



ಕರ್ನಾಟಕ ಸರ್ಕಾರ

Government of Karnataka

GOVERNMENT OF KARNATAKA
FINANCE DEPARTMENT

Medium Term Fiscal Plan

2011 - 2015

(2011ನೆಯ ಇಸವಿ ಫೆಬ್ರವರಿ ತಿಂಗಳಲ್ಲಿ ವಿಧಾನಮಂಡಲದ ಮುಂದೆ ಮಂಡಿಸಿದಂತೆ)

(As Presented to the Legislature)

Statement of Compliance

- This **2011-15 Medium Term Fiscal Plan** is tabled before the Legislature in compliance with **Section 3** of the **Karnataka Fiscal Responsibility Act (2002)**.
 - **Section 3** of the Act requires the **MTFP** to include the following elements, all of which can be found in the document as shown below:
 1. The medium-term fiscal objectives of the Government (Chapters 1, 4, 5, 6 and 7).
 2. An evaluation of the performance of the prescribed fiscal indicators in the previous years (Chapter 2).
 3. A Statement of recent economic trends and prospects for growth and development (Chapter 3).
 4. The strategic priorities and key fiscal policies of the Government, and an evaluation of their consistency (Chapters 4 to 7).
 5. Four-year rolling targets (Chapter 7).
 6. An assessment of sustainability relating to the revenue deficit and the use of capital receipts for productive purposes.
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Chapter 1

Introduction

(a) Economic Outlook

1. This Medium Term Fiscal Plan 2011-15 is being presented anticipating continuation of high growth in the economy seen during 2010-11. The previous MTFP 2010-14 was presented in backdrop of the economic slowdown during 2008-09, and early sign of the economic revival in 2009-10. The recent World Economic Outlook projections¹ indicate that in the year 2011 economic growth in emerging and developing economies is expected to remain buoyant. The Indian economy in real terms, is projected to grow at 8.4 percent. The Prime Minister's Economic Advisory Council, in February 2011, has projected India's GDP to grow at 9 percent during 2011-2012². The professional forecaster's survey, quoted by Reserve Bank of India in its Third Quarter Review released in February 2011, indicates that India's GDP in 2011-12 will grow at 8.5 percent.
2. During the year 2010-11 the Indian economy, with a GDP of ₹ 4,879,272 Crore ³ had registered a GDP growth of 8.6 percent as compared to 8 percent in the previous year. Karnataka's GSDP is estimated to be ₹ 397938 Crore⁴ in 2010-11 (at Current prices). The GSDP, at constant prices, is estimated to have grown at 8.2 percent in 2010-11 as compared to 5.2 percent during the previous year. The 3 percent increase in the growth rate in one year indicates that the State's economy is regaining its high growth trajectory seen before the economic slowdown period.
3. The estimated growth during 2010-11 has been driven mainly by the growth in the Services sector and partly by a resurging Agriculture sector. The Services sector growth has increased from 3.7 percent in

¹ Projections are for Calendar year. <http://www.imf.org/external/pubs/ft/weo/2011/update/01/index.htm>

² http://eac.gov.in/reports/ecoout_1011.pdf

³ Advance Estimates at constant 2004-05 prices; released by CSO in February 2011

⁴ As per Economic Survey 2010-11 of Government of Karnataka released in February 2011

2009-10 to 9.7 percent in 2010-11. Favourable rainfall has helped in increased agricultural growth in Karnataka during the year with record production of 125 lakh tonnes of foodgrains and similiary high production in other crops. The sector has grown by 5.9 percent in 2010-11 as compared to 4.3 percent in 2009-10. During the year 2010-11, the share of Agriculture sector was about 17 percent and that of Industry and Service sectors were 28 percent and 55 percent respectively.

4. The MTFP 2011-14 was presented anticipating robust growth in the economy which had been severely affected by the global economic slowdown. The MTFP 2011-14 had assumed a real growth rate of 8 percent for the year 2010-11. In the advance estimate released by Department of Economics and Statistics the growth rate was 8.2 percent. As a result the pace of growth during the current year is stronger than what was anticipated at the beginning of the year.

5. In the Table-1 below, the annual growth rates between India's GDP and Karnataka's GSDP have been analysed. In the pre-economic slowdown period the State's GSDP grew at a rate higher than the national GDP. As evident from the data, the global economic slowdown affected Karnataka's economy more severely than the national economy. This was primarily on account of the State's economy being closely linked to the global economy through IT and mineral exports, and low growth in the agriculture sector. The IT industry contributes significantly to the consumer income and spending in the State. With the IT sector as a whole facing a slowdown the State's GDP growth was also muted during 2008-10. However, thereafter the consumer spending has improved significantly.

Table -1

Trends in Annual Growth Rates of India's GDP and Karnataka's GSDP during the last four years (2004-05 series)

	2006-07	2007-08	2008-09	2009-10 QE	2010-11 AE	2011-12 *
India's GDP	9.7	9.2	6.7	8	8.6	9
Karnataka's GSDP	10.1	12.9	3.7	5.2	8.2	8.5

QE: Quick Estimates AE: Advance Estimates

* Projections of GDP are from WEO January 2011, Forecaster's Survey quoted in RBI Macroeconomic policy review released in January 2011 and PM's Economic Advisory Council's estimates of February 2011.

6. Going forward, the indications are that the Indian economy will continue to have a broad based robust growth putting it back into a high growth trajectory, with Services sector continuing to lead the momentum of growth. However, the volatility in commodity prices, which started in the current year, is likely to continue in the short to medium term. Karnataka's economy is not immune to the change in global commodity prices, particularly of food and fuel, which can pose downside risks to growth. In 2011-12, the state economy is estimated to grow by 8.5 percent in line with the national economy.

(b) Fiscal Situation

7. The State Government has been on a Fiscal Consolidation path since passing of fiscal responsibility legislations like Karnataka Ceiling on Government Guarantee Act, 1999 and Karnataka Fiscal Responsibility Act, 2002 (KFRA). The State has consistently recorded a Revenue Surplus since 2004-05. It was only in the years 2008-09 and 2009-10, based on the advice of the Central Government, the Fiscal Deficit limit of 3 per cent was enhanced to 3.5 per cent of GSDP in 2008-09 and to 4 per cent of GSDP in 2009-10 to spur the public spending to tide over the economic slowdown. The Government of India had also allowed

the states to incur revenue deficit in those years. Despite the difficult times, the State managed to maintain Revenue Surplus situation during both the years thereby utilizing the increased borrowings entirely towards capital expenditure.

8. Following the Thirteenth Finance Commission recommendations for following a fiscal road map, the State Government has received a new set of ceilings related to Fiscal Deficit, Revenue Deficit and Outstanding Debt as percentage of GSDP for the years upto 2010-15. Steps are being taken to amend the KFRA in line with the said recommendations. The Central Government has made amendment to the KFRA law as a *condition- precedent* for release of state specific grants and debt relief measures in future. The States are expected to maintain the fiscal targets within the new ceilings which will come into effect after the amendments to KFRA.
9. Recently, the base year for GSDP estimates has been revised from 1999-00 to 2004-05 as per advice from Central Statistics Organization. This document uses the GSDP estimates based on the new series with 2004-05 as the base. For purpose of estimating fiscal deficit and outstanding debt to GSDP ratio, the estimates adopted by the Government of India for the State's Fiscal Consolidation Road Map (2010-15) have been adopted. It is noted that those estimates are lower than the latest estimates contained in the Economic Survey 2010-11 based on the CSO guidelines.
10. Table 2 below shows the Fiscal performance from 2004-05 onwards as per the new GSDP series.

Table 2
Fiscal Performance

Item	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 RE	2011-12 BE
GSDP Nominal	166306	195750	227831	270843	303058	335747	380872	434270
Fiscal Deficit	3600	3687	4688	5331	8732	10874	11700	12481
FD as % of GSDP	2.16%	1.88%	2.06%	1.97%	2.88%	3.24%	3.07%	2.87%
Revenue Deficit	-1638	-2311	-4152	-3776	-1631	-1490	-1593	-1279
RD as % of GSDP	-0.98%	-1.18%	-1.82%	-1.39%	-0.54%	-0.44%	-0.42%	-0.29%

(c) Key Challenges and the way forward

11. Use of borrowed funds for Capital formation: The State Government has since 2004-05 scrupulously adhered to the fiscal objectives and management principles and has succeeded in containing the growth in revenue expenditure. The State Government has also used the facility of additional borrowings during the years 2008-09 and 2009-10 to give a boost to economic activities in the State by creating economic infrastructure and civil works for social sector. However, from the year 2011-12 onwards, the limit on Fiscal Deficit will again be 3 percent of GSDP as originally enacted through KFRA. The reduction in the fiscal deficit limit from the permitted 4 percent in 2009-10 to 3 percent from 2011-12 onwards will constrain the state's ability to finance capital expenditure.

12. Difficulty in further increasing own tax revenue to GSDP ratio: The State Government has consistently recorded the highest own tax revenue to the GSDP ratio in the country. This was possible through better enforcement, institutional reforms and monitoring besides the use of Information Technology tools. Having already achieved a high tax

to GSDP ratio increase in Tax to GSDP ratio any further increase would be very difficult to be realised. Similarly, achieving a higher level of tax buoyancy would be difficult as in every successive year, the buoyancy would be calculated on a high base of GSDP. Sustaining the growth in taxes at the level comparable to the past will be a challenge mostly because the marginal increase in taxes from a high base will be lower. As a result, until the economy as a whole grows at an accelerated rate the tax collections will not see a quantum jump unlike in the past.

13. Limits on State's fiscal advantage from growing Services Sector: The Services sector's contribution to GSDP is not only highest but also it is growing at a faster rate (Table -5). Slow growing sectors like agriculture and manufacturing need more public investment and public policy support to accelerate growth. The Services sector which is growing faster than the rest is also contributing a larger share to GSDP. The fiscal advantage of growth of Services sector directly goes to Central Government and State benefits through devolution. In the absence of any effective fiscal tools it is a challenge to the State government to derive fiscal advantage of ever growing Services sector.

14. Increasing non-Tax revenue: The ratio of non-tax revenue to total receipts has been continuously declining over the years. Further, the State has one of the lowest non-tax revenues to the GSDP ratios in the country. However, during the last two years, the trend in non tax revenue collections is showing improvement. The State's own non tax revenue which was 0.72 percent of GSDP in 2009-10(BE) has gone up to 0.99 percent of GSDP in 2009-10 (Accounts). In absolute numbers, this translates into a increase from ₹ 2,130 crore in 2009-10 (BE) to ₹ 3,334 crore in 2009-10 Accounts. The non-tax revenues are further projected to increase to ₹ 3,519 in 2010-11 (RE). Apart from enforcement and monitoring of own tax efforts, special emphasis needs to be given for mobilizing non-tax revenues during the coming years. Improving the performance of the state entities, greater transparency, infusion of technology are some of the interventions required in this direction.

15. Enhancing efficiency of Expenditure: Priority will be given for expenditure in social sectors which will have a direct bearing on human development and economic infrastructure that will accelerate growth. Efforts shall be made to ensure full utilization of the assistance available under Centrally Sponsored and Central Plan Schemes. Inadequacies in social and economic infrastructure are constraints on growth. Social infrastructure relating to education, health, skill up-gradation and social security pensions as well as economic infrastructure relating to irrigation, roads, urban services, water harvesting need increasing allocations. In this task, increasing fiscal space by reducing unproductive expenditure and increasing efficiency of expenditure is the key challenge.
16. Matching outcomes with outlays: Ensuring the desired levels of outcome from ever increasing outlays in education and health sectors would be one of the key governance challenges. Karnataka continues to be behind neighbouring states in terms of Human Development Indices. While there is a need for focussed investment in these sectors, ensuring effective implementation machinery and monitoring the outcomes closely would pose a challenge. Similarly, growth in the productivity of the agriculture sector is very low. Thus, in implementing agriculture policy, the major challenge is in raising the productivity of important crops and also raising the output per worker.
17. Limits on increasing fiscal space with high committed expenditure: Committed expenditure on salaries, pensions, interest, subsidies, administrative expenditure, devolution to PRIs and ULBs, etc constitute about 88 percent of the total uncommitted revenue receipts during the year 2010-11(RE). Containing the committed expenditure in light of the ever expanding demand for social security needs vis-a-vis capital expenditure would be one of the key challenges. The composition of committed expenditure is analysed in greater detail in paras 92-99.

18. Gap in the 12th Plan resources requirements: For the 12th Plan period (2012-2017), assuming 8 percent real growth in state's revenue receipts, the Karnataka Vision 2020 seeks an investment of ₹ 6,99,850 crore (in 2006-07 prices) while the availability of public resources is projected to be ₹ 4,27,283 crore. The estimated gap is ₹ 2,72,567 crore leveraging private funds for public needs is a challenge. PPP model needs to be adopted in the policy framework for infrastructure investments. With the committed expenditure being very high, raising the resources to meet the goals set in Vision 2020 for 12th Plan period would be the biggest challenge during the current MTFP period.
19. Targeted Subsidies: In view of a very large increase in the number of beneficiaries under various subsidy schemes like Social Security Pensions and Bhagyalakshmi Scheme there is an urgent need to effectively target the subsidy given by the Government. The expenditure on subsidies is the highest growing expenditure and needs to be controlled before they reach unsustainable levels. The weeding out of ineligible and bogus beneficiaries under various subsidy schemes will be a major challenge for the State Government.
20. Unfunded liabilities in the Energy Sector: 35 percent of the total power consumed in the State is given free to the farmers for energising the IP sets below 10 HP. As per the truing up exercise the Karnataka Energy Regulatory Commission has arrived at an unfunded liability on the Government for the year 2007-08, 2008-09 and 2009-10 of ₹ 3467 crore. In addition, the financial position of the Power Utilities in the State needs attention due to minimal operating surpluses. To provide for the unfunded liabilities along with investment support in future years would be a major challenge for the Government.
21. As per 2009-10 accounts, the total expenditure was ₹ 60,655 crore which is 18.07 percent of GSDP. This expenditure was financed through State's own tax revenue which is 9.11 percent of GSDP, non tax revenue which is 0.99 percent of GSDP, devolution and grants from Central Government which is 4.54 percent of GSDP and fiscal deficit which was

3.24 percent of GSDP and non debt Capital Receipts which were 0.19 percent. This pattern of financing is expected to continue in the medium term except that the fiscal deficit will have to be contained at 3 percent and tax and non-tax receipts are expected to marginally improve to 10% and 1.5% of GSDP respectively. The State Government is committed to aligning its fiscal strategy to the fiscal path as indicated in the recommendations of the 13th Finance Commission.

Chapter 2

Evaluation of Fiscal Performance

22. The State Government has been consistently recording a revenue surplus since 2004-05 and the gross fiscal deficit has been contained within 3 per cent of GSDP. For the reasons stated earlier, for the years 2008-09 and 2009-10, the fiscal deficit limit was enhanced to 3.5 and 4 percent of GSDP respectively. Further, for the current year recognising the difficulties faced by the State Government in compressing the fiscal deficit by 1% (to 3% of GSDP) in one year itself, the Government of India has advised the State Government to comply with the fiscal responsibility norms over a two year period. As a result, for the current year 2010-11, the State Government has been advised to incur a fiscal deficit of upto 3.44% and from the next year onwards as per the KFRA at 3% of GSDP. Table 3 below shows the State's fiscal performance for previous year vis-a-vis targets set and the likely performance of the current year.

Table 3
Performance of Fiscal Indicators as in Budget Estimates
and as in Accounts for year 2009-10 and 2010-11

Percent of GSDP

Indicator	2009-10 BE	2009-10 Accounts	2010-11 BE	2010-11 RE
Fiscal Deficit	2.88	3.24	2.96	3.07
Revenue Surplus	0.39	0.48	0.15	0.42
Total Liabilities (Debt)	27.25	25.83	28.28	24.41
GSDP in ₹ Crore	294952	335747	328312	380872

Note : GSDP is at 2004-05 current prices. The GSDP figures for the year have been taken as communicated by Government to the Ministry of Finance, Government of India.

23. As highlighted in the Table above, there is a difference in the budgeted estimates of fiscal deficits for the years 2009-10 and 2010-11 as

compared with the actual deficit incurred in 2009-10 and 2010-11 (RE). This was because the advice from the Central Government to incur a deficit higher than the KFRA norms was not received at the time of preparation of budget during both the years. While the budget was prepared keeping in mind the 3% fiscal deficit norm, subsequently a higher fiscal deficit was incurred to accelerate capital investments.

24. The revenue surplus during both the years 2009-10 and 2010-11 has been higher than the budgeted estimates primarily on account of containment of the revenue expenditure within the budget ceiling in the year 2009-10 and higher revenue collections in the year 2010-11(RE). During the year 2010-11, the GSDP projection has been revised upwards from ₹ 3,28,312 crore at the time of budget estimates to ₹ 3,80,872 crore as per the revised estimates. Hence, the rate of growth of GSDP for 2010-11 which was projected at 11.3% is now revised to upwards of 13.4%.

25. The Table 4 shows the State's fiscal performance since 2007-08 in terms of various indicators comparing actual achievement targets set for each year. The performance is calculated on the latest available data of GSDP for years upto 2008-09, and the GSDP estimates approved by Government of India for years 2009-11.

Table - 4

									₹ Crore
Particulars	2007-08	2007-08	2008-09	2008-09	2009-10	2009-10	2010-11	2010-11	
	BE	A/c	BE	A/c	BE	A/c	BE	RE	
1	Revenue Receipts	40763	41150	47241	43293	48390	49156	53638	57783
	<i>of which</i>								
(i)	State Own Tax Revenues	26692	25986	31876	27647	32722	30579	36228	38048
(ii)	Non Tax Revenues	1857	3358	1932	3159	2130	3334	2820	3519
(iii)	Resources from the centre								
	<i>of which</i>								
	- Devolution	6300	6779	7983	7155	7645	7360	9060	9310
	- Grants	5914	5027	5450	5332	5893	7883	5530	6906
2	Revenue Expenditure	39137	37373	45714	41662	47239	47537	53138	56190
	<i>of which</i>								
(i)	Interest	4818	4506	5278	4532	5578	5213	6316	5542
(ii)	Salaries	8641	8410	11413	9927	11305	10296	12576	12139
(iii)	Pensions	3416	3241	3500	4113	4001	3408	4500	4297
(iv)	Subsidies(Food, Transport Housing,Industry & Others)	1756	3125	1706	1471	1703	1806	1723	1956
(v)	Power Subsidy	2151	2300	2411	1943	2402	2341	2826	3693
(vi)	Devolution to ULBs	1904	1926	2995	2374	2720	2474	2885	2685
(vii)	O & M								
	<i>of which</i>								
	- Major O&M (Roads, Buildings & Irrigation)	756	578	820	743	763	675	676	756
	- Other O&M (Edn,Health, RD,WS,Agr, Forest)	5881	5235	7850	6944	7805	8088	10635	9989
(viii)	Administrative Expenditure	708	692	815	748	828	892	908	1008
(ix)	Other Revenue Expenditure	9106	7360	8926	8867	10134	12344	10093	14125
3	Revenue Surplus	1626	3777	1527	1631	1151	1619	500	1593
4	Capital Receipt (Non Debt)	749	298	3070	238	1977	625	2903	330
5	Expenditure on Capital Formation	8680	9406	11627	10601	11621	13118	13111	13623
6	Fiscal Deficit	6305	5331	7030	8732	8493	10874	9708	11700
7	Outstanding Debt	59376	60143	67547	71550	77797	83482	89607	89713
8	Debt Services	6118	5757	7085	6309	7782	7521	8779	8005
9	Off Budget Borrowings	4449	3701	3343	3736	2589	3249	3249	3249
10	Guarantee Stock	10786	10786	8693	8693	7203	7203	8200	8200
11	Total Liabilities	63825	63844	70890	75286	80386	86731	92856	92962
12	GSDP at Current Prices(2004-05 Base)	213503	270843	244043	303058	294952	335747	328312	380872
13	Annual Inflation Rate	5.0	5.0	8.0	4.0	4.0	4.0	5.0	5.0
14	GSDP Annual Real Growth Rate	8.0	8.0	7.0	5.7	6.0	5.8	8.0	8.0

Table – 4 (Contd..)

		(AS PERCENTAGE OF GSDP)							
Particulars	2007-08	2007-08	2008-09	2008-09	2009-10	2009-10	2010-11	2010-11	
	BE	A/c	BE	A/c	BE	A/c	BE	RE	
1	Revenue Receipts	19.09	15.19	19.36	14.29	16.41	14.64	16.34	15.17
	<i>of which</i>								
(i)	State Own Tax Revenues	12.50	9.59	13.06	9.12	11.09	9.11	11.03	9.99
(ii)	Non Tax Revenues	0.87	1.24	0.79	1.04	0.72	0.99	0.86	0.92
(iii)	Resources from the centre								
	<i>of which</i>								
	- Devolution	2.95	2.50	3.27	2.36	2.59	2.19	2.76	2.44
	- Grants	2.77	1.86	2.23	1.76	2.00	2.35	1.68	1.81
2	Revenue Expenditure	18.33	13.80	18.73	13.75	16.02	14.16	16.19	14.75
	<i>of which</i>								
(i)	Interest	2.26	1.66	2.16	1.50	1.89	1.55	1.92	1.46
(ii)	Salaries	4.05	3.11	4.68	3.28	3.83	3.07	3.83	3.19
(iii)	Pensions	1.60	1.20	1.43	1.36	1.36	1.02	1.37	1.13
(iv)	Subsidies(Food, Transport Housing,Industry & Others)	0.82	1.15	0.70	0.49	0.58	0.54	0.52	0.51
(v)	Power Subsidy	1.01	0.85	0.99	0.64	0.81	0.70	0.86	0.97
(vi)	Devolution to ULBs	0.89	0.71	1.23	0.78	0.92	0.74	0.88	0.70
(vii)	O & M								
	<i>of which</i>								
	- Major O&M (Roads, Buildings & Irrigation)	0.35	0.21	0.34	0.25	0.26	0.20	0.21	0.20
	- Other O&M (Edn,Health, RD,WS,Agr, Forest)	2.75	1.93	3.22	2.29	2.65	2.41	3.24	2.62
(viii)	Administrative Expenditure	0.33	0.26	0.33	0.25	0.28	0.27	0.28	0.26
(ix)	Other Revenue Expenditure	4.27	2.72	3.66	2.93	3.44	3.68	3.07	3.71
3	Revenue Surplus	0.76	1.39	0.63	0.54	0.39	0.48	0.15	0.42
4	Capital Receipt (Non Debt)	0.35	0.11	1.26	0.08	0.67	0.19	0.88	0.09
5	Expenditure on Capital Formation	4.07	3.47	4.76	3.50	3.94	3.91	3.99	3.58
6	Fiscal Deficit	2.95	1.97	2.88	2.88	2.88	3.24	2.96	3.07
7	Outstanding Debt	27.81	22.21	27.68	23.61	26.38	24.86	27.29	23.55
8	Debt Services	2.87	2.13	2.90	2.08	2.64	2.24	2.67	2.10
9	Off Budget Borrowings	2.08	1.37	1.37	1.23	0.88	0.97	0.99	0.85
10	Guarantee Stock	5.05	3.98	3.56	2.87	2.44	2.15	2.50	2.15
11	Total Liabilities	29.89	23.57	29.05	24.84	27.25	25.83	28.28	24.41

26. The overall financial indicators of the Government have shown a steady improvement in the current year as compared to the year 2009-10. The economy has regained the growth momentum which has been adequately reflected in the buoyant tax revenues of the Government. During the year 2010-11, an ambitious target of 18.5% increase in the State's Own Tax Revenues was set. In spite of this steep target, the Government is expected to collect ₹ 1820 crore more than the amount budgeted, thereby reflecting an overall growth of 24% in State's Own Tax Revenues as compared to the previous year. This growth rate is significantly higher than GSDP growth rate even with the revised series, thereby the tax buoyancy during the current year has been greater than 1.
27. On account of upward revision of the targets of tax collection by the Central Government, the devolution in the current year is expected to be higher than the amount budgeted by ₹ 250 crore and overall growth in devolution over the previous year is expected to be approximately 26%. Further, growth in plan expenditure over 2009-10 is expected to be 17.44% which is higher than the rate of growth of non plan expenditure at 13.5%. As a result of the above, there is an improvement in the composition of the Government expenditure. The overall expenditure in 2010-11 (RE) is expected to be higher than the 2009-10 by ₹ 9313 crore, an increase of 14.8%.
28. As per the revised estimates of 2010-11, the Government is expected to achieve its State Plan target of ₹ 31,050 crore and the plan size for 2011-12 has been enhanced by 23% to ₹ 38,070 crore. With the State Government achieving its 2010-11 plan outlay, the overall plan achievement during the 11th Five Year Plan is expected to be around 105% of the originally estimated plan size in real terms. The State has been achieving a growth rate of 20% per annum in its State plan performance for the last three years. Presently, Karnataka has one of the highest per capita plan expenditure in the country. During 2011-12 it is expected to be ₹ 6345 crore.

29. The 13th Finance Commission has laid down a road map for reducing the debt to GSDP ratio for Karnataka to 25.2% by the year 2014-15. At the end of 2009-10, the debt to GSDP ratio was 25.8%. As a result, the State is ahead of the road map suggested by the 13th Finance Commission and is expected to meet the guidelines well before the scheduled time line. In addition, the guidelines of the 12th Finance Commission limiting the interest payments to revenue receipt ratio to 15% has also been adhered to by the State. As per the 2010-11 (RE), the ratio is expected to be 9.59%, which is well below the ceiling suggested by the Finance Commission.

Chapter 3

Macro Economic Outlook

a) Gross State Domestic Product

30. The latest GSDP estimates released by Department of Economics and Statistics (DES) indicate a nominal growth rate of 16 percent in 2010-11 over 2009-10. The sectoral composition given in the Table 4 below indicates that the Services sector contributed to 55 percent to GSDP while the Primary sector, which mainly consists of agriculture, contributed 18.5 percent. The remaining 26.5 percent has come from Secondary sector consisting of manufacturing, construction, etc. Trends shown in the Table 6 below indicate that the Services sector which was seeing decline in the growth rate during the last two years has picked up momentum in 2010-11 implying that the economy has weathered the economic crisis and the Central & State Government interventions to stimulate growth are yielding results. Similarly, contribution of the Agricultural sector has also shown an upward trend in the year. The trends in shift in the sectoral contribution are in the Table-5 below.

Table 5
Trends in Sectoral composition of GSDP (at current prices 2004-05 series)

Industry	₹. in crore						
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10 QE	2010-11 AE
Primary	33096	40586	42389	51465	54127	64797	73816
Secondary	48166	55366	69628	80317	84570	94846	105476
Tertiary	85118	99821	115838	139464	163450	183368	218647
Total GSDP	166380	195772	227854	271246	302146	343010	397938
Percentage share of different sectors							
Primary	19.9	20.7	18.6	19.0	17.9	18.9	18.5
Secondary	28.9	28.3	30.6	29.6	28.0	27.7	26.5
Tertiary	51.2	51.0	50.8	51.4	54.1	53.5	54.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

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

Table 6

Trends in Sectoral GSDP (constant prices)

₹. in crore

Industry	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10 Q.E	2010-11 A.E
Agriculture	31171	34287	33410	37383	37585	39206	41509
Industry	50091	54422	64013	70814	69321	75233	80411
Services	85118	96803	106756	122287	131993	136829	150037
Total	166380	185512	204179	230484	238899	251268	271956
Annual Growth rates (percent)							
Industry		2005-06 over 2004-05	2006-07 over 2005-06	2007-08 over 2006-07	2008-09 over 2007-08	2009-10 over 2008-09	2010-11 over 2009-10
Agriculture		10.0	-2.6	11.9	0.5	4.3	5.9
Industry		8.6	17.6	10.6	-2.1	8.5	6.9
Services		13.7	10.3	14.5	7.9	3.7	9.7
Total		11.5	10.1	12.9	3.7	5.2	8.2

b) GSDP growth

31. The Real GSDP growth rate has gone up to 8.2 percent in the year 2010-11 as compared to growth rate of 5.2 percent in the year 2009-10. Table 6 shows that the highest growth rate of 12.9 percent was registered in the year 2007-08 when the agriculture growth rate was 11.9 percent over that of the previous year. Though the Industry contribution is critical for growth, the key contribution to GSDP growth during the year 2010-11 had come from Services sector (9.7 percent) followed by Agriculture sector (5.9 percent).

32. The Services sector which registered a growth rate of 3.7 percent in 2009-10 has significantly improved to 9.7 percent in 2010-11, while the Agriculture sector growth rate has increased from 4.3 percent in 2009-10 to 5.9 percent during 2010-11. The Industry sector which registered a growth rate of 8.5 percent in 2009-10 has grown at a slower rate to 6.9 percent in 2010-11. However, considering the fact that during the year 2008-09, Industrial sector had recorded a negative growth, the growth in 2010-11 is very encouraging. Thus all the three sectors have shown a recovery which is a healthy sign and signifies wholistic growth. Accordingly, the State Government is prioritising its investments into

Agriculture sector and Services sector and modulating its policies to attract more investment in Industry sector.

33. Despite inflation pressures and some downside risks from global uncertainties, the growth momentum of national economy has picked up in 2010-11. Keeping in view the positive growth signals at national level as well as the inflationary concerns expressed by the Reserve Bank of India in its third quarter review released in January 2011, has projected nominal GSDP is projected to increase at rate of 16 percent for 2010-11. However, for MTFP projections the growth for 2010-11 is assumed at 14.02 percent as indicated in the report of the Thirteenth Finance Commission.

c) Inflationary trends

34. Inflation continues to be a major concern during the current year. The unacceptably high general inflation of 8% and food inflation of over 13% has severely affected the common man by depriving him of the benefits of growth by eroding the incomes significantly. Both the supply as well as demand side factors are contributing to inflation. Besides, the uncertain commodity prices at international level are adding to inflationary expectations. Slow supply response of non-cereal food items such as pulses, oil seeds, vegetables, eggs and meat are also impacting inflation.

35. During the year 2010-11, the food inflation has surged, particularly led by prices of onions, vegetables and unseasonal rains as well as supply chain problems. The Wholesale Price Index (WPI) inflation witnessed a moderation upto November 2010, but picked up thereafter. The demand on food continues to increase. The virtuous shift for increased demand for food can also be attributed to the structural changes taking place in the economy not only in the Service sector but also due to increased incomes in rural areas. The increased incomes add to pressure on prices of food as well as non-food items. Therefore, the demand side pressure on inflation would continue to pose a big challenge to the State Government in terms of ensuring per capita availability of food grains

through increased productivity and also managing its supply chains efficiently.

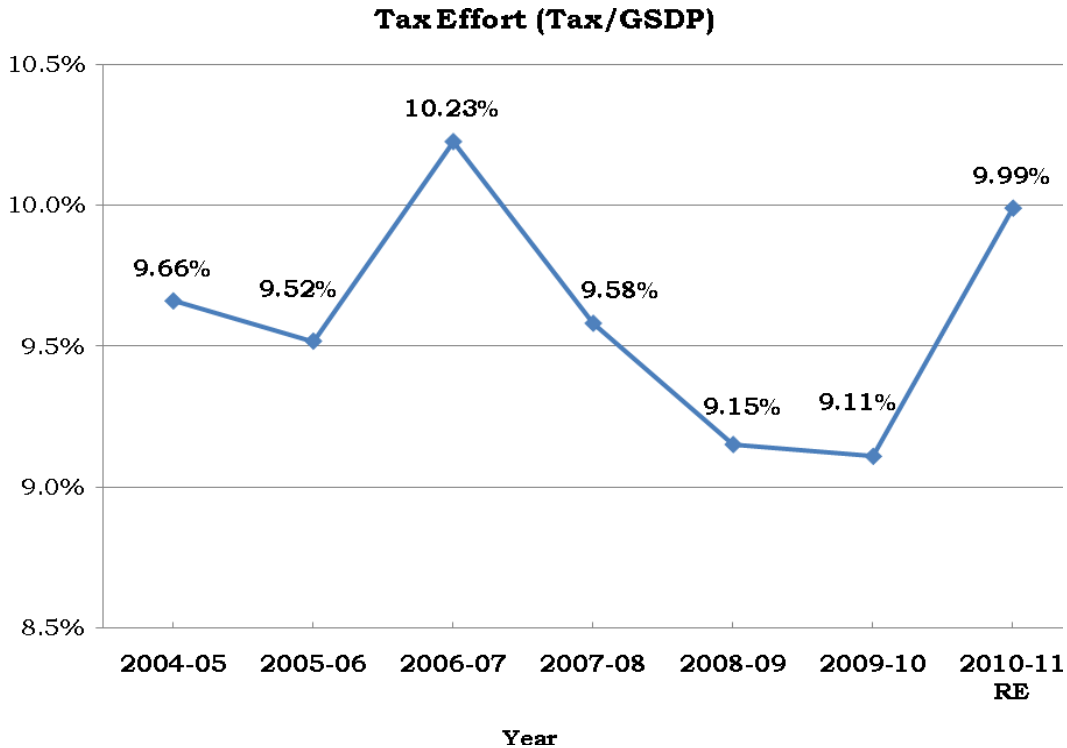
36. Presently, the lead indicators of core industries are not encouraging. It seems that the efforts to accelerate growth in industry sector will take time to show results. The uncertainty in the Middle East region and likely consequences in global fuel prices are likely to add to the inflationary pressures in the country.

Chapter 4

Revenue Reforms & Projections

Trend in the Major Own Tax Revenues

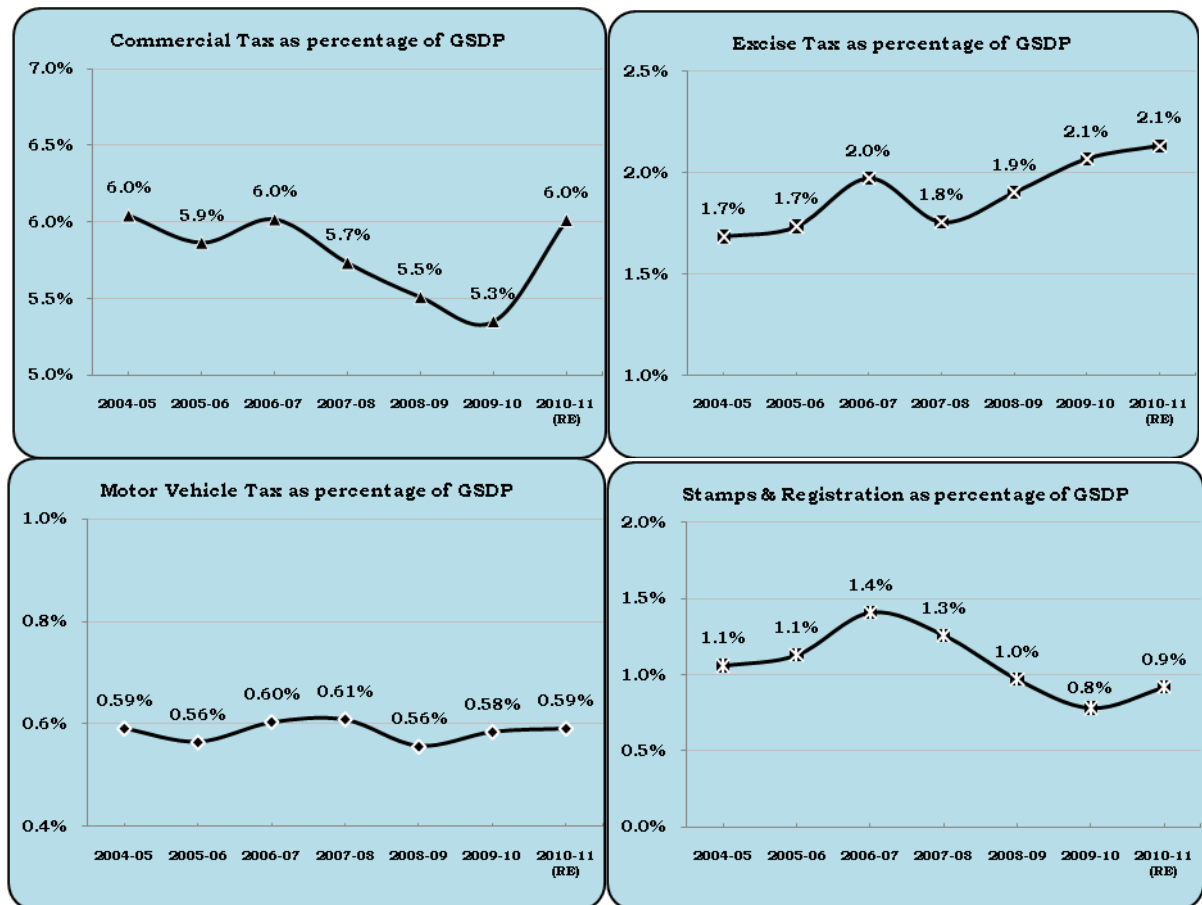
37. Karnataka has over the years consistently achieved the highest own tax revenue to GSDP ratio (tax effort) amongst all other States. The graph below highlights the effort in the last 6 years.



38. The tax effort from the year 2006-07 to 2009-10 has exhibited a declining trend. The decline during the years 2008-09 and 2009-10 was attributable to the global economic crisis. The reduction in tax effort during this period was a global phenomenon, which affected the Central and other State Governments alike. During the period 2004-05 to 2009-10 when the Compound Annual Growth Rate (CAGR) of GSDP was 15%, the CAGR of State's own tax revenue was 14%, thereby contributing to the decline from the 9.66% in 2004-05 to 9.11% in 2009-10. Since the economy rebounded to the high growth path in the latter half of 2009-10, the Government managed to arrest the decline in the tax effort.

39. Further, due to the sustained growth in the economy during the current year, it is expected that in 2010-11(RE), the tax effort would increase to 10% of GSDP. The economic outlook of the economy appears to be stable in the short to medium term. However, the inflationary pressures in the economy have altered the monetary stance of the Government and the growth may moderate in the short term due to the efforts made by the Government to contain inflation. On extrapolating the existing trends beyond 2011-12, it is likely that the tax effort would be maintained in the range of 10% in the near future.

40. The composition of major taxes as a percentage of GSDP since 2004-05 is shown in the graphs below.



41. As evident from the graphs above, the tax effort had peaked in 2006-07. Subsequently, owing to the slowdown there was a significant decline in all major taxes as a percentage of GSDP except excise duty. Commercial taxes reduced from 6% to 5.3% of GSDP, Stamps and

registration from 1.4% to 0.8% and Motor Vehicle taxes from 0.6% to 0.58%. The growth in excise revenues has remained high even in years of the economic slowdown recently in its share increasing from 2% in 2006-07 to 2.1% in 2009-10. With the economy gaining momentum in the current year, commercial taxes and motor vehicle taxes have regained their pre-economic slowdown share of 6% and 0.59% respectively. However, stamps and registration revenues still comprise only 0.9% of GSDP as against 1.4% earlier. Hence, there is a further scope to improve the tax collection efficiency and efforts need to be made to better align the guidance value and the market value of the properties to increase tax realization.

42.As a result of the improvement in economic outlook, coupled with improved tax administration, during the 2010-11(RE), the collections from the major taxes are expected to be higher than the budget estimates by ₹ 1200 crore. The growth rates of these taxes, individually, have been shown in the table below:

₹ Crore

	Commercial Tax			Excise Duty		
	Actuals	Growth Rate	Buoyancy	Actuals	Growth Rate	Buoyancy
2005-06	11484	14%	0.8	3397	21%	1.2
2006-07	13714	19%	1.2	4495	32%	2.0
2007-08	15552	13%	0.7	4767	6%	0.3
2008-09	16645	7%	0.6	5750	21%	1.8
2009-10	17960	8%	0.6	6946	21%	1.5
2010-11 RE	22910	28%	1.7	8125	17%	1.1
CAGR	14.71%			19.39%		
Year	Motor Vehicle Tax			Stamps & Registration Duty		
	Actuals	Growth Rate	Buoyancy	Actuals	Growth Rate	Buoyancy
2005-06	1105	12%	0.7	2212	26%	1.5
2006-07	1374	24%	1.5	3206	45%	2.7
2007-08	1650	20%	1.1	3409	6%	0.3
2008-09	1681	2%	0.2	2927	-14%	-1.2
2009-10	1962	17%	1.2	2628	-10%	-0.8
2010-11 RE	2250	15%	0.9	3500	33%	2.1
CAGR	14.80%			12.14%		

Buoyancy has been worked out based on growth rates of the tax collections over GSDP growth rates

The elasticity of stamps & registration revenues is the maximum among the major taxes, with 45% growth in 2006-07 followed by reduction in absolute terms of 14% & 10% in 2008-09 & 2009-10, respectively. The reduction in Stamps & Registration duty is also attributable to reduction of stamp duty by 20% from 7.5% to 6% as part of the economic stimulus measures undertaken by the State Government. This tax administration requires systemic improvements to reduce possibility of tax evasion. The revenues from state excise have remained relatively inelastic, showing a consistent increase even during the economic slowdown period. The motor vehicle taxes also, barring the year 2008-09 have shown a relatively constant increase over the years. The Commercial taxes have been relatively more elastic than excise and Motor Vehicle Taxes.

The report of the CAG on the State Finances observed that during the period 2007-10, the cost of collection of taxes as a percentage of gross collection was generally lower than other states. In the coming years, the State Government will continue with better enforcement measures for raising revenue, review and monitoring of tax efforts and intense use of Information Technology. Migration to a new system of taxation largely depends on IT infrastructure for compilation of accurate information and its exchange. Therefore the technology management will be quickly aligned to any changes in institutional system or migration to new system of taxation.

Commercial Taxes

43. Commercial Taxes comprise about 60% of the State's own tax revenues.

The first 6 months of 2009-10 saw a reduction in collection of tax in absolute terms over the corresponding period of 2008-09. This reduction was reversed in the second half of 2009-10 on account of the improving economy and the year ended within an overall growth of 8% over previous year.

44. During 2010-11, additional resource mobilization measures were undertaken by the Government by which, the rate of VAT was revised w.e.f. 1.4.2010 by 1% for both the slabs from 4% to 5% and 12.5% to

13.5%. During the first 3 quarters of the current year a healthy growth of over 30% in the Commercial Tax collections has been achieved. This increase, apart from revision in tax rates of VAT, is also attributable to the general economic recovery and better tax monitoring and collection efforts undertaken. In addition, the growth in the current year appears higher as it has followed two years of low growth. It is expected that for the full year 2010-11(RE), growth in tax collections would be higher than the GSDP growth thereby reflecting a tax buoyancy of greater than 1. As per the revised estimates of the current year, the revenues are likely to exceed the budgeted estimates by ₹ 400 crore.

45. The discussion on the introduction of Goods and Service Tax is in an advanced stage between the Union Government and the States. The draft Constitution Bill has been proposed by the Union Government which is presently under the consideration of various States. The State Government has expressed certain reservations regarding safeguarding financial autonomy of the State Legislature. In addition, as a uniform State GST has been proposed across the country, there cannot be a uniform revenue neutral rate on account of the different tax efforts of various States. Since Karnataka's tax effort is the highest in the country, the revenue neutral rate consequently will also be much higher than that of other States. Hence, it is imperative that a suitable compensation mechanism is worked out to compensate the State for the revenue loss that would be incurred on account of adoption of the new GST rates.

46. The State Government acknowledges that GST is a much needed reform of the indirect tax system in the country in order to remove the double taxation impact, which can result in lowering of prices. Further, due to the merging of various taxes it shall also reduce the compliance cost for the dealers and also the tax collection cost for the State. Since it is likely that the proposed date of introduction of GST would be extended for another year, the State has already taken steps to set up a robust IT System which would make the transition to GST seamless.

State Excise

47. The revenues from the State Excise Duty have shown a steady increase over the past few years. The growth in revenues are expected to exceed the Budget Estimates by ₹ 600 crore. Since the banning the arrack (country liquor), there has been a gradual shift in the consumption pattern to IMFL which has resulted higher spending by the consumers and in turn higher revenues for the State Government.
48. The enforcement measures and their effective implementation has helped in curbing the menace of illicit liquor. The process of computerization up to the taluka level shall be completed by the next year. This would help collation and better analysis of sale and crime data at the State level thereby improving the overall enforcement through better targeting and optimum resource deployments. It is proposed to provide wireless, GPS, fire arms and vehicles to the officials to improve enforcement and prevent manufacture of illicit liquor.

Stamps & Registration

49. The real estate sector has shown significant improvement in the last one year. The bubble in the real estate sector which was created in 2006-07 and 2007-08, had upon bursting caused a significant decline in the sale and purchase transactions during 2008-09 and 2009-10 on account of over supply, which created a glut in the market. The revenues from the Stamps & Registration reduced from ₹. 3409 crore in 2007-08 to ₹. 2628 crore in 2009-10, thereby declining in absolute terms by 23% over the 2 year period. The decline during the years 2008-09 and 2009-10 was also attributable to a 20% reduction in stamp duty from 7.5% to 6% as a part of the economic stimulus measures of the State Government to provide an impetus to the real estate sector.
50. During the current year 2010-11 on account of an overall growth in economy and reforms initiated by Government of India to allow direct investment by foreign players in the real estate sector, it is expected

that the budgeted target for the year 2010-11 of ₹. 3700 crore would be met. The expected collections in 2009-10 (RE) are marginally higher than the revenues realized by Government in 2007-08. Considering the time value of money, the growth during the year is still below the 2007-08 levels in absolute terms. However, there is considerable optimism in the sector and the number of property registrations are showing a healthy increase. In the coming few years it is expected that an increase of approximately 15 to 20% on year on year basis would be achieved, which would be in line with the overall growth of the economy on a nominal basis.

Motor Vehicle Taxes

51. The taxes from sale of motor vehicles had also plummeted during the slow down period on account of scarcity of credit, temporary freeze on the salary hikes in the private sector and general unwillingness of people to invest in purchase of highly depreciable motor vehicles in uncertain times. However, the demand for motor vehicles has rebounded strongly on the passing over of the crisis. Presently, the Indian economy is witnessing the highest sales of motor vehicles with a vehicle sale new record being set every month. Commensurate with the growing sales, the tax revenue too has grown significantly and it is expected that during the year 2010-11(RE) the Budget Estimates will be exceeded by more than ₹. 200 crore. The future outlook for the automobile sector looks very promising and it is expected that a sustained growth in tax revenues in the range of 15% per annum may be possible in the medium term.

52. However, the growth in motor vehicle taxes has not been commensurate with that of the automobile sector. In the current year growth of only 15% is expected inspite of various additional resource measures undertaken, in the form of increase in tax rates. Although the actual collections may exceed the budgeted targets, the unexpected extent of recovery of this sector should have resulted in higher collections. The reason for the same may be that Bangalore as a market for motor

vehicles is slowly saturating. For the last 4 years the share of motor vehicle taxes collected from Bangalore have been continuously declining, from 56.5% of the total in 2006-07 to 51% in 2009-10. Further, it also indicates that the purchasing power of persons in other regions of the State is growing. Bangalore has been the slowest growing market as indicated by the Motor Vehicle tax collections showing a growth of only 35% over the last 3 years, whereas Gulbarga division has grown by 128%, Shimoga division by 63%, Belgaum division by 61% and Mysore division by 53%.

53. Implementation of the computerised service delivery system covering 55 RTOs of the State has been completed. As a result, Smart Cards are being issued for all new driving licenses and registration certificates for vehicles. This has resulted in better monitoring and weeding out of fake driving licenses and bogus vehicles registration certificates. Further, the lead time to register vehicles and procuring driving license has also reduced considerably thereby reducing inconvenience to the public.

Royalty on major and minor minerals

54. During the year the State Government banned the export of iron ore from the State. This was preceded by ban on all stockyards which do not have a mining license or a beneficiation plant. These actions were necessitated on account of illegal mining in the State.

55. While banning of export of iron ore has certainly reduced the illegal mining in the State, at the same time it has also adversely affected the revenue mobilization. Before the ban, monthly collections were in the order of ₹. 100 crore, which reduced to about ₹. 75 crore per month immediately after the ban. In addition to the royalty foregone, there was a considerable reduction in consumption of diesel used by lorries to transport the ore to the ports. The revenue foregone on account of reduced sales tax collection due to reduced consumption of diesel is

estimated at another ₹. 25 crore per month, thereby taking the total financial impact to the state of about ₹. 50 crore per month.

56. Apart from the enforcement measures to curb illegal mining, steps are being taken towards computerization of mineral administration. The computerization will allow the mining lessees to print the permits from the system thereby obviating the need to come to the Government offices. This system on a pilot basis has shown the desired results and by the next year would be extended to all lessees of iron ore and gradually to other minerals as well.

57. Due to firming up of iron ore prices, and on account of revision of royalty rates on major minerals, despite the ban on export of iron ore the Government is hopeful of exceeding its budgeted target by ₹. 125 crore. Going forward it is expected that royalty on minerals will yield revenues greater than the nominal growth in GSDP.

Receipts from sale of land

58. The budget estimates of 2010-11 anticipated revenues from the sale of Government land in the order of ₹. 2800 crore. However, it is expected that only ₹. 100 crore are likely to be realized by the end of 2010-11(RE). During the current year, the real estate sector improved significantly as a result of which the property prices in and around Bangalore witnessed a marginal increase. However, this optimism is yet to be seen in the Tier II & III cities. There is a major real estate project of the Government in the pipeline in the form of Devenahalli Business Park near the new International Airport. The cost of the projects along with the future business potential on account of proximity to the International Airport is expected to result in accrual of significant revenues to the Government.

59. Further, there are many other Government lands in strategic locations, which are expected to fetch a good price. However, since the sector has just weathered a slowdown and the real estate companies are currently

highly leveraged, they do not have the appetite to take up large projects. It is quite likely that with improvement in the economic outlook for the sector, the outright sale of various Government lands in strategic locations will attract many real estate development companies and with healthy competition, a remunerative price for the Government lands will be realized. As a result of the above, the target for receipt from sale of Government land for the year 2011-12 has been kept at ₹. 2000 crore.

Chapter 5

Expenditure Management and Projections

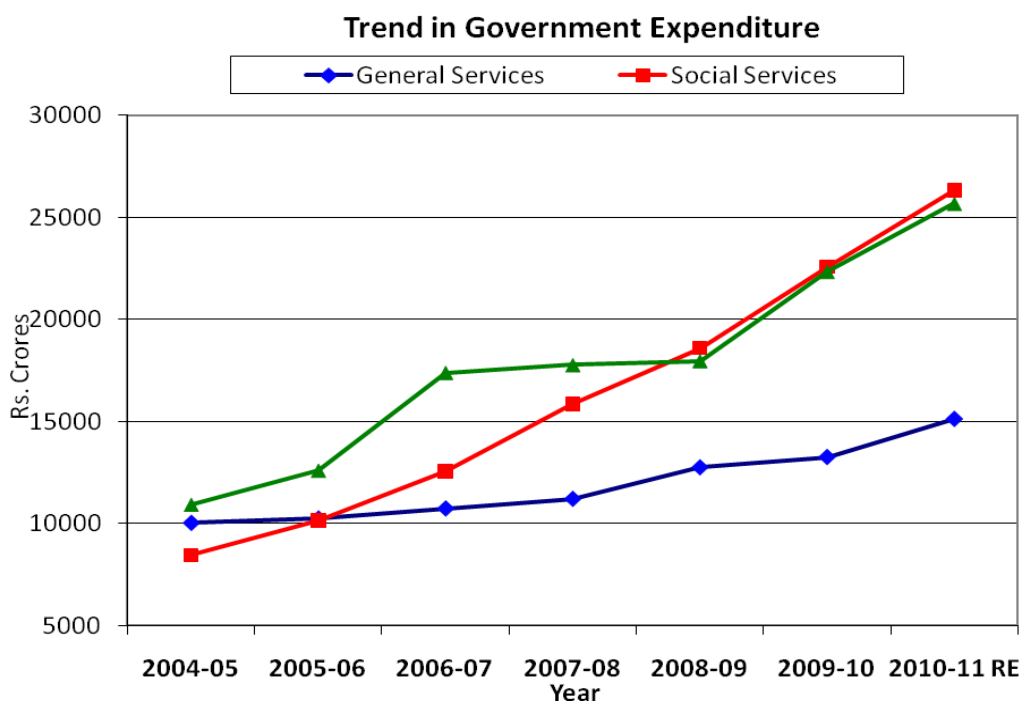
60. There are several parameters upon which the quality of expenditure incurred by the Government can be assessed. It is desirable that the outlays should be enhanced for social and economic services and the expenditure on general services should be contained. In addition, the share of plan expenditure in the total expenditure should exhibit an increasing trend over the years. Further, the proportion of capital expenditure to total expenditure should also show an increasing trend. Hence, the quality of expenditure and the outcome of enhanced outlays shall continue to remain a major challenge.

61. The expenditure on general, social and economic services are shown in Table 6.

Table – 6
Expenditure on Services

₹. Crore

Services		2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 RE
General Services	Revenue	9039	9900	10036	10419	10872	12276	12762	14614
	Capital	128	136	218	321	339	475	490	503
	Loan	0	0	0	0	0	0	0	0
	Total	9168	10036	10254	10740	11211	12751	13252	15116
Social Services	Revenue	6965	7723	8899	10937	13124	15873	19119	23034
	Capital	427	486	1105	1293	2148	2555	2651	2261
	Loan	256	239	143	326	595	173	805	1035
	Total	7649	8448	10147	12555	15866	18601	22575	26330
Economic Services	Revenue	4652	6511	7947	10440	11453	11137	13182	15856
	Capital	2474	4051	4499	6929	6162	6840	8996	9224
	Loan	755	373	157	31	160	0	176	602
	Total	7880	10935	12603	17401	17776	17976	22354	25683



62. In the span of last 7 years, the Government expenditure has undergone a major structural shift. During the year 2003-04, the expenditure on general services was higher than social and economic services. However in the last 3 years, the share of General Services continues to fall as a percentage of GSDP whereas the rate of growth in social and economic services is similar and social services accounts for the largest expenditure.

63. During 2010-11, an increase of 16.6% on the expenditure on social services as compared to the previous year is expected. This is on account of substantially higher expenditure on education, medical and public health, welfare of SC/ST/OBCs, expenditure on women and child welfare schemes and urban development. Cumulatively, higher expenditure of ₹. 5600 crore will be incurred in the year 2010-11 on social services.

64. The share of plan expenditure in total expenditure has also shown an increasing trend. From 29% in 2003-04, it has improved to 40% in 2009-10. In addition, the share of capital expenditure in total

expenditure has improved from 16% to 22% in the same period. Although the macro parameters are showing an improvement in the quality of expenditure outlays, the major challenge will be to continuously focus on improving the outcomes of the expenditure.

65. With a 23% increase in the plan allocation in 2011-12 over 2010-11, the outlays have increased across all the sectors. The outlays of some of the major developmental sectors for the last 5 years and the growth are detailed in the Table 7.

Table 7
Outlay under major development sectors

₹ Crore

Years	Agri & Horti	Growth	Rural Dev	Growth	Health	Growth	Education	Growth
2005-06	874	-14%	2016	24%	1353	10%	5631	12%
2006-07	1264	30%	2549	23%	1769	18%	6859	18%
2007-08	1323	45%	3104	26%	1995	31%	8600	22%
2008-09	1458	10%	3542	14%	2183	9%	8732	2%
2009-10	1348	-8%	3362	-5%	1547	-29%	8576	-2%
2010-11 (RE)	1694	26%	3526	5%	1945	26%	11100	29%
2011-12 (BE)	3179	88%	4385	24%	2428	25%	12284	11%

a) Agriculture

66. The GSDP contribution of agriculture and allied sectors has reduced to approximately 17% of GSDP while two-third of the State's population continues to be dependent on it. There are multiple issues plaguing the sector like excessive dependence on monsoon, only 25% of the net sown area under irrigation 75% of the holdings belonging to small and marginal farmers and the fact that Karnataka has the highest arid area in the country after Rajasthan.

67. In a novel initiative, a separate budget for agriculture is being presented by the State Government along with the general budget for 2011-12.

Apart from focusing on the problems of this sector, a separate budget has been necessitated to highlight the importance of Agriculture as without it, equitable and inclusive growth is not possible. Further, for the economy to achieve a double digit growth rate this sector cannot be ignored. To re-energise this sector, the Government has taken up various programmes, the focus of which are to address issues of this sector in the pre and post harvest phase, improvement of technology & farming practices and bringing capital into the sector to improve productivity, reduce wastages and provide a safety net to the marginal farmers.

68. In a first in the country, Government has announced an interest subsidy scheme whereby the interest rates of loans taken for agricultural purposes would be available to the farmers at 1% per annum. Further, to prevent any shortage of fertilizers, a revolving fund for advance stocking of fertilizers has been established. It shall help in stabilizing the prices and provide timely supplies to the farmers at the start of the sowing season. To improve the quality and productivity of the crops, organic farming is being popularized through the “Organic Mission” programme. A significant portion of the horticultural produce perishes before it reaches the markets. In order to reduce the post harvest losses and promote export of agri-horticultural produce, private investment is being subsidized on construction of godowns, cold storages, refrigerated transport, etc.

69. Further, on a year on year basis, new agricultural and horticultural universities and colleges have been established to meet the enhanced requirements of research and education in this field. The integration between the lab and farms is proposed to be strengthened to enable transfer of technology to improve productivity. Crop insurance for various agriculture and horticulture crops under ‘National Agriculture Insurance Scheme’ and ‘Weather Based Crop Insurance Scheme’ are being implemented to provide a safety net to the farmers in case of crop failure or abnormal drop in the price of agricultural produce. Market

Intervention Scheme for various crops in which the market price falls below the cost of production has also been operationalized. During the past few years, Government has undertaken procurement of Maize, Copra and Toor dal to stabilize prices.

70. Significant allocations have also been made to augment the irrigated land in the State. Allocation to irrigation has been increased to ₹. 7800 crore in 2011-12. Further, the farmers have been provided with free power for those using IP sets of less than 10 HP. The present power consumed by these IP sets account for about 35% of the total power consumed in the State. Over the years, the allocation of subsidy for free power has increased significantly from ₹. 1943 crore in 2008-09 to approximately ₹ 3900 crore in 2011-12(BE).

71. State has also formulated an “Agri Investment Policy” for attracting private investments to boost the agricultural infrastructure. Global Agri Investors Meet on the lines of the successful Global Investors Meet is proposed to be conducted in the year 2011-12. Cumulatively, the total allocation to the agriculture and its allied sectors for the year 2011-12 is proposed to be in excess of ₹ 17800 crore. With such a huge investment, it is the endeavour of the State Government to improve the incomes of the population dependent on agriculture so that the benefits of growth can be uniformly shared by all.

b) Rural Development

72. Rural Development continues to be the key focus area of the Government. Karnataka has one of the most decentralized and vibrant panchayati raj institutions (PRIs), which has been acknowledged at various national forums. In accordance with the recommendations of the State Finance Commission, 40% of the Non Loan Net Own Revenue Receipts (NLNORR) of the State Government are being transferred to the PRIs and urban local bodies (ULBs) to undertake various developmental activities.

73.The State Government after considering the report of the Third State Finance Commission has agreed to increase the devolution to local bodies to 42% of NLNORR inclusive of salary of PRIs & ULBs from the earlier 40%.

74.In the coming years, the four major schemes of the Government in this sector will be to provide drinking water supply to all habitations, all-weather rural road connectivity to villages, total sanitation campaign and Mahatma Gandhi National Rural Employment Guarantee Scheme. Rural Water Supply scheme is formulated to provide all rural habitations with adequate safe drinking water before 2015. The focus of the scheme is on tapping the surface sources and tapping the underground water sources with sustainable solutions. An operational and maintenance policy is being introduced to involve the community and to give effect to user fee collection system which can be self-sustaining in meeting the operational and maintenance costs.

75.Rural road connectivity is an effective tool to remove the poverty of people residing in rural areas. All-weather rural roads improve social and economic lives of the people and as a result, larger allocations from the State budget are being made and it is proposed to fully utilize the funds under the central schemes to accelerate the expenditure.

76.The total sanitation campaign is programmed to cover all rural habitations with sanitation facility before 2015. Presently 54% progress has been achieved. However, there are approximately 25 lakh individual households that are still to be covered. Sanitation campaign has been extended to 98.72% of the schools and 97.25% of the Anganwadi centers in the State.

77.The State Government has implemented the Mahatma Gandhi National Rural Employment Guarantee Scheme very effectively, thereby making full use of the central funds. During the year 2009-10, ₹. 2263 crore were spent and 35.35 lakh households provided employment and in the

process generating 1616.21 lakh man-days of employment. During the current year, the State is expected to spend more than ₹ 2500 crore under the scheme. Extensive works on flood control, rural connectivity, water services, water harvesting, rejuvenation of traditional water bodies, development of irrigation facilities, etc have been undertaken. In the coming years, this programme shall be aggressively pursued and an effort shall be made to provide employment to a maximum number of people. There are concerns regarding the quality of works, use of machinery and bogus cards. In a first, the State Government has appointed ombudsman at district levels to check and report mal-practices under the scheme.

78. Suvarna Gramodaya Yojane is an initiative of the Government of Karnataka for creating vibrant village communities by adopting an intensive and integrated approach to rural development. The main objective of the Suvarna Gramodaya Yojane is to upgrade the physical environment of the selected villages for improving the quality of life. The development of infrastructure like roads, drains and construction of anganwadis and community halls have been undertaken under this scheme.

c) Health and Family Welfare

79. The increase in outlay for the year 2011-12 is expected to be 25% which is significantly higher than the increase in the overall expenditure of the State Government, thereby improving the share of expenditure on health in total expenditure. The State today has one of the lowest population to primary health care sector ratio in the country. There are approximately 2310 PHCs in the State, of which 988 have been upgraded to provide 24X7 services. Further, 150 Community Health Centres and Taluk hospitals have been upgraded as First Referral Units to provide comprehensive maternal and child health services.

80. The Infant Mortality Rate (IMR) has shown a declining trend and has reduced from 45 per 1000 live births in 2008 to 41 in 2009 and the Maternal Mortality rate has reduced from 228 to 213 for 1 lakh live births in the same period as per the sample registration survey conducted by the Government of India. Further, innovative schemes like Prasoothi Araiyyke (cash compensation for nutrition support to pregnant women and post natal care) and Thayi Bhagya (maternity cash reimbursement for deliveries in registered private hospitals) have contributed to increasing the institutional deliveries from 73% in 2007-08 to 93.3% in 2010-11. It is the endeavour of the Government to ensure institutional delivery for every birth in the State. Some of the other flagship schemes of the State Government in the health sector are Arogya Kavacha (108 Ambulance service), Free Madilu Kits (over 2 lakh medical kits have been distributed to pregnant women from BPL families), Vajapayee Arogyasri (Health insurance scheme) and free health checkup for Bhagyalakshmi beneficiaries.

d) Education

81. State Government has created adequate infrastructure in providing access to the primary and upper primary schools in accordance with the guidelines of Sarva Shikshana Abhiyana. Enrolment of students from Class I to Class X standard, enrolment of girls, SC/ST/Minority students has been considerably increased. Several incentive schemes like providing free uniforms, free text books, midday meals and bicycle to all students studying in 8th standard have helped in reducing the drop out rates.

82. To improve the outcome at the secondary stage of education Rashtreeya Madhyamika Shikshana Abhiyana is being aggressively pursued. 74 Adarsha Vidyalayas have been started in the educationally backward blocks in the State. Science and Commerce streams are being offered in all Government Pre-University colleges having enrolment of 100 and above. Arresting the drop-out rates from high school to college continues to be a major challenge. It is proposed to

increase the enrolment of students in colleges to 20% from the present 12% over the next 5 years.

e) Energy

83. Karnataka continues to be a power deficit State. The State has exploited nearly all of its hydel resources, as a result of which the only way forward is to increase the availability of power from thermal sources. The State has also given impetus to generating power from the renewal energy sources but the same is not likely to make a significant contribution in the near future. At peak hours in summer months, the power deficit is approximately 1000 MW. To bridge this deficit and also to provide for the growth in the future, the State Government is planning extensive interventions in this sector. Presently, generation projects of approximately 9000 MW are in the pipeline which are expected to be completed over the next five years.

84. Power generation is a very capital intensive activity and the financial resources of the State Government alone are not sufficient to provide for the entire needs of the State in this sector. In order to enhance the power capacity significantly in a very short duration, projects through the joint venture and PPP route are being undertaken.

85. Huge increase in the rural electrification subsidy continues to remain a serious concern for the State Government. IP sets upto 10 HP consume approximately 35% of the power available in the State of Karnataka. Presently, more than 90 percent of the IP sets have not been metered and the exact quantum of electricity consumed by them is not ascertainable. Government for the years 2007-08, 2008-09 and 2009-10, spent ₹ 2297 crore, ₹ 1943 crore and ₹ 2341 crore, respectively for the rural electrification subsidy. The Karnataka Electricity Regulatory Commission has calculated that the unfunded liability by the State Government for free power in the above three years is ₹. 3467 crore. This unfunded liability has to be paid for by the Government over the next three years in addition to the subsidy claims of those years.

86. Further in the coming years, the expected liability on account of subsidy for rural electrification is likely to be in the range of ₹. 3500 crore and ₹ 4500 crore per annum. In addition, the ESCOMs are procuring power from independent power producers at market rates. Of this power purchased also, 35% is yielding no returns as this power too is being supplied free to IP sets. Further, the rate payers tariff has also not factored in this high cost power considering that existing power generated from Hydel sources costs a fraction of the private power being procured. This is an area where certain immediate steps would need to be taken in order to prevent the power subsidy from reaching unsustainable levels in the future.

87. During the year, the Government has approved Niranthara Jyothi Scheme under which the State electricity supply companies (ESCOMs) shall implement the segregation of rural feeders. This scheme is being implemented with an investment of approximately ₹. 2123 crore, 40% of which will be paid for by the Government as equity to various ESCOMs. Nirantara Jyoti scheme will improve energy accountability. Even though the scheme per se will not give direct financial returns to ESCOMs, energy audit and correct assessment of consumption will be possible.

f) Urban Development

88. Karnataka is the 4th most urbanized State in the country. The 2001 census has placed urban population of Karnataka at 1.76 crore which is likely to increase significantly when the 2011 census is complete. The fund devolution to ULBs has increased from ₹. 1159 crore in 2005-06 to ₹. 2685 crore in 2010-11 RE in accordance with the guidelines of the State Finance Commission. The devolution will be increased from 8% of NLNORR to 10% over a four year period.

89. During the year 2009-10, the Government launched the Chief Minister's Small and Medium Town Development Programme. This scheme is being implemented at an estimated cost of ₹. 1410 crore for

development of urban infrastructure programme in 211 ULBs in the State. Further, under the Mukhya Mantri Nagaruthana Yojana ₹. 200 crore in each of the 7 city corporations are being spent which are expected to be completed in the next two years. These programmes are expected to provide basic urban infrastructure facilities like sufficient water supply, storm water drainage, roads and door to door waste collection, solid waste management facilities, identification of garbage dumping sites and scientific disposals of waste. Further, in a first the State has completed household and livelihood survey of all slums in urban areas. The GIS mapping work is expected to be completed in the next year. With the help of this data targeted interventions can be made by the Government for development of slums in all urban areas of the State.

90. Under JNNURM, 66 projects with investments of ₹.4220 crore have been approved. Under the various components with the Mission, more than 28,000 dwelling units are to be built in 152 slums benefiting about 1,40,000 people. Under the urban transport component, a total of 1150 buses have been procured and have been inducted into service by the various Road Transport Corporations. However, JNNURM also mandates implementation of various reforms. Out of the 23 reforms recommended, 14 have been implemented and 9 are in the process of consultation and implementation. In addition, there are projects of more than ₹. 7500 crore in the pipeline assisted by Multilateral agencies. These projects involve investment of about ₹ 4,500 crore in Bangalore and ₹ 2,000 crore in cities and towns of North Karnataka

91. The first line of Phase 1 of the Bangalore Metro is expected to be operational from April 2011 and the entire Phase I is expected to be completed by June 2013. Further, the Phase-II of the Project has been approved by the Government of India. To supplement and provide a feeder service to Bangalore Metro the State Government is also conceptualizing Mono rail or Light Rail Transport System for parts of Bangalore City not served by the Metro Rail. Further, the JBIC assisted Cauvery Water Supply Scheme Stage IV Phase -II which shall

increase the supply of water to the city of Bangalore by 500 MLD is expected to be completed in the next year.

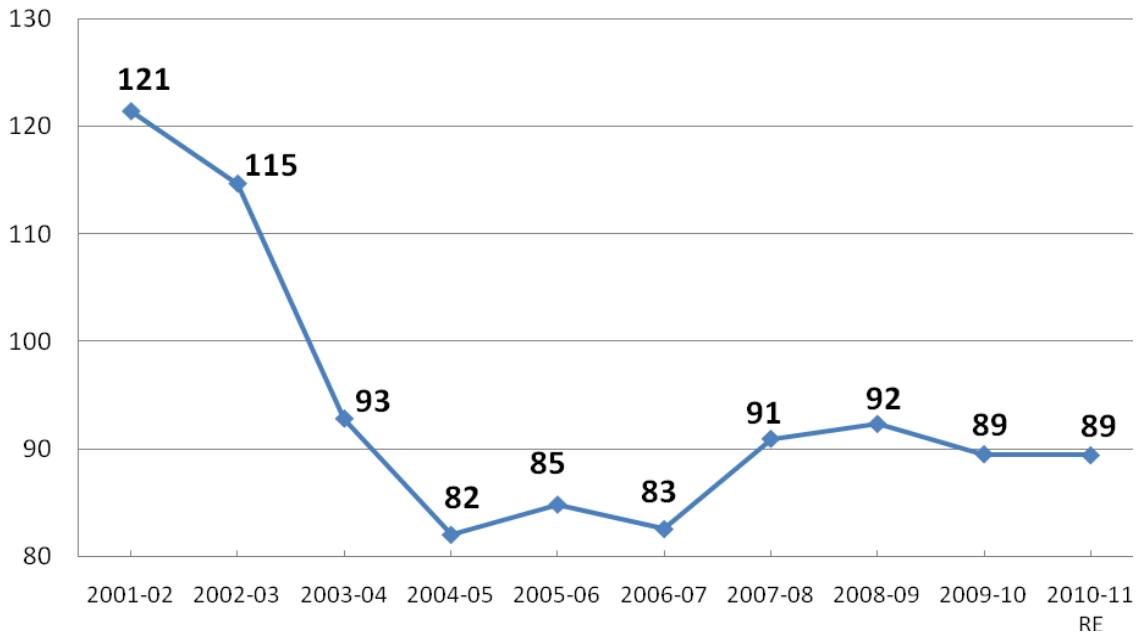
g) Committed Expenditure as a percentage of Revenue Receipts

92. The committed expenditure comprises the expenditure on salaries, interest, pension, subsidies, grants-in-aid, expenditure on operation and maintenance of assets, administrative expenditure, devolution to PRIs and ULBs and state share of the Centrally Sponsored Schemes and Centrally Planned Schemes. In the earlier MTFPs to arrive at the committed expenditure, certain expenditure was not considered.

93. During the year in order to provide a realistic picture of committed expenditure entire expenditure which is non discretionary has been classified as committed expenditure for the year. Hence, certain extra expenditure has been added which is essentially committed, comprising devolution to PRIs and ULBs which would have to be made as per the devolution norms by the Government. Further, expenditure on the state share of Centrally Sponsored and Centrally Planned Schemes is also committed to the particular schemes in order to make maximum utilization of the central funds. In addition, expenditure on operation & maintenance of existing assets have also been classified as committed as there is no discretion available to the Government to not incur the same.

94. On the denominator side, the revenue receipts have been reduced by the tied grants from the Centre as the State Government has no discretion on the same. Only the untied grants have been factored in the revenue receipts for the purposes of the analysis as they are uncommitted. On account of addition to these four variables the committed expenditure takes away a very large percentage of uncommitted revenue receipt as indicated in the Graph below:

Committed Expenditure as a percentage of Uncommitted Revenue Receipts



b

95.As evident from the graph, approximately 88% of the uncommitted revenue receipts in 2010-11 (RE) are committed. Hence, only 12% of the uncommitted revenue receipts are available for any new initiatives and existing capital expenditure commitments of the Government. The size of the uncommitted expenditure in 2010-11(RE) is only ₹ 6,047 crore. Although the Government has been able to reduce its committed expenditure from 121% in 2001-02 to 88% in 2010-11(RE), it has remained in the 80% to 90% range since 2003-04. In the coming years based on the projections until a major policy intervention is made and this expenditure shall continue to be in excess of 90% of the uncommitted revenue receipts.

96.The analysis of committed expenditure indicates that the fiscal consolidation during the years 2004-07 has been largely neutralized in the recent years due to a greater than proportionate increase in committed expenditure. Whereas the costs of salary, pension and interest are largely inflexible, it is the expenditure on subsidies which

has shown an enormous increase primarily due to rural electrification subsidy and Social Security Pensions.

97. The State Government has undertaken new beneficiary oriented schemes and has enhanced the scope of existing schemes. The major beneficiary oriented schemes have an outlay of ₹ 7,449 crore in 2010-11(RE) and as per records are providing direct benefits to over 1.84 crore persons. The number of beneficiaries is approximately 30% of State's population. However, due to the nature of the schemes there is every possibility that one beneficiary may be receiving benefits under multiple schemes. The scheme wise details of estimated beneficiaries are as under:

	Scheme	2010-11 (RE) (Rs. Crore)	Estimated Beneficiaries (in Lakh)
1	Bhagyalakshmi	558	2
2	Food Subsidy	950	80
3	Milk Subsidy	303	7
4	Bicycle to School Children	165	6
5	Social Security Pensions	1,930	35
6	Free Electricity to IP Sets	3,367	16
7	Transport Subsidy	313	12
8	Seed Subsidy	60	12
9	Crop Loans @ 3% Interest	303	15
	Total	7,449	184

98. On the revenue side there is a very little scope for any major increase. As it has been earlier stated, Karnataka has the highest tax effort in the country. There is some scope in improvement in non tax revenue but considering a huge amount of committed expenditure, it is unlikely that even a significant increase in non tax revenues would result in any major change in the ratio. The only way to improve the ratio is to act on the expenditure side. The screening of beneficiaries has to be

undertaken at a massive scale to weed out ineligible persons and non-existent beneficiaries.

99. Apart from various subsidies, the grant-in-aid given to various institutions have to be monitored and regulated. The expenditure on grant-in-aid is expected to increase by ₹ 500 crore in 2010-11(RE). Further, with the revised UGC, AICTE pay scales the expenditure is expected to increase by a further ₹ 800 crore in 2011-12. With such huge amounts of Government money being spent outside the Government sector, it is important that better enforcement mechanisms are created to regulate and monitor the aided institutions.

Chapter 6

Public Finance Management & Systemic Reforms

Cash Management

100. Government of India and the Reserve Bank of India both have been advising all the State Governments to manage their cash balance more efficiently. The Thirteenth Finance Commission has also advised on the same lines. The State Government have been investing its cash balance in the Government of India short-term securities (treasury bills). These investments pertain to the balance in various Reserve Funds, Fiscal Management Fund and Local Bodies Funds maintained in the public account of the State Government. Following the advice of the Government of India and Reserve Bank of India, the State Government proposes to use a part of these investments for financing the fiscal deficit. Later on whenever there is a demand on respective Reserve Funds and Fiscal Management Fund, the Government of India will be approached to allow additional borrowings in those years.

Management of Borrowings

101. From 2008-09 onwards the State Government has stopped allowing Public Sector Undertakings to raise funds through off-budget borrowings. However, considering that the Total Liability to GSDP ratio has come down significantly in the recent years, and the State Government is well advanced on the fiscal consolidation road map to achieve the Total Liability to GSDP goal set in the Karnataka Fiscal Responsibility Act and the Outstanding Debt to GSDP ratio recommended by the Thirteenth Finance Commission, it is proposed to allow off-budget borrowing in a limited manner. The quantum of off budget borrowings will be limited to the repayments of the previous off-budget borrowings. As a result the total amount of off budget borrowings to be serviced by the State Government will not change. In other words, there will not be any addition on a net basis to the total

stock of off-budget borrowings, and it will be maintained at the same level as it was at the end of financial year 2009-10.

102. Improving the quality and pace of expenditure is a continuing challenge before the Government. To achieve this objective, Monthly Programme Implementation Calendar (MPIC) was launched with effect from December 2008 for all schemes at the State and the District level. This tool for monitoring has more or less stabilized and an assessment of its use and effectiveness is currently underway. With the help of Information Technology tools the data collection and compilation from taluka level upwards is being automated to cover the maximum expenditure incurred by the Government within its ambit. The purpose of this initiative is to focus on effective implementation and efficiency in service delivery and improving the quality of expenditure by minimizing the asymmetry in the flow of revenues and expenditure.

Expenditure Reforms Commission

103. The State Government constituted Expenditure Reforms Commission in the year 2009. The Commission has submitted two reports so far. In its First Report the Commission recommended general prudential fiscal management principles to be adhered to by the departments in implementing various programmes/ projects/ schemes. Of the seventy four recommendations in the First Report, fifty five were department specific, fifteen were common to all departments and four relate to principles of expenditure management. The Budget 2010-11 already reflects some of those recommendations and the first report was also mentioned in the MTFP 2010-14.

104. In its Second Report (February 2011), the Commission, while giving department specific recommendations, has also made an attempt to indicate specific line of actions through systemic improvements, particularly relating to ex-ante expenditure management practices and in the exercise of control over expenditure by the legislature and the executive. In order to strengthen the quality of ex-ante expenditure

management the Commission has inter-alia recommended strengthening of institutional capacity of pre-investment project appraisal and capital budgeting, in order to ensure timely results for the resources used.

105. The Commission has made several recommendations, some of which are as follows:

- a. Government has to strike a balance between the need to contain public debt and the need to enhance productive expenditure particularly (a) on Economic Infrastructure, Urban Development, Energy, and Skill Development which impact economic growth with lower time lag and also (b) on Higher Education and Health which lead to immediate higher level of human development and long term economic growth.
- b. Greater priority has to be given to social priority sectors, like elementary education, rural health, public health, water supply and sanitation etc, while increasing the share of development expenditure in the budget.
- c. While retaining the generic character of guidelines relating to pre-investment appraisal already issued, there is a need for specific guidelines, templates, definitions suited to sectors as diverse as Education and Health, Road and Transport, Irrigation, Agriculture Extension, Electricity, Water supply, Tourism, Waste Management etc. In this regard, Finance Department as also the Planning Department should give sector specific guidelines, with examples based on case studies and necessary tool-kits be made available in Kannada as well as English on Finance Department website. The tool-kit should contain customized software matching the guidelines, updated discount rates, desirable rates of returns etc., along with examples separately for social sector, infrastructure etc.

- d. Projects, Schemes or Programmes with investments above ₹. 5 crore in social sector should be appraised and an institutional mechanism should be put in place for appraisal of Projects. For infrastructure sector, the low limit may be kept at ₹. 10 crore i.e. all infrastructure projects above ₹. 10 crore should be subjected to detailed Social Cost:Benefit analysis. Also all the Programmes, Projects and Schemes which are already approved without such appraisal should be subjected to effective monitoring and evaluation for timely course correction.
- e. Finance Department should define 'adequacy' in Revenue Surplus and put in place a mechanism to utilise Revenue Surplus generated every year for use in capital formation as mandated under the KFRA.
- f. MPIC as also Programme Performance Budgeting (PPB) exercise along with MTFP can provide valuable inputs to Legislature and its Committees every year along with the Budget proposals. As such MPIC has to be seen as supportive tool for PPB/MTFP. The Commission is of the view that as part of strengthening institutional mechanisms, the Departments should prepare, use and internalize these standardized monitoring tools with due diligence.
- g. Institution of IFAs has to be strengthened by identifying sufficient number of officers with requisite background and seniority and who have at least 5 years service left for superannuation. They should be supported with required infrastructure, exposed to extensive training including computer skills, to match the job chart of IFAs.
- h. In addition to MNREGS, Social Auditing mechanism should be put in place for other programmes which have high and direct human welfare impact viz., NRHM, Housing, ICDS, Bhagyalakshmi, Social Welfare hostel management, Sarva Shiksha Abhiyan, etc.

e-Governance initiatives in Commercial Taxes

106. Various e-governance initiatives to enhance revenue collections by making it simpler for citizens to pay their taxes are being undertaken by the Commercial Tax Department. The aim of these initiatives is to reduce physical interaction between the taxpayers and the Government. Online payment of taxes would save time, provide convenient service to the taxpayer, and at the same time reduce the cost of collection of taxes. Notable among the e-Governance initiatives are ‘**e-payment**’, ‘**e-varidi**⁵’, ‘**e-sugam**⁶’ and ‘**e-varidan**⁷’. The key features of these are as below:

- i. E-payment has enabled the dealers to make payment through internet banking, thus obviating the need to come to the office to deposit cheques every month. This has also helped in quick realization of the taxes by the state treasury while making reconciliation an easy exercise.
- ii. E-varidi (Vat Returns and Documentation through Internet) facilitates filing of periodical returns by the tax payers through the internet. Almost all the dealers are now availing of this facility. This has led to creation of an information database which is accurate and can be used to carry on different types of analyses.
- iii. E-sugam (Simple Uploading of Goods Arrivals and Movements) marks a paradigm shift in tax administration – it ensures that a dealer accounts a transaction first and then issues an invoice. This has facilitated paperless clearances of goods vehicles at the checkpost beside providing vital data for verification with the returns.
- iv. E-varidan (Vat Registration and Documentation through Net) enables the prospective dealers to seek registration by uploading their application through the internet. This helps the dealers and at the

⁵ Vat Returns and Documentation through Internet

⁶ Simple Uploading of Goods Arrivals and Movements

⁷ Vat Registration and Documentation through Net

same time helps the department in keeping a track of the pending applications

Stamps & Registration department

107. The Department envisages to provide e-delivery of services like copy of registration deed, encumbrance certificates and marriage certificates. Further, the Government is also in the process to provide the facility of any time and anywhere registration of property transactions across the State. This will significantly reduce the work load in overloaded sub-registrar offices and also will be instrumental in curbing mal-practices. The RFP of this project is ready. The project is expected to go live in the next year.

e-Procurement:

108. Of the total procurement by the State Government in the first three quarters of 2010-11, 26% amounting to ₹ 12707 crore was undertaken through e-procurement. Significant savings have been achieved since implementation of e-procurement due to increase in the average bidder participation per bid in the Public Works Department from 1.66 in 2008-09 to 7.02 in 2010-11. Further, the average tender premium is reduced from 19.49% in 2008-09 to 5.3% in 2010-11. The tender cycle time also reduced from 107.18 days to 59 days. Over the next two years the Government shall strive to make all procurements through e-Procurement.

Khajane II

109. Automation of core processes within the treasuries (Khajane) was implemented in the year 2001. The Khajane system when implemented was a substantial leap from the erstwhile management system as it incorporated system based clearance of bills across all treasuries, facilitated monthly generation of accounts, eliminated systemic

deficiencies in the manual system like the overdrawal of funds, fraudulent withdrawals, misclassification of expenses and non-reconciliation of accounts. It significantly helped administration in better cash management and budget management.

110. Over the period the functional needs of the Government for a comprehensive integrated financial management system have increased significantly. As a result, the Government has decided to implement Khajane-II, which shall integrate the treasury with the stakeholder departments for real time. The objectives envisaged for Khajane-II include incorporating online system of release of funds and submission of bills, technology for ECS payments for over 90 per cent of the payments, timely information regarding receipts, fund releases, scheme-wise expenditure details for financial management, generation of accounts of the State with a high degree of accuracy, and strengthening the MIS reports and the decision support systems. The RFP for the project has been floated and the procurement process is expected to be completed within the next three months.

Chapter 7

Medium Term Fiscal Plan Projections

(In accordance with the provisions of KFRA, the four year rolling target for the prescribed fiscal indicators is presented in the table below)

		₹ Crore						
Particulars	2009-10	2010-11	2010-11	2011-12	2012-13	2013-14	2014-15	
	A/c	BE	RE	BE	Proj.	Proj.	Proj.	
1	Revenue Receipts	49156	53638	57783	66313	76358	87941	101293
	<i>of which</i>							
(i)	State Own Tax Revenues	30579	36228	38048	43817	50915	59153	68707
(ii)	Non Tax Revenues	3334	2820	3519	3675	4270	4961	5763
(iii)	Resources from the centre							
	<i>of which</i>							
	- Devolution	7360	9060	9310	10419	11930	13660	15640
	- Grants	7883	5530	6906	8402	9242	10166	11183
2	Revenue Expenditure	47537	53138	56190	65034	74888	84959	96630
	<i>of which</i>							
(i)	Interest	5213	6316	5542	6950	7923	9032	10297
(ii)	Salaries	10296	12576	12139	14942	18034	20559	23437
(iii)	Pensions	3408	4500	4297	5500	6570	7490	8538
(iv)	Subsidies(Food, Transport Housing,Industry & Others)	1806	1723	1956	1956	2152	2367	2603
(v)	Power Subsidy	2341	2826	3693	4301	4731	5204	5725
(vi)	Devolution to ULBs	2474	2885	2685	4343	4951	5694	6605
(vii)	O & M							
	<i>of which</i>							
	- Major O&M (Roads, Buildings & Irrigation)	675	676	756	700	753	809	870
	- Other O&M (Edn,Health, RD,WS,Agr, Forest)	8088	10635	9989	12616	14193	15967	17963
(viii)	Administrative Expenditure	892	908	1008	1010	1086	1167	1255
(ix)	Other Revenue Expenditure	12344	10093	14125	12716	14496	16671	19338
3	Revenue Surplus	1619	500	1593	1279	1470	2982	4663
4	Capital Receipt (Non Debt)	625	2903	330	2062	2000	1500	1500
5	Expenditure on Capital Formation	13118	13111	13623	15822	18195	21107	24695
6	Fiscal Deficit	10874	9708	11700	12481	14726	16625	18532
7	Outstanding Debt	83482	89607	89713	101196	115922	132547	151079
8	Debt Services	7521	8779	8005	10063	10063	10063	10063
9	Off Budget Borrowings	3249	3249	3249	3249	3249	3249	3249
10	Guarantee Stock	7203	8200	8200	9200	10200	11200	12200
11	Total Liabilites	86731	92856	92962	104445	119171	135796	154328
12	GSDP at Current Prices(2004-05 Base)	335747	328312	380872	434270	497239	569339	651893
13	Annual Inflation Rate	4.0	5.0	5.0	6.0	6.0	6.0	6.0
14	GSDP Annual Real Growth Rate	5.8	8.0	8.0	8.5	8.5	8.5	8.5

Chapter 7
Medium Term Fiscal Plan Projections (Contd..)

		(AS PERCENTAGE OF GSDP)						
	Particulars	2009-10	2010-11	2010-11	2011-12	2012-13	2013-14	2014-15
		A/c	BE	RE	BE	Proj.	Proj.	Proj.
1	Revenue Receipts	14.64	16.34	15.17	15.27	15.36	15.45	15.54
	<i>of which</i>							
(i)	State Own Tax Revenues	9.11	11.03	9.99	10.09	10.24	10.39	10.54
(ii)	Non Tax Revenues	0.99	0.86	0.92	0.85	0.86	0.87	0.88
(iii)	Resources from the centre							
	<i>of which</i>							
	- Devolution	2.19	2.76	2.44	2.40	2.40	2.40	2.40
	- Grants	2.35	1.68	1.81	1.93	1.86	1.79	1.72
2	Revenue Expenditure	14.16	16.19	14.75	14.98	15.06	14.92	14.82
	<i>of which</i>							
(i)	Interest	1.55	1.92	1.46	1.60	1.59	1.59	1.58
(ii)	Salaries	3.07	3.83	3.19	3.44	3.63	3.61	3.60
(iii)	Pensions	1.02	1.37	1.13	1.27	1.32	1.32	1.31
(iv)	Subsidies(Food, Transport Housing,Industry & Others)	0.54	0.52	0.51	0.45	0.43	0.42	0.40
(v)	Power Subsidy	0.70	0.86	0.97	0.99	0.95	0.91	0.88
(vi)	Devolution to ULBs	0.74	0.88	0.70	1.00	1.00	1.00	1.01
(vii)	O & M							
	<i>of which</i>							
	- Major O&M (Roads, Buildings & Irrigation)	0.20	0.21	0.20	0.16	0.15	0.14	0.13
	- Other O&M (Edn,Health, RD,WS,Agr, Forest)	2.41	3.24	2.62	2.91	2.85	2.80	2.76
(viii)	Administrative Expenditure	0.27	0.28	0.26	0.23	0.22	0.21	0.19
(ix)	Other Revenue Expenditure	3.68	3.07	3.71	2.93	2.92	2.93	2.97
3	Revenue Surplus	0.48	0.15	0.42	0.29	0.30	0.52	0.72
4	Capital Receipt (Non Debt)	0.19	0.88	0.09	0.47	0.40	0.26	0.23
5	Expenditure on Capital Formation	3.91	3.99	3.58	3.64	3.66	3.71	3.79
6	Fiscal Deficit	3.24	2.96	3.07	2.87	2.96	2.92	2.84
7	Outstanding Debt	24.86	27.29	23.55	23.30	23.31	23.28	23.18
8	Debt Services	2.24	2.67	2.10	2.32	2.02	1.77	1.54
9	Off Budget Borrowings	0.97	0.99	0.85	0.75	0.65	0.57	0.50
10	Guarantee Stock	2.15	2.50	2.15	2.12	2.05	1.97	1.87
11	Total Liabilities	25.83	28.28	24.41	24.05	23.97	23.85	23.67

111. The underlying assumptions for the projections made for the Medium Term Fiscal Plan 2011-15 are as follows:

Revenue Receipts

- a) The Tax to GSDP ratio for own tax revenues has been projected to grow at 0.15 percent each year. With the existing ratio Tax to GSDP of 10 percent in 2011-12 BE, the Tax to GSDP is projected to be 10.25 percent, 10.40 percent and 10.55 percent for 2012-13, 2013-14 and 2014-15. The above translates into a year on year growth rate of 16.2 percent, 16.18 percent and 16.15 percent for 2012-13, 2013-14 and 2014-15.
- b) The Non Tax Receipts as a percentage of GSDP are projected to grow at rate similar to the own tax revenues.
- c) The devolution from the Centre is projected to grow at the rate of growth of Nominal GSDP i.e 14.5 percent every year for 2012-13, 2013-14 and 2014-15.
- d) The Grants from the Centre are projected to grow at 10 percent every year for 2012-13, 2013-14 and 2014-15, as per the advice of the Planning Commission.

Revenue Expenditure

- a) The Interest Expenditure is projected to grow in accordance with the fiscal deficit incurred for each year. To arrive at the interest expense average cost of funds at 8% has been assumed.
- b) The expenditure towards salaries and expenditure and pensions are projected to grow at a rate of 14 percent for 2012-13, 2013-14 and 2014-15. An additional provision of ₹ 1,000 crore for salaries & ₹ 300 crore for pension has been made in 2012-13 anticipating expenditure on account of pay revision.
- c) The Expenditure on Subsidies (food, transport, housing and industry, others) are projected to grow at rate of 10 percent every year for 2012-13, 2013-14 and 2014-15.

- d) Expenditure for power subsidies are projected to grow at rate of 10 percent every year for 2012-13, 2013-14 and 2014-15.
- e) The devolution to PRIs is projected to grow at the rate of growth of own tax revenues.
- f) Expenditure for Major O&M (Roads, Buildings and Irrigation) is projected to grow at rate of 7.5 percent every year for 2012-13, 2013-14 and 2014-15.
- g) The Expenditure for Other O&M (Education, Health, Rural Development, Water Supply, Agriculture, Forest) is projected to grow at 12.50 percent every year for 2012-13, 2013-14 and 2014-15.
- h) The Administrative Expenditure and other revenue expenditure is projected to grow at rate of 7.50 percent for the years 2012-13, 2013-14 and 2014-15.
- i) The other revenue expenditure is projected to grow at the rates of 14%, 15% & 16% for the years 2012-13, 2013-14 & 2014-15, respectively.

Capital Receipts and Expenditure on Capital formation

- a) The Non Debt Capital Receipts have been pegged at absolute figures. With Non Debt Capital Receipts at ₹ 2062 crore for 2011-12 BE, it has been projected at ₹ 2000 crore, ₹ 1500 crore and ₹ 1500 crore for 2012-13, 2013-14 and 2014-15, respectively.
- b) The expenditure on Capital formation is projected to grow at a rate higher than the nominal GSDP in order to improve its share as a percentage of GSDP at the rate of 15%, 16% and 17% every year for 2012-13, 2013-14 and 2014-15, respectively.

Inflation and GSDP

- a) Inflation rate has been projected at 6 % for the years 2012-13, 2013-14 and 2014-15.
- b) The Nominal GSDP is projected to grow at rate of 14.5 % every year for 2012-13, 2013-14 and 2014-15, based on the estimates of the Thirteenth Finance Commission.