

Planning Commission  
Perspective Planning Division

Subject: Report of the Sub-Group on 'Public Sector's Draft on Private Savings for the Twelfth Five Year plan: **Supplementary Note with simulation for an alternative GDP Growth target-Inflation Scenario.**

The Sub-Group, in its report submitted to the Working Group on Savings in August, 2011 made projection for public savings under five macroeconomic scenarios corresponding to five combinations of real GDP growth and annual rate of inflation. The draft Report of the Working Group on Savings had finally adopted two scenarios: (i) Real GDP growth of 8.5 per cent and inflation rate of 5.0 per cent; and (ii) Real GDP growth of 9.0 per cent and inflation rate of 5.0 per cent.

Now as follow up to the decision made in the meeting of the Steering Committee on 'Public Sector Resources for Plan', one more simulation has been undertaken for the projection of public savings by including **another scenario of real GDP growth of 8.0 per cent and inflation rate of 6.0 per cent.** In addition it was observed by the Steering Committee that the losses incurred by the State Electricity Boards need to be factored in for the projection of Public savings. This note seeks to address these two issues.

**Projection of Government Savings under the Scenario of real GDP growth of 8.0 per cent and inflation rate of 6.0 per cent:**

The following table-1 provides year wise projection of Government finances under the third macro economic scenario that combines 8% real GDP growth with 6% inflation. The methodology and assumption made for component wise projection of Government finances remains same as under all other scenarios. As can be seen the combined fiscal deficit and revenue deficit position of Central government and State government taken together works out to be 5.6% and 1.5% respectively on average for the plan period. This is comparable to the projection under other two scenarios, since government deficit numbers are almost pre- determined by FRBM rules. The Budgetary resources for plan (GBS) under this scenario work out to be 9.0% of GDP on average with States having command over higher resources than the Centre.

Table-I

**Government Finance Projection for Twelfth Five Year Plan (20012-17)**  
(as percent of GDP)

Scenario: 8.0% GDP growth target with 6% inflation rate							
	2011-12	2012-13	2013-14	2014-	2015-	2016-	Plan
<b>CENTRE</b>							
GBS to Central Plan	4.9%	4.6%	4.4%	4.4%	4.3%	4.3%	4.4%
Capital Component	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
Gross tax Revenue	10.3%	10.6%	11.0%	11.3%	11.7%	12.0%	11.3%
Fiscal Deficit	4.6%	4.1%	3.5%	3.0%	2.5%	2.0%	3.0%
Revenue Deficit	3.4%	2.8%	2.2%	1.7%	1.2%	0.7%	1.7%
<b>STATES</b>							
GBS to State Plan	4.9%	5.1%	5.5%	5.9%	6.3%	6.7%	5.9%
Capital Component	2.2%	2.3%	2.5%	2.7%	2.8%	3.0%	2.7%
Own tax Revenue	5.5%	5.6%	5.7%	5.8%	5.9%	6.0%	5.8%
Fiscal Deficit	2.0%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
Revenue Deficit	-0.3%	0.1%	0.0%	-0.2%	-0.4%	-0.6%	-0.2%
<b>Combined(Centre+States)</b>							
<b>GBS</b>	8.2%	8.3%	8.6%	9.0%	9.3%	9.7%	9.0%
Capital Component	3.1%	3.2%	3.3%	3.5%	3.7%	3.9%	3.5%
Tax Revenue	15.8%	16.2%	16.7%	17.1%	17.6%	18.1%	17.1%
Combined FD	6.4%	6.7%	6.1%	5.6%	5.1%	4.5%	5.6%
<b>Combined RD</b>	3.1%	3.0%	2.2%	1.5%	0.8%	0.1%	1.5%

The public savings projected under this scenario is presented in table-II below:

**Year Wise Projection of Public Savings for Twelfth Five Year Plan**  
(as percent of GDP)

Scenario: 8.0% GDP growth target with 6% inflation rate							
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	Plan Average
<b>Combined RD</b>	3.1%	3.0%	2.2%	1.5%	0.8%	0.1%	1.5%
Government Savings	-1.9%	-1.8%	-1.0%	-0.3%	0.4%	1.1%	-0.3%
IR of PSUs ( Centre+States)	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
<b>Public Savings</b>	<b>2.1%</b>	<b>2.2%</b>	<b>3.0%</b>	<b>3.7%</b>	<b>4.4%</b>	<b>5.1%</b>	<b>3.7%</b>

The State Electricity Boards (SEBs) are operating as Departmental Undertakings in most of the States and therefore the losses incurred are to form a part of State Government budget. However, the State government budget does not include the SEB losses in their annual financial statements and therefore it is not feasible to incorporate these losses into the budget numbers to make any future projection of Government finances.

In this context, the report of the High Level Panel on Financial Position of Distribution Utilities under the chairmanship of Shri Shunglu, provides some insight. The report provides an assessment of net losses to be incurred by SEBs of 15 States those account for 91% of the power consumption in the country, year wise during 2012-2017. In absolute terms, this figure works out to be around 27000 crores of rupees in 2012-13 and is expected to decrease gradually to a level of about Rs. 22000 crores in 2016-17. In terms of GDP the ratio changes from 0.3% in 2012-13 to 0.1% in the terminal year of the Twelfth plan. Even If these losses are not reflected in the budget, these form definite liability of the State Governments and can be a source of potential decline in the government savings. In our projection a down ward revision of Government savings on this account has been contemplated under all the three macro-economic scenarios as indicated in the table-III.

**Table 111 Year Wise Projection of Public Savings for Twelfth Five Year Plan**  
(as percent of GDP)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	Plan average
<b>Scenario: 8.0% GDP growth target with 6% inflation rate</b>							
Combined RD	3.1%	3.0%	2.2%	1.5%	0.8%	0.1%	1.5%
Government Savings	-1.9%	-1.8%	-1.0%	-0.3%	0.4%	1.1%	-0.3%
Loss of SEBs	-0.3%	-0.3%	-0.2%	-0.2%	-0.2%	-0.1%	-0.2%
Revised Government Savings	-2.2%	-2.0%	-1.2%	-0.5%	0.2%	0.9%	-0.5%
IR of PSUs ( Centre+States)	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
<b>Public Savings</b>	<b>1.8%</b>	<b>2.0%</b>	<b>2.8%</b>	<b>3.5%</b>	<b>4.2%</b>	<b>4.9%</b>	<b>3.5%</b>
<b>Scenario: 8.5% GDP growth target with 5% inflation rate</b>							
Combined RD	3.1%	2.9%	2.1%	1.5%	0.8%	0.1%	1.5%
Government Savings	-1.9%	-1.7%	-0.9%	-0.3%	0.4%	1.1%	-0.3%
Loss of SEBs	-0.3%	-0.3%	-0.2%	-0.2%	-0.2%	-0.1%	-0.2%
Revised Government Savings	-2.2%	-2.0%	-1.2%	-0.5%	0.2%	1.0%	-0.5%
IR of PSUs ( Centre+States)	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
<b>Public Savings</b>	<b>1.8%</b>	<b>2.0%</b>	<b>2.8%</b>	<b>3.5%</b>	<b>4.2%</b>	<b>5.0%</b>	<b>3.5%</b>
<b>Scenario: 9.0% GDP growth target with 5% inflation rate</b>							
Combined RD	3.1%	3.0%	2.1%	1.4%	0.7%	0.0%	1.5%
Government Savings	-1.9%	-1.8%	-0.9%	-0.2%	0.5%	1.2%	-0.3%
Loss of SEBs	-0.3%	-0.3%	-0.2%	-0.2%	-0.2%	-0.1%	-0.2%
Revised Government Savings	-2.2%	-2.0%	-1.1%	-0.4%	0.3%	1.0%	-0.4%
IR of PSUs ( Centre+States)	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
<b>Public Savings</b>	<b>1.8%</b>	<b>2.0%</b>	<b>2.9%</b>	<b>3.6%</b>	<b>4.3%</b>	<b>5.0%</b>	<b>3.6%</b>

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