plan and to 9.3 per cent in the Tenth Plan. In the Eleventh Plan document, the expectation was that GDP arising in the services sector would grow at an average rate of 9 to 11 per cent per annum. In the first year of the Plan, growth was 10.5 per cent and in the second 9.8 per cent. The latter was to a certain extent an outcome of the higher pay (including arrears) for government employees and pensioners, which also pushed up service sector growth in the first half of 2009–10. Overall, for the Eleventh Plan period, GDP arising in the service sector is likely to average around 9.5 per cent. Within the services sector, trade and hotels and restaurants, which account for nearly 17 per cent of aggregate GDP, have shown sustained growth of 10 to 11 per cent over the past several years, while transport, storage, and communication, which accounts for nearly 8 per cent of the total GDP, has grown far more rapidly by 12–15 per cent in the Tenth Plan, and 12–13 per cent in the first two years of the Eleventh Plan, due to the rapid growth of economic activities in these areas. Finance, real estate, and business services, which include the Information Technology business, have experienced a high growth in recent years and are expected to continue on a similar trajectory in the remaining years of the Eleventh Plan. Although there was a slump in growth in these sectors in 2008–09, particularly in the case of trade and hotels and restaurants, it has shown a recovery in 2009–10. These sectors of the economy are expected to expand at a rate of over 10 per cent in 2010–11, and pick up slightly in the subsequent year.

ECONOMIC GROWTH IN THE STATES

2.49 It is pertinent to note that while there continue to be differences in both the level and the rates of growth of incomes (Gross State Domestic Product or GSDP) in the states/Union, the data suggest that the benefits of growth have indeed reached all the constituent states of the Union, albeit in somewhat different measures.

2.50 Table 2.5 presents the average rates of growth in GSDP over the last four Plan periods as well as in the

TABLE 2.5
Economic Performance of the States in Growth Rate of Gross State Domestic Product

(per cent)

		Averages for Plan Periods				XI Plan		
		VII Plan	VIII Plan	IX Plan	X Plan	Expectation	Annual	
		1985–90	1992–97	1997–2002	2002–07	2007–12	2007–08	2008–09
		Growth over period in per cent per annum						
1	Andhra Pradesh	8.0	5.5	5.5	8.3	9.5	10.7	5.0
2	Assam	3.7	2.8	1.8	5.3	6.5	5.7	6.2
3	Bihar	3.3	3.7	3.7	8.7	7.6	8.8	16.6
4	Chhattisgarh	5.7*	2.9	3.3	9.3	8.6	11.7	6.8
5	Delhi	10.1	7.0	6.6	10.2	na	12.5	na
6	Goa	6.2	9.0	5.7	9.3	12.1	11.1	na
7	Gujarat	6.1	12.9	2.8	10.9	11.2	12.8	na
8	Haryana	8.0	5.2	6.1	9.5	11.0	9.5	7.9
9	Himachal Pradesh	8.8	6.5	6.3	7.7	9.5	8.6	7.4
10	Jammu & Kashmir	2.5	5.0	4.2	5.6	6.4	6.3	na
11	Jharkhand	3.3*	0.9	5.2	8.2	9.8	6.2	5.5
12	Karnataka	5.4	6.2	5.8	7.7	11.2	12.9	5.1
13	Kerala	4.8	6.5	5.2	8.9	9.5	9.8	7.0
14	Madhya Pradesh	5.7	6.5	4.5	4.4	6.7	5.2	na
15	Maharashtra	8.3	8.9	4.1	8.6	9.1	9.2	na
16	Orissa	7.5	2.3	5.1	9.5	8.8	11.2	6.6
17	Punjab	6.0	4.8	4.0	5.1	5.9	6.9	6.4
18	Rajasthan	7.9	8.0	5.3	7.5	7.4	9.1	6.6
19	Tamil Nadu	5.1	7.0	4.7	8.5	8.5	4.4	4.5
20	Uttar Pradesh	5.6	5.0	2.5	5.4	6.1	7.2	6.5
21	Uttarakhand	5.6*	5.0*	4.4	9.2	9.9	10.4	8.7
22	West Bengal	4.5	6.3	6.5	6.3	9.7	7.7	6.3
	Median	5.7	5.8	4.9	8.4	9.1	9.1	6.5
	Standard Deviation	2.0	2.6	1.3	1.8	1.8	2.5	2.8
	Quartile 1	4.9	4.8	4.0	6.6	7.4	6.9	5.8
	Quartile 3	7.8	6.9	5.6	9.3	9.8	11.0	6.9
		North-Eastern hill states and union territories						
1	Arunachal Pradesh	7.7	5.0	6.6	6.5	6.4	6.4	5.9
2	Manipur	4.7	3.7	4.7	5.7	5.9	6.8	7.1
3	Meghalaya	6.7	4.0	7.2	6.4	7.3	8.4	8.2
4	Mizoram	na	na	5.7	5.1	7.1	5.5	6.4
5	Nagaland	7.5	7.2	6.5	5.9	9.3	na	na
6	Sikkim	12.7	4.6	6.6	7.8	6.7	7.4	8.0
7	Tripura	7.8	6.7	9.4	6.4	6.9	4.1	na
8	Andaman & Nicobar	6.8	10.6	2.4	8.8	na	6.3	na
9	Chandigarh	na	11.4	8.5	11.5	na	11.5	10.4
10	Puducherry	4.4	8.6	12.9	9.3	na	24.8	10.8

Note: * In these periods, growth rate taken to be that for parent state before division.

first two years of the Eleventh Plan. It may be noted that the median growth (other than in the North-Eastern hill states and union territories) rate rose from 5.7 and 5.8 per cent in the Seventh and Eighth Plans respectively, to 8.4 per cent in the Tenth Plan, after having dropped to 4.9 per cent in the Ninth Plan. In the first year of the Eleventh Plan, the median growth rate rose further to 9.1 per cent, but fell to 6.5 per cent in 2008–09 because of the general slowdown. It is expected to remain roughly at these levels in 2009–10 before picking up in the two terminal years of the Eleventh Plan period.

2.51 The variability between rates of growth in the different states is captured by the statistical measure of standard deviation. This shows that the variability did not increase in absolute terms during the Ninth and the Tenth Plans. It was 2.0 per cent in the Seventh Plan and increased thereafter to 2.6 per cent during the Eighth Plan. However, in the Tenth Plan it was lower at 1.8 per cent, despite the median value of growth having risen to 8.4 per cent. In relative terms, 1.8 per cent standard deviation on a median base of 8.4 per cent growth is much smaller than 2.0 per cent on a median base of 5.7 per cent growth that was experienced during the Seventh Plan. It may be noted that the standard deviations for 2007–08 and 2008–09 are also not large.

2.52 All the states seemed to have moved up in respect of their growth rates and this is perhaps best illustrated by the value of the first quartile, that is, the bottom 25 per cent of the states ranked by descending order of growth rates. The value for the first quartile was 4.9 and 4.8 per cent respectively in the Seventh and the Eighth Plans, and had fallen to 4.0 per cent during the Ninth Plan. Thereafter, as the country's economy looked up in the Tenth Plan, the value for the first quartile shot up to 6.6 per cent, which was exceeded in 2007–08. The distance between the first and the third quartiles also did not increase in absolute terms. It was 2.9 percentage points in the Seventh Plan and 2.7 percentage points in the Tenth Plan. This actually means that in relative terms, since the growth rate has been rising, the relative distance has narrowed even more.

Farm Sector

2.53 Farm sector output is characterized by considerable year-on-year volatility because of variation in rainfall and other weather-related phenomena. The order of volatility that is observed at the national (all-India) level is greatly multiplied when this is examined at the level of individual states. It has been an established practice to use a moving three-year average to smoothen out some of this variation. The growth rates reported in Table 2.6 have been computed using three-year moving averages for GSDP arising in agriculture and allied activities. For purposes of comparison it is the all-India growth rate using three-year moving averages that has been reported in this table.

2.54 The median value of the growth rate in GSDP in the states arising in the farm sector dropped from 3.1 in the Seventh to 2.6 per cent in the Eighth Plan to 1.5 per cent in the Ninth Plan. There was some improvement in the Tenth Plan when this increased to 3.4 per cent. However, 2007–08 saw a slide-back to 2.4 per cent and the figure was even lower in 2008–09. It is interesting to note that the improvement in the median value (to 3.4 per cent) of state farm sector growth in the Tenth Plan was a striking improvement from the 1.5 per cent in the Ninth Plan and parallels a less pronounced improvement in the all-India growth rate of the farm sector from 2.3 in the Ninth Plan to 3.2 per cent in the Tenth Plan.

2.55 What seems to have happened is that the states of Gujarat, Chhattisgarh, Rajasthan, Madhya Pradesh, Orissa, Andhra Pradesh, and Maharashtra did particularly well during the Tenth Plan. In fact, as many as six states (excluding the North-Eastern states) registered average annual farm sector growth rates in excess of 5 per cent in the Tenth Plan, whereas in the Seventh Plan, where the overall growth performance was comparable, only three states had recorded over 5 per cent annual average growth. In the Tenth Plan period there were many out-performers, but there were several states that were also lagging. This is why we see that the standard deviation for the Tenth Plan period is higher than that in the Seventh Plan and the spread between the first and third quartiles is larger. In 2007–08 the more differentiated performance has continued. However, from the previous set of out-performers only Andhra Pradesh, Rajasthan, and Maharashtra continued to show high growth, while Bihar, Jharkhand, Haryana, Uttar Pradesh, and Punjab have shown significant improvement. The available data does not cover enough states in 2008–09 and even that is liable to revision thus not allowing many conclusions to be drawn for developments in that year.

TABLE 2.6
Economic Performance of the States in Agriculture and Allied Sectors Using Three-Year Moving Averages

(per cent)

		Averages for Plan Periods				XI Plan		
		VII Plan	VIII Plan	IX Plan	X Plan	Expectation	Annual	
		1985–90	1992–97	1997–2002	2002–07	2007–12	2007–08	2008–09
		Growth over period in per cent per annum						
1	Andhra Pradesh	3.6	2.6	3.8	5.9	4.0	6.7	3.8
2	Assam	1.9	1.4	–0.8	0.6	2.0	2.0	3.2
3	Bihar	1.6	–0.8	5.5	1.5	7.0	11.1	–3.1
4	Chhattisgarh	2.3*	2.0	–3.9	9.1	1.7	0.3	–0.8
5	Goa	3.4	1.6	–1.0	3.9	7.7	–9.3	na
6	Gujarat	2.6	6.7	–3.7	11.6	5.5	4.5	na
7	Haryana	5.4	2.2	1.7	3.6	5.3	5.9	2.5
8	Himachal Pradesh	3.8	1.0	4.0	3.6	3.0	1.5	2.9
9	Jammu & Kashmir	–0.7	4.6	3.3	3.4	4.3	1.5	na
10	Jharkhand	1.6*	–0.1	5.1	–0.6	6.3	4.6	2.0
11	Karnataka	2.5	3.9	0.6	1.4	5.4	2.2	2.8
12	Kerala	3.8	3.0	1.1	0.9	0.3	–2.5	–1.4
13	Madhya Pradesh	2.3	4.2	–2.3	5.8	4.4	0.0	na
14	Maharashtra	6.5	5.5	1.6	5.3	4.4	6.6	na
15	Orissa	0.8	2.4	–1.0	4.7	3.0	2.6	1.3
16	Punjab	4.5	2.6	2.2	2.5	2.4	3.4	3.7
17	Rajasthan	6.0	4.0	–1.5	6.8	3.5	6.6	–3.4
18	Tamil Nadu	2.6	2.7	1.1	3.2	4.7	0.8	–3.2
19	Uttar Pradesh	3.0	2.5	2.6	1.9	3.0	4.4	2.7
20	Uttarakhand	3.0*	2.1*	1.5	2.5	3.0	1.2	–0.1
21	West Bengal	4.3	6.2	2.4	2.6	4.0	2.4	1.5
	All-India total	3.0	3.3	2.3	3.0	4.0	3.3	2.0
	Median	3.1	2.6	1.5	3.4	4.0	2.4	1.5
	Standard Deviation	1.7	1.9	2.7	2.9	1.9	4.1	2.8
	Quartile 1	2.3	2.1	–1.0	1.9	3.0	1.2	–0.8
	Quartile 3	3.8	4.0	2.6	5.3	5.3	4.6	2.9
		North-Eastern hill states						
1	Arunachal Pradesh	7.5	2.5	1.5	2.4	2.8	7.3	4.0
2	Manipur	1.4	1.9	3.2	2.8	1.2	1.5	2.3
3	Meghalaya	0.8	3.3	6.1	4.2	4.7	4.8	3.9
4	Mizoram	na	na	–1.9	2.1	1.6	2.4	1.8
5	Nagaland	3.6	4.0	15.0	6.3	8.1	na	na
6	Sikkim	11.1	2.3	–1.5	5.1	3.3	3.1	2.3
7	Tripura	5.1	2.1	3.7	4.9	1.4	1.1	na

Note: * In these periods, growth rate taken to be that for parent state before division.

Industrial and Service Sectors

2.56 The industrial sector in the states has, of course, like the national total, grown at a rate faster than the overall GDP (see Table 2.7). The median value was 8.3 per cent in the Seventh Plan and fell thereafter to 6.8 per cent and 4.9 per cent in the Eight and the Ninth Plans respectively, before accelerating to 10.4 per cent in the Tenth Plan and 9.6 per cent in 2007–08. Figures for 2008–09 were depressed in line with the development at the national level. The deceleration of median industrial growth in this period was accompanied by a significant widening

TABLE 2.7
Economic Performance of the States in the Industrial Sector

(per cent)

		Averages for Plan Periods				XI Plan		
		VII Plan	VIII Plan	IX Plan	X Plan	Expectation	Annual	
		1985–90	1992–97	1997–2002	2002–07	2007–12	2007–08	2008–09
		Growth over period in per cent per annum						
1	Andhra Pradesh	8.1	6.6	4.9	11.5	12.0	10.4	0.2
2	Assam	3.1	3.2	1.9	7.9	8.0	3.4	3.8
3	Bihar	6.0	–0.6	10.6	17.7	8.0	17.0	19.6
4	Chhattisgarh	10.2*	2.5	4.3	14.7	12.0	13.5	10.7
5	Delhi	9.6	3.6	5.0	10.9	na	4.6	na
6	Goa	6.3	7.8	12.3	9.0	15.7	8.8	na
7	Gujarat	7.6	15.6	1.8	13.1	14.0	10.7	na
8	Haryana	10.8	6.0	6.7	10.4	14.0	9.5	5.4
9	Himachal Pradesh	11.8	14.2	5.6	10.2	14.5	9.1	12.5
10	Jammu & Kashmir	4.6	1.9	3.0	8.4	9.8	11.3	na
11	Jharkhand	6.0*	–0.3	3.2	13.5	12.0	4.4	4.4
12	Karnataka	7.7	6.0	7.8	11.1	12.5	13.1	5.0
13	Kerala	6.0	8.4	4.3	12.5	9.0	11.2	10.3
14	Madhya Pradesh	10.2	9.0	8.2	5.5	8.0	6.9	na
15	Maharashtra	8.6	8.0	1.0	8.6	8.0	8.0	na
16	Orissa	9.4	3.4	4.2	16.1	12.0	20.0	0.7
17	Punjab	8.7	7.1	4.8	7.8	8.0	9.8	8.0
18	Rajasthan	8.5	9.2	8.1	10.0	8.0	7.8	2.8
19	Tamil Nadu	4.2	8.4	2.0	10.5	8.0	2.2	1.0
20	Uttar Pradesh	8.6	7.7	0.8	9.7	8.0	9.2	6.2
21	Uttarakhand	8.6*	7.9	5.7	15.9	12.0	13.4	14.1
22	West Bengal	3.9	5.3	6.6	8.7	11.0	10.4	7.2
	Median	8.3	6.8	4.9	10.4	11.0	9.6	5.8
	Standard Deviation	2.4	4.0	3.0	3.1	2.6	4.2	5.3
	Quartile 1	6.0	3.4	3.0	8.8	8.0	7.9	3.6
	Quartile 3	9.2	8.3	6.8	12.9	12.0	11.3	10.4
		North-Eastern hill states						
1	Arunachal Pradesh	7.0	10.0	16.2	12.1	8.0	4.3	3.0
2	Manipur	6.6	2.7	6.5	14.1	8.0	9.8	9.7
3	Meghalaya	6.1	4.3	10.4	8.8	8.0	15.8	11.0
4	Mizoram	na	na	9.6	8.6	8.0	7.1	11.2
5	Nagaland	19.8	21.5	0.0	9.7	8.0	na	na
6	Sikkim	22.8	7.5	12.4	10.2	8.0	9.8	10.6
7	Tripura	9.5	9.2	24.2	6.7	8.0	3.0	na

Note: * In these periods, growth rate taken to be that for parent state before division.

in the performance as reflected by the rising value of the standard deviation from 2.4 per cent in the Seventh Plan to 4.0 and 3.0 per cent in the Eighth and Ninth Plans respectively. However, in the Tenth Plan period, which saw a massive elevation in the median and all-India growth rates, there was also a fall in the standard deviation to 3.1 per cent, thereby indicating a broad-based revival of industrial activity.

2.57 The median growth in the service sector also saw a decline from 7.7 to 5.8 per cent between the Seventh and Eighth Plan periods, before recovering somewhat to 6.9 per cent in the Ninth Plan period (see Table 2.8).

TABLE 2.8
Economic Performance of the States in the Services Sector

(per cent)

		Averages for Plan Periods				XI Plan		
		VII Plan	VIII Plan	IX Plan	X Plan	Expectation	Annual	
		1985–90	1992–97	1997–2002	2002–07	2007–12	2007–08	2008–09
		Growth over period in per cent per annum						
1	Andhra Pradesh	11.1	5.8	7.5	8.9	10.4	8.0	9.6
2	Assam	4.5	4.4	3.9	7.3	8.0	9.1	6.9
3	Bihar	5.7	4.9	6.9	7.3	8.0	15.0	16.6
4	Chhattisgarh	6.8*	5.6	5.9	6.8	8.0	11.9	11.6
5	Delhi	10.2	5.8	7.1	10.2	na	14.4	na
6	Goa	7.4	11.5	2.8	10.5	9.0	17.0	na
7	Gujarat	8.2	9.0	7.8	10.1	10.5	13.3	na
8	Haryana	9.5	6.7	10.6	11.8	12.0	13.5	11.2
9	Himachal Pradesh	9.3	5.1	8.4	8.7	7.5	5.9	7.6
10	Jammu & Kashmir	4.6	6.0	5.6	5.7	6.4	6.3	na
11	Jharkhand	5.7*	1.5	6.9	7.9	8.0	9.6	7.7
12	Karnataka	7.8	8.5	8.7	9.0	12.0	11.9	8.7
13	Kerala	5.7	7.9	7.9	10.0	11.0	12.6	7.0
14	Madhya Pradesh	6.8	5.3	5.0	4.2	7.0	8.2	na
15	Maharashtra	8.2	8.5	7.6	9.5	10.2	9.5	na
16	Orissa	8.2	5.1	6.7	10.1	9.6	8.9	13.6
17	Punjab	5.2	5.7	6.3	6.0	7.4	7.4	7.6
18	Rajasthan	11.3	7.7	6.3	7.7	8.9	12.0	10.4
19	Tamil Nadu	8.2	8.7	7.2	8.9	9.4	8.2	7.6
20	Uttar Pradesh	7.7	5.1	4.1	5.5	7.1	8.0	7.9
21	Uttarakhand	7.7*	5.8	6.4	8.2	11.0	10.2	8.3
22	West Bengal	4.2	8.0	8.6	7.8	11.0	9.3	9.0
	Median	7.7	5.8	6.9	8.5	9.0	9.5	8.5
	Standard Deviation	2.0	2.1	1.8	1.9	1.7	3.0	2.7
	Quartile 1	5.7	5.2	6.0	7.3	8.0	8.2	7.6
	Quartile 3	8.2	8.0	7.8	9.8	10.5	12.5	10.6
		North-Eastern hill states						
1	Arunachal Pradesh	8.7	5.3	9.4	6.3	7.2	7.5	10.1
2	Manipur	7.1	5.4	4.6	3.3	7.0	6.6	7.0
3	Meghalaya	9.9	4.5	6.8	6.2	7.9	6.3	6.5
4	Mizoram	na	na	7.9	5.0	8.0	5.7	5.9
5	Nagaland	5.9	4.8	4.6	4.5	10.0	na	na
6	Sikkim	14.8	6.4	9.7	7.7	7.2	7.7	8.0
7	Tripura	11.2	8.7	7.9	7.7	8.0	6.2	na

Note: * In these periods, growth rate taken to be that for parent state before division.

The Tenth Plan period saw a significant acceleration of the median value to 8.5 per cent that was sustained in the first two years of the Eleventh Plan. The variance across states as measured by the standard deviation was more stable than in the case of the industrial sector at around 2 per cent across these Plan periods.

2.58 It is noteworthy that the growth rate of both the industrial and service sectors for the first quartile of states (bottom 25 per cent) has shown a dramatic improvement from the Eighth and Ninth Plans to the Tenth Plan. Thus, for the industrial sector the growth rate of the first quartile improved from 3.4 and 3.0

per cent in the Eighth and Ninth Plans to 8.8 per cent in the Tenth Plan, and 7.9 per cent in 2007–08. The improvement in the service sector was significant if not so pronounced, increasing from 5.2 and 6.0 per cent in the Eighth and Ninth Plan periods to 7.3 per cent in the Tenth Plan period, and 8.2 per cent in 2007–08. It may also be pointed out that many states, which generally had not been strong performers in previous Plan periods did well in the Tenth Plan, besides performing strongly in the early years of the Eleventh Plan period for which data is available. Of particular note in this category of strongly performing states in the Eleventh Plan are Bihar, Jharkhand, Orissa, Chhattisgarh, Gujarat, Tamil Nadu, Himachal, Haryana, Kerala, Uttarakhand, and Uttar Pradesh. Several of these states have also been the ones to record strong improvement in farm sector GDP as well.

2.59 The North-Eastern hill states for the most part show sustained growth rates for aggregate GSDP in excess of 6 per cent, but no significant acceleration. In the farm sector, strong growth has been recorded in some of these states, such as Meghalaya, Arunachal Pradesh, and Sikkim. In the industrial sector, signs of a strong pickup in the Tenth and Eleventh Plans are evident in almost all of these states. Growth in the service sector has also been strong.

FINANCING THE ELEVENTH PLAN

2.60 The Eleventh Plan had estimated the total resources available for financing the Plan at Rs 36.4 lakh crore (at 2006–07 prices) from the Centre and states together. This translated to a figure of 13.5 per cent of expected GDP over the five-year period. In the first three years of the Eleventh Plan, for the Centre and the states combined, it is estimated that the total available financial resources for the Eleventh Plan was Rs 17.9 lakh crore (at 2006–07 prices), amounting to 12.0 per cent of GDP. It is not feasible to expect that the entirety of the balance 50.8 per cent of the originally estimated total Plan resources would be available in the remaining two years of the Eleventh Plan.

2.61 The Eleventh Plan had visualized a 4.1 percentage point of GDP increase in Plan resources from the level of 9.5 per cent in the Tenth Plan to 13.5 per cent in the Eleventh Plan. Of this, the Centre's resources were expected to increase by 2.6 percentage points of GDP while that of the states was expected to go up by 1.5 percentage points. This was a significant increase between the two Plan periods and was felt necessary to support inclusive growth at the elevated rate of 9 per cent per annum.

2.62 It is, however, to be noted that the increase in total Plan resources amounting to 4.1 percentage points of GDP was to be more than financed out of a higher Balance from Current Revenues (BCR), which was expected to increase by 4.7 percentage points of GDP in the Eleventh Plan compared to the Tenth Plan. It needs to be noted that the Tenth Plan had a negative BCR amounting to 1 per cent of GDP. This was visualized to improve to 3.7 per cent of GDP in the Eleventh Plan. Of the total increase of 4.7 percentage points of GDP flowing out of BCR, 3.1 percentage points was expected from the Centre while 1.6 percentage points was expected from the states.

2.63 In other words, the objective was not only to raise the rate of economic growth in an inclusive fashion and do so by increasing the size of the Plan with respect to GDP, but also to do so in a fashion that did not depend on the issuance of more government debt and in fact was consistent with a reduction in the extent of deficit financing to fund expenditure, including Plan expenditure.

2.64 However, slippages on the revenue account of both the Centre and the states began to surface from the second year of the Eleventh Plan, that is, 2008–09. Thus, as against the Eleventh Plan estimate of the Centre's BCR at 2.3 per cent of GDP, the figure for 2007–08 at 1.7 per cent of GDP was fairly close to target. However, in 2008–09 it slipped to (–) 1.1 per cent, and to (–) 1.8 per cent of GDP in 2009–10 (RE), on account of higher subsidy outgo, expenditures related to the Sixth Pay Commission and the large fiscal stimulus injected in the second half of 2008–09 in response to the global crisis. The position is expected to improve somewhat to (–) 0.3 per cent of GDP in 2010–11 (BE), but even with further improvement in the BCR in 2011–12 it is quite clear that the availability of resources for financing the Plan flowing out of the

BCR is going to be much less than what was originally envisaged.

2.65 A somewhat similar situation obtains in the case of the states. As against an estimated BCR of 1.4 per cent of GDP in the Eleventh Plan, while the actual for 2007–08 and 2008–09 was above the target, that for 2009–10 (LE) showed a slippage to 0.4 per cent. Here too, it is likely that there would be an improvement in the circumstances for the remaining two years of the Eleventh Plan but the overall position is going to be weaker than what was originally envisaged.

2.66 If the resources flowing from BCR, that is the primary source of non-debt funds available to the government, has fallen so sharply, it follows that the ability to persist with Plan expenditures has been restricted from the financing side. This is notwithstanding the higher borrowings. Borrowings of the Centre were projected at 2.9 per cent of GDP in the Eleventh Plan. In 2008–09, 2009–10 (RE), and 2010–11 (BE) the Centre's borrowings (including net MCR) were at 6.0, 6.9, and 5.7 per cent of GDP respectively.

2.67 While the pressure from a weaker BCR, both at the Centre and in the states, has reduced the pool of resources for financing the Eleventh Plan, central assistance to the states has risen by a greater amount than what was originally projected. During the first four years (including 2010–11 BE) of the Eleventh Plan, the amount of Central Plan Assistance provided to the states and union territories (UTs) aggregated to 85 per cent of the Plan projections at 2006–07 prices as against the Gross Budgetary Support (GBS) available for the Central Plan which was 67 per cent of the targeted amount.

2.68 Resources from Public Sector Enterprises (Centre) including IEBR amounted to 72 per cent of the targeted amount during the first four years.

2.69 Table 2.9 shows the projected and actual resources position of the Centre as a proportion of GDP. A sharp contraction in the availability from BCR may be observed. The table shows the average for the first four years of the Eleventh Plan as well as the projected value including the remaining one year

TABLE 2.9
Eleventh Plan Projection and Realization of Resources of the Centre

(per cent of GDP)

	Sources of Funding	Eleventh Plan Projection (2007–12)	Realized					MTA Projection	
			2007–08 (Actual)	2008–09 (Actual)	2009–10 (RE)	2010–11 (BE)	Average 2007–11	MTA projection 2007–12 (Average)	Difference (8–2)
	1	2	3	4	5	6	7	8	9
1	Balance from current revenues	2.31	1.69	–1.07	–1.82	–0.31	–0.38	–0.17	–2.48
2	Borrowings incl. net Miscellaneous Capital Receipts (MCR)	2.86	2.46	6.01	6.94	5.69	5.27	5.22	2.36
	(a) Borrowings	—	2.57	6.05	6.68	5.46	5.19	5.10	—
	(b) MCR (net)	—	–0.11	–0.04	0.26	0.23	0.08	0.11	—
3	Gross Budgetary Support to Plan (1+2)	5.17	4.14	4.94	5.11	5.38	4.89	5.04	–0.13
4	Central assistance to states and UTs	1.20	1.25	1.38	1.40	1.33	1.34	1.33	0.13
5	Gross Budgetary Support for Central Plan (3–4)	3.97	2.90	3.55	3.72	4.05	3.55	3.71	–0.26
6	Resources of public sector enterprises	4.02	2.92	3.73	3.73	4.32	3.67	3.93	–0.09
7	Resources for Central Plan (5+6)	7.99	5.82	7.28	7.44	8.36	7.23	7.64	–0.35

of the Plan. It may be noted that the decline in GBS, as well as in other heads (central assistance is higher), is much smaller than the difference in the absolute value of the estimated and projected Plan size. This is because GDP growth slipped in 2008–09 and 2009–10 due to the crisis and to that extent the denominator term has also fallen short of what was originally expected for the Eleventh Plan.

2.70 It is pertinent to note that the borrowings of the Centre are not only much higher than originally projected in the first four years of the Eleventh Plan but that the projected value for the entirety of the Plan period will also be much higher. In other words, the objective of funding a larger Plan size through the generation of non-borrowed resources will not materialize. Some of the shortfall in non-borrowed resources has been offset by larger than envisaged borrowings in order to maintain GBS at a level that was higher than could have been supported from the realized BCR, supplemented by disinvestment proceeds.

2.71 Table 2.10 shows the principal financial numbers for the Eleventh Plan as originally projected and as realized in the first four years of the Plan besides estimates for the balance one year, computed at constant (2006–07) prices. In this framework, the order of shortfall in resource generation is significantly larger than when it is viewed as a proportion of the size of the economy. The estimates that have been made here suggest that the GBS for the Central Plan

TABLE 2.10
Realized Financing Pattern of the Plan Outlay of the Centre (including UTs)

(Rs crore at 2006–07 prices)

	Eleventh	Realized						MTA Projection	
	Plan Projection (2007–12)	2007–08 (Actual)	2008–09 (Actual)	2009–10 (RE)	2010–11 (BE)	Realized 2007–11	Realization (2007–11)	MTA projection 2007–12	MTA projection to XI Plan target
1	2	3	4	5	6	7	8	9	10
Balance from current revenues	6,53,989	79,300	−52,859	−96,173	−17,416	−87,148	−13.3%	−47,893	−7.3%
Borrowings including net Miscellaneous Capital Receipts (MCR)	7,67,722	1,15,372	2,96,626	3,65,669	3,21,243	10,98,910	143.1%	14,02,974	182.8%
(a) Borrowings	—	1,20,743	2,98,700	3,52,060	3,08,172	10,79,675	140.6%	13,59,131	—
(b) MCR (net)	—	−5,371	−2,074	13,609	13,071	19,235	2.5%	43,843	—
Gross Budgetary Support to Plan (1+2)	14,21,711	1,94,672	2,43,767	2,69,496	3,03,827	10,11,762	71.2%	13,55,081	95.3%
Central assistance to states and UTs	3,24,851	58,487	68,263	73,547	75,321	2,75,617	84.8%	3,53,434	108.8%
Gross Budgetary Support for Central Plan (3-4)	10,96,860	1,36,185	1,75,504	1,95,950	2,28,506	7,36,145	67.1%	10,01,648	91.3%
Resources of Public Sector Enterprises	10,59,711	1,36,970	1,83,949	1,96,427	2,43,884	7,61,230	71.8%	10,63,646	100.4%
Resources for Central Plan (5+6)	21,56,571	2,73,155	3,59,453	3,92,377	4,72,390	14,97,375	69.4%	20,65,294	95.8%

for the duration of the Eleventh Plan at 2006–07 prices may not exceed 92 per cent of what was originally envisaged. This is despite an 83 per cent increase in borrowing, which has partially compensated for the nearly 107 per cent shortfall in the BCR at the Centre's level.

2.72 The position of state resources projected and actual, expressed as a proportion of GDP is given in Table 2.11. The states resources have also been compressed, but by a smaller amount. Thus, the resources available from BCR, which were projected at 1.4 per cent of GDP for the Eleventh Plan were actually significantly larger in 2007–08 and 2008–09, before sliding in 2009–10. The average for the three-year period 2007–2010 is estimated at 1.3 per cent of GDP, which is slightly less than what was projected. The resources from PSEs are estimated to be somewhat lower, while central assistance will actually be at the projected level. Borrowings by state governments in 2007–08 and 2008–09 were slightly lower than that projected, but higher in 2009–10. However, for the first three years as a whole, borrowings by state governments is likely to be around 2.2 per cent of GDP, which is lower than the 2.4 per cent projected in the Eleventh Plan.

2.73 The states' resource position in absolute terms expressed at constant (2006–07 prices) is given in Table 2.12.

2.74 Thus, for the first three years of the Plan, the aggregate resources available for states and union territories amounted to 5.1 per cent of the GDP as against the projected figure of 5.6 per cent. However, in financial terms, and at constant prices, the sum of aggregate Plan resources available to the states in the first three years of the Plan stood at 51 per cent of the Eleventh Plan total. Even on an optimistic basis it is unlikely that the aggregate for the entire Eleventh Plan period including 2010–11 and 2011–12 will be equal to the initial Plan projection of Rs 14.9 lakh crore. However, it needs to be recognized that the extent of the shortfall at the level of the states would be somewhat less than the shortfall that is likely to accrue at the Centre.

2.75 The principal reason for the differential movement in financial resources, available at the Centre and in the states, flows from several factors. First, the burden of the stimulus extended to insulate the economy from the global crisis was borne largely by the Centre and thus was felt on the Centre's finances. Second, the large increase, above the anticipated subsidies, particularly in fertilizer, fuel, as well as food subsidies, was also borne by the finances of the Centre. Third, the Centre's revenue streams were more variable depending more on underlying economic conditions and to that extent it took a larger hit because of the deterioration in these economic conditions on account of the global crisis.

THIRTEENTH FINANCE COMMISSION

2.76 The Thirteenth Finance Commission has submitted its report for April 2010 to March 2015. The principal recommendations of the Commission have been accepted by the government and some that relate to those initiatives that are yet to begin have been accepted in principle. The broad recommendations are as follows.

i. An increase in the share of net proceeds of central taxes to be assigned to the states to 32 per cent from the previous figure of 30.5 per cent that had been recommended by the Twelfth Finance Commission. In addition, the Thirteenth Finance Commission has indicated a ceiling for total transfers from the Centre to the states on account of tax share and revenue grants, which has been placed at 39.5 per cent of net proceeds from central taxes.
ii. Substantial grants-in-aid to the states amounting to Rs 3,18,581 crore. Of particular note is the grant for local bodies, aggregating Rs 87,519 crore. The post-devolution Non-Plan Revenue Deficits (NPRD) of eight special category states have been assessed to be Rs 51,800 crore and the grant accordingly provided. Grants have been provided for elementary education to finance the additional requirement of 15 per cent for the Sarva Siksha Abhiyan in line with the proposed increase in the share of the states from 35 per cent to 50 per cent by the terminal year of the Eleventh Plan.

iii. A combined debt target for the Centre and the states of 68 per cent of GDP to be achieved by 2014–15. It has worked out a roadmap of fiscal and revenue deficit for the award period. For the Centre, it has recommended that the revenue deficit should be eliminated and the fiscal deficit should be brought down to 3 per cent of GDP by 2013–14. For the states, the fiscal roadmap for each state has been separately worked out on the basis of current deficit and debt levels. States are required to eliminate revenue deficit and achieve a fiscal deficit of not more than 3 per cent of their respective GSDP in stages, such that all states achieve this target by 2014–15. The Thirteenth Finance Commission has recommended that the Centre should fix the borrowing limits of states within these targets.

iv. Recommendations on debt relief relate to interest re-sets on loans taken from the National Small Savings Fund (NSSF) subject to conditions relating

TABLE 2.11
Eleventh Plan Projection and Realization of Resources of the States and UTs

(per cent to GDP)

S. No.	Sources of Funding	Eleventh Plan Projection (2007–12)	Realized			
			2007–08 Actual	2008–09 P	2009–10 LE	Average (2007–10)
1	Balance from current revenues (BCR) including Miscellaneous Capital Receipts (MCR)	1.41	2.02	1.57	0.42	1.34
	(i) BCR	—	1.89	1.50	0.30	1.23
	(ii) MCR	—	0.13	0.06	0.12	0.11
2	Resources of PSEs*	0.49	0.35	0.24	0.56	0.38
3	Borrowings	2.45	1.47	2.24	2.87	2.19
4	State's own resources (1+2+3)	4.35	3.84	4.05	3.85	3.91
5	Central assistance (grant)	1.20	1.06	1.17	1.36	1.20
6	Aggregate Plan resources (4+5)	5.55	4.89	5.22	5.21	5.11

Note: * Includes resources of local bodies. P—Provisional Actual, LE—Latest Estimates.

TABLE 2.12
Realized Financing Pattern of the Plan Outlay of the States

(Rs crore at 2006–07 prices)

S. No	Sources of Funding	Eleventh Plan Projection (2007–12)	Realized				
			2007–08 actual	2008–09 P	2009–10 LE	Realization (2007–10)	Realization (2007–2010) relative to XI Plan target
1	Balance from Current Revenues (BCR) including Miscellaneous Capital Receipts (MCR)	3,85,050	94,901	77,381	22,335	1,94,617	50.54%
	(i) BCR	—	88,699	74,210	15,996	1,78,905	—
	(ii) MCR	—	6,202	3,171	6,338	15,712	—
2	Resources of PSEs*	1,28,824	16,435	11,863	29,412	57,709	44.80%
3	Borrowings	6,49,422	68,808	1,10,483	1,51,237	3,30,529	50.90%
4	State's own resources (1+2+3)	11,63,296	1,80,144	1,99,727	2,02,984	5,82,855	50.10%
5	Central assistance (grant)	3,24,851	49,611	57,858	71,609	1,79,077	55.13%
6	Aggregate Plan resources (4+5)	14,88,147	2,29,755	2,57,584	2,74,593	7,61,932	51.20%

Note: * Includes resources of local bodies. P—Provisional Actual; LE—Latest Estimates.

to Fiscal Responsibility and Budget Management (FRBM) Acts and targets. The estimated interest relief is Rs 13,517 crore. It has recommended the waiver of central loans to states that are not administered by the Ministry of Finance (MoF) and remain outstanding as of 2009–10 end. It has further recommended complete avoidance of any further central loans to the states under any CSS henceforth. The quantum of expected debt relief on this account is estimated at Rs 4,506 crore. It has also recommended continuing with debt consolidation on the lines that have been recommended by the Twelfth Finance Commission.

v. A model Goods and Services Tax (GST) structure has been recommended, which will help in the introduction of GST in 2011–12 as proposed.

2.77 The government has accepted most of the main recommendations. The recommendations on the GST fiscal roadmap and debt relief through interest reset on NSSF have also been accepted in principle.

2.78 The Thirteenth Finance Commission was also asked to consider the demands on the resources of the Centre, especially on account of the GBS to the central and state plans. After examining the issue, the Thirteenth Finance Commission has arrived at the conclusion that taking into account many practical difficulties it is preferable to continue with the present practice of arriving at GBS in a residual fashion. The Finance Commission has recommended that based on its assessments of revenue receipts, non-plan expenditure consistent with the fiscal consolidation path and targets, the resultant GBS is quite consistent with the estimates that were made by the Planning Commission independently and provided to the Finance Commission.

ACCOUNTING, MONITORING, AND AUDITING OF PLAN EXPENDITURE

2.79 The Eleventh Plan document had highlighted that the existing system of accounting for Plan schemes, both for the Centre and the states, did not adequately support informed planning, budgeting, effective monitoring, and decision-making regarding these schemes. The current accounting system does not distinguish between transfers to states, final expenditure, and advance payments against which accounts have to be rendered. The extant accounting framework is also not structured to generate state-wise and scheme-wise release of funds by the Central Government to the states and other recipients and also the actual utilization for the intended purpose.

2.80 Accordingly, a Plan scheme in the central sector, that is, Plan Accounting and Public Finance Management System (PAPFMS) was initiated in 2008–09. It is being implemented by the Controller General of Accounts (CGA). The objectives of this scheme include a reporting framework for actual plan expenditures, scheme-wise and state-wise, incorporation of special purpose vehicles (SPVs), and rationalization of transfer of funds for CSS.

2.81 In this project, the CGA plans to set up a Core Accounting System (CAS), which will be linked to the Core Banking System (CBS) that most banks have now rolled out. Under the CAS, sanctions will move down the line to the final implementing authority without any corresponding flow of funds. In parallel, the sanctions will also move down the CBS to the bank branch that will make the payment upon the authorization of the field level implementing agency.

2.82 In 2008–09, the CGA implemented as a pilot scheme, a mechanism of attaching a sanction ID to each sanction of Plan funds by the Central Government. CGA is in the process of preparing to fully roll out the scheme by which the ID sanction tags will enable requisite reporting.

2.83 The PAPFMS must be rolled out in a time-bound manner to cover all implementing agencies of central and state governments and their different agencies including SPVs. It will require a pro-active engagement of PAPFMS project authorities with office of the Comptroller and Auditor General (CAG), AG's of different states, finance/treasury departments of state governments, the Reserve Bank of India (RBI), and other banks.

2.84 It is also observed that auditing is weak with respect to many CSSs implemented through SPVs, such as autonomous bodies or societies in the absence of a prescribed format of accounts as well as a specific mandate for CAG in the guidelines prescribed for CSS. Besides, there are problems of quality and depth of audit of SPVs inherent in the present methodology of selecting chartered accountants through a bidding process.

2.85 There is a need to address these weaknesses by amending the scheme guidelines to incorporate format of accounts, a specific mandate for CAG, and the selection of chartered accountants for audit of SPVs from a panel recommended by CAG with pre-determined scale of audit fees.

RATIONALIZATION OF EXPENDITURE CLASSIFICATION AND SCOPE OF PUBLIC SECTOR PLAN

2.86 The Eleventh Plan document had brought out several deficiencies in the existing classification of expenditure, the treatment of investment of PSUs financed by IEBR under the Plan, and the role of SPVs/PPPs and other innovative methods of raising additional resources for investment. The Plan document suggested that a High Level Committee should be set up to look into the entire gamut of issues arising from the present classification of expenditure, suggest measures for efficient management of public expenditure, and define the Public Sector Plan.

2.87 Following this recommendation, a High Level Expert Committee has been constituted under the Chairmanship of Dr C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister, to look into these issues.