

**REPORT OF THE SUB-GROUP ON
PUBLIC SECTOR'S DRAFT ON PRIVATE SAVINGS
FOR THE ELEVENTH FIVE-YEAR PLAN**

**Planning Commission
(Perspective Planning Division)**

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INTRODUCTION

In the context of the formulation of the Eleventh Five Year Plan (2007-12) the Planning Commission, Government of India has set up a Working Group on Savings under the Chairmanship of Dr. Rakesh Mohan, Deputy Governor, RBI. In its first meeting held on 15th July, 2006, the Working Group, agreed on constitution of five sub-groups each dealing with matters relating to a specific area of Aggregate Savings such as (1) House hold sector (2) Corporate Sector (3) Public sector (4) Foreign Sector and (5) Flow of Private investment for Small and Medium Enterprises & Agriculture Sector.

Accordingly the Planning Commission constituted, among others, the sub-group on 'Public Sector's Draft on Private Savings' under the chairmanship of Dr. Pronab Sen, Principal Adviser, Planning Commission, Government of India vide its Office Order dated 22nd August, 2006. A copy of the Order is given in Annexure-I.

The sub- group met two times at New Delhi. In the first meeting held on 04th September 2006, the members agreed upon a broad structure of the sub group report. It was decided to factor in the impact of Sixth Pay Commission in government finance projection for the 11th plan. The likely future behaviour of the interest rate was discussed on the basis of information obtained from RBI. Planning Commission made a presentation on government finance projection for the 11th plan in the second meeting held on 13th September 2006. Based on the presentation, the assumptions adopted for projecting various budget numbers were discussed and agreed upon. It was agreed to finalise the report on the basis of the discussions in these two meetings.

All the members of the sub-group actively participated in the deliberation and provided valuable inputs. The Sub-Group would like to place on record its deep appreciation of the contribution made by Smt. Sibani Swain, Director, Planning Commission and Ms. Anna John Mathai, Consultant, Planning Commission, without which this Report would not be possible.

**REPORT OF THE SUB-GROUP ON
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Public sector, comprising the Central government, State governments, Central Public Sector Undertakings (CPSUs) and State Level Public Enterprises (SLPEs), claims a substantial proportion of private savings to finance not only public investment, but a sizable part of government's consumption expenditure. This public sector's claim on private savings, also known as public sectors' draft on private savings, has three components; namely (a) Gross Fiscal deficit of Centre & States/UTs, (b) Extra Budgetary Resources (EBR) of CPSUs and SLPEs and (c) Disinvestments. Of these, the Gross fiscal Deficit (GFD) is the major component. As a percentage of GDP at current market prices, the combined fiscal deficit of Centre and State is estimated at 7.2% percent in the fiscal year 2005-06. In this year, the EBR mobilized by CPSUs is estimated at 1.43 per cent of GDP. The annual average fiscal deficit during the Tenth Five Year Plan (TFP) is estimated to be about 8.0% of the GDP comprising 4.5% of Central Government Finances and 3.7% of State Government Finances (0.2% of GDP is the net inter-government borrowing). The estimates of corresponding revenue deficit of Centre and States are 3.0% and 1.4% respectively. Deficit on revenue account has been a strain on both central and state government finances. Revenue deficit (RD) financed through borrowing not only adds on to the size of the GFD of corresponding fiscal year, but affects the government finances of the future years in terms of increasing interest liability.

Public sector assumes significance in the context of Eleventh Five Year Plan (EFP) that envisages an accelerated growth target of 9.0% on average per year. Realisation of this growth target would critically depend on realization of the two crucial macro parameters such as investment rate and savings rate, among others. The Approach Paper to the Eleventh Five Year Plan has worked out the basic macroeconomic parameters for a sustainable accelerated growth of GDP averaging 9.0% during the Eleventh Plan. The

most important of these for our purposes are the assumptions relating to various components of the Saving-Investment balance (Table 1), which have been worked out keeping in view the supply-side requirements of economic growth.

Table 1: Macro-economic Scenario for 11th Plan

Target GDP growth rate	9.0%
Average investment rate (as % of GDP)	35.1
of which	
Public Investment	11.2
Domestic Saving rate (as % of GDP)	32.3
of which	
PSEs	2.8
Government	2.4

Source: Draft Approach Paper for the Eleventh Five-Year Plan (2007-12)

Since Government savings, less depreciation of government assets, must equal the revenue deficit, it is possible to derive the levels of the revenue deficit that must be achieved in order to realize the growth target. Thus revenue deficit becomes the control variable for projection of government finance under macroeconomic consistency framework. It is important from the point of view of fiscal prudence as well as for ensuring macro economic consistency that public sector generates surplus in its current account. Similarly, macro economic consistency also requires the public sector to share a significant proportion of total capital formation in the country. In the context of formulation of EFP, projection on the fiscal position of the Central and State governments highlighting both GFD and RD, assumes importance because,

- Containing the public sector's draft on private savings within a sustainable limit is one of the most critical policy objectives.
- It is necessary to make a realistic assessment of investible resources available to finance the plan to support the accelerated growth target set for the Eleventh Plan on a sustainable basis.
- Projection of government finances helps estimation of government savings, which is an integral part of aggregate domestic savings.

This Paper presents the projection of Government finance for the Eleventh Five Year Plan (2007-2012) for both Central Government and State Governments. The first section of this Paper highlights the alternative growth rate scenarios and FRBM constraint (Fiscal Responsibility and Budget Management Act -2003), under which the Government finance has been projected for the Eleventh plan. The second section includes the projection of Central Government finances. This part explains the assumptions and methodology adopted to project various budget numbers, the FRBM constraint under which Central Government finance has been projected, the estimated public sector resources for Plan and their implication for macro economic balance. The third section discusses State Government finances and makes projection of different budget numbers under the State finances. This section highlights the impact of Twelfth Finance Commission (TFC) award on the State finances, the fiscal constraint imposed by enactment of FRBM legislation, the methodology and assumptions applied to make projections and the estimated resource position of the States for the EFP. The fourth section of the Paper combines the impact of projected Central finances and State finances on the public sector draft on private savings under alternative growth rate scenario and FRBM constraint. The implication of the Government finance projection for aggregate savings is estimated. This section also briefly indicates the borrowing requirement of the public sector undertakings as well as the sub - group assessment of total public sector draft on private savings and public sector savings.

I. Alternative Growth Target Scenarios and FRBM Constraint

It may be noted that the sustainability of Government finances critically depends on the future growth trajectory of the economy as well as the annual rate of inflation. In our projection we have assumed an annual inflation rate of 5% during the eleventh plan. So far as the growth trajectory is concerned the government finance has been projected under four growth scenarios such as 7.0%, 8.0%, 8.5% and 9.0%.

Enactment of FRBM legislation both at Centre and State level puts limit on the borrowings of both the Centre and the States as well as on revenue expenditure of both

level of governments. The net Government borrowing (fiscal deficit) of the Centre as well as of all States has to be reduced to 3% of GDP by the year 2008-09 and subsequently to be contained within 3% of GDP. During the same period, the revenue deficit is required to be completely eliminated. The FRBM constraint seems to have made the projection of government draft on private savings much simpler since the upper bound of government's net borrowing is given in terms of GDP. Therefore it is implied that under different GDP growth rate scenarios it would be possible to work out the government resource position for the EFP once some realistic assessment of revenue receipt and non-plan expenditure is made.

However, things are not as simple as it transpires to be under FRBM regime. This is primarily because the FRBM target not only imposes ceiling on the GFD, but also makes revenue balance a target variable. Going by the historical relationship between GFD and RD, which have been fairly stable in the past, it is unlikely that a combination of zero RD and GFD at 3% of GDP can be maintained. Under Central government finances the structure and classification of government finances is such that a zero revenue deficit can be realised only with a fiscal deficit level of less than 2% of GDP¹.

The stable ratio of GFD to RD is attributed to the principle of classifying the plan outlay under revenue and capital head. As per existing government accounting principles, all loans and advances from the consolidated fund are treated as capital expenditure, whereas all the grants made out of this fund are classified as revenue expenditure. Accordingly, the loan components² of the Central Plan Assistance to States are classified as capital expenditure irrespective of the nature of this expenditure. Similarly, the grants given to the States and UTs and other implementing agencies under Central assistance to States plan (NCA and ACA) as well as Centrally Sponsored Scheme (CSS) are classified as revenue expenditure even if a significant proportion of this expenditure is spent on capital formation such as construction roads and bridges, schools, hospitals, houses,

¹ The gap between GFD and RD under Central Finance is about 1.7% of GDP at present.

² Since the year 2005-06, the central plan loans to the States has been discontinued following the recommendation of the Twelfth Finance Commission.

village and block resource centers, rural infrastructure like irrigation etc. Therefore, the gross budget support (GBS) to plan under Central finance is substantially revenue loaded. The revenue component of the GBS is more than 80% at present. This high concentration of plan expenditure under revenue account is primarily due to the budgetary dis-intermediation of loans to States by the Centre, and flagship programmes of the government being covered under CSS grant to States and other implementing agencies, among others.

If the present pattern of revenue-capital mix of the GBS is maintained during the Eleventh Plan without making any correction for the classification error it would be almost impossible to bring down the revenue deficit without compromising with the size of GBS. The implication is that even if the upper bound of the Central government borrowing is fixed at 3% of GDP, the revenue deficit constraint under FRBM would allow the Central government to borrow up to a maximum of 2% of GDP. Therefore, if RD is taken as the binding constraint, the exiting classification of the budget would end up in a Central government borrowing of not more than 2% of GDP and to that extent the budgetary resources for the plan would be limited.

Considering the implication of FRBM under the present structure of government finance, the sub-group projects the government finances with the following variations:

- 1) FRBM target of RD and GFD to be realized by the year 2008-09 as in the enacted legislation, RD has been taken as the binding constraint, the revenue-capital mix of the plan expenditure is fixed;
- 2) FRBM target of RD and GFD to be realized by the year 2008-09 as in the enacted legislation, both RD and GFD have been taken as the binding constraint, the revenue-capital mix of the plan expenditure is allowed to change on a year to year basis;
- 3) The target year of realizing FRBM constraint on GFD and RD is shifted by two years to 2010-2011, RD has been taken as the binding constraint, the revenue-capital mix of the plan expenditure is fixed;

4) The target year of realizing FRBM constraint on GFD and RD is shifted by two years to 2010-2011, both RD and GFD have been taken as the binding constraint, the revenue-capital mix of the plan expenditure is allowed to change on a year to year basis.

II. Projection of Central Government Finances

Projection of Central Government finances for EFP has been based on the budget estimate of 2006-07 of Central government. Projection has been made separately for various components of revenue receipt, non-debt capital receipt and non-plan expenditure of the Central government. Since government borrowing has been constrained by the FRBM legislation, which mandates the net borrowing of the government (fiscal deficit) to be reduced to 3% of GDP by the year 2008-09 and subsequently to be contained within 3% of GDP, upper limit of the Central government borrowing is exogenously given. Therefore, the Plan expenditure (GBS for Plan) has been taken as residual.

2.1 Revenue Receipt of Central Government:

Revenue receipt of the Central government includes net tax revenue of the Centre i.e. gross tax revenue less share of States and non-tax revenues comprising interest receipts, dividends and others.

Gross Tax Revenue

Gross Tax Revenue of the Central government is projected with a **tax buoyancy assumption of 1.25**. During the Tenth Five Year Plan the gross tax revenue of the Centre has been very buoyant at about 1.4 on average. This high level of buoyancy would be difficult to be maintained on a long term basis. There fore, the sub-group agreed upon the tax buoyancy assumption of 1.25 for the EFP. **However, this needs to be compared with the findings of the sub-group report on Tax resources of Central Government constituted under the working group of Central Plan resources for Eleventh Five**

Year Plan. The share of States in the Central tax revenue has been calculated on the basis of TFC recommendation. TFC has recommended 30.5% of the net proceed of the gross tax revenue of the Centre to be transferred to States. The exact figure for the net tax proceeds (i.e., gross tax revenue less cost of collection) in the past is not available with us, hence, projection of the share of States in the Central tax revenue has been made on the basis of gross tax revenue of the Centre. The budgeted figure of the share of states in the gross tax revenue of the Centre excluding the cess, in the year 2005-06 and 2006-07 has been around 28%. This was discussed in the sub group meeting and the consensus was to take 29% of the Central Tax Revenue as States' share.

Non-Tax Revenue

The non-tax revenue of the Centre includes interest receipts from the States and UTs, interest receipt from Public Sector Undertakings (PSUs), dividends from departmental and non-departmental undertakings, RBI and State owned commercial banks. The interest receipts from the States/UTs are expected to decline substantially due to the following reasons (i) debt restructuring of the States following TFC award (ii) financial dis-inter-mediation of the Central Government from borrowing by States (iii) pre-payment of interest made by PSUs and Port Trust during the soft interest rate regime and (iv) gradual withdrawal of Central Government from intermediating between market loans and PSUs. The interest receipts from States/UTs have been projected separately in line with TFC recommendations. Interest receipts from PSUs and the dividends receipt of the Central Government are projected to grow at an annual rate of 7.5%, which is comparable to the projection made by the "Sub Group on Non-Tax Revenue for Eleventh Plan".

2.2 Non-debt Capital Receipt:

Recovery of Loans

Non-debt capital receipt of the Central Government includes recovery of loans from the States Union territories and Central State Sector Undertakings and disinvestments proceeds of the Central Public Sector Undertakings (CPSUs). Recoveries

of loan from the States and UTs during the 11th Five Year Plan have already been decided by the Twelfth Finance Commission under the consolidation and restructuring of Central loans to States. In the absence of fresh loan from the Centre, it is only the past loan, which has been consolidated at the end of 2004-05 and to be repaid to the Centre in twenty equal installments. This amounts to about Rs. 8000 crore approximately. There has been a gradual withdrawal of Centre from loan investment in CPSUs. Therefore, loan recoveries from CPSUs would constitute the recovery of the already initiated loan. Therefore, this number has been kept at the base year level of about Rs.4000 crore. As percentage of GDP our projection emphasizes a gradual decline in the loan recoveries of the Central Government.

Dis- investment

Dis-investment proceeds of the CPSUs averaged 0.2 % of GDP during 10th Five Year Plan. However, the present policy of the Central Government is not clear about further dis-investment in PSUs in near future. Therefore, budget number under this head for 11th Five Year Plan has been taken as zero.

2.3 Non-plan Expenditure of the Centre:

The components of non-plan expenditure, which have been projected separately are described below.

Interest Payment

Interest payment component of the non-Plan Expenditure is driven by the past-debt stock, fresh borrowing of the government and the rate of interest. In our projection interest rate in future is assumed to rise marginally. This is consistent with the higher economic growth that the country is experiencing which would put pressure on demand for investible fund and may increase the interest rate to some extent. The upward pressure on interest rate is already evident from the yield rate of the government borrowing as given below:

**Table 2: Weighted Average Yield of Government Securities
(Per cent)**

Year	Central Government	State Government
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	Securities	Securities
1997-98	12.01	12.82
1998-99	11.86	12.35
1999-2000	11.77	11.89
2000-01	10.95	10.99
2001-02	9.44	9.20
2002-03	7.34	7.49
2003-04	5.71	6.13
2004-05	6.11	6.45
2005-06	7.34	7.63
2006-07 @	7.92	8.06

Note: @: Up to August 21, 2006

Source: RBI Annual report 2005-06.

Keeping in view this factor the sub group agreed to make projection of interest payment under government finances with a marginal interest rate of 8% in nominal terms for the Centre and 9% for the States, which is one percentage point higher than that for the Central Government. This would imply a real interest rate of 3% under annual inflation assumption of 5%. The incremental interest burden on the Central Government Finances is a function of both net borrowing of the Central Government measured by the fiscal deficit of the previous year and the interest rate. Accordingly the following formula has been inbuilt into the estimation.

$$I_t = I_{t-1} + GFD_{t-1} * r \quad \text{----- (1)}$$

where,

I_t = Interest payment in year t

GFD_{t-1} = Fiscal Deficit of the year $t-1$

r = interest rate

Non-plan Grant to States:

The next predictable item in the non-Plan expenditure of the Central Govt. is non-Plan grant to the States which is decided by the Finance Commission. First three years of the 11th Plan takes into account the TFC recommendation. For the last two years of the Tenth Plan the non-Plan grant has been doubled from the level of 2009-10, primarily to take into account the revenue deficit gap that would emerge due to impact of Sixth Pay Commission on the State finances.

Pay and Allowance

The projection of salary bill of the Central Government for the 11th Five Year Plan needs special mention with the setting up of the 6th Central Pay Commission. It is almost clear that the impact of Sixth Pay Commission award would be felt during the 11th Five Year Plan period itself. Therefore, it is felt necessary to provide for the revised salary in the Non-Plan expenditure projection of the Government. The projection has been made by making the following assumptions:

- The Pay Commission recommendation would be implemented in the financial year 2009-10 with a retrospective effect from the financial year 2006-07.
- The arrear payment would be made in phases to the employees staggered over two years time.
- Number, structure and composition of the Central Government employees would be maintained at the base year level (2006-07).

The revised pay pattern has taken into account both inflation factor and productivity gain factor by measuring the same in terms of increase in per capita income in nominal terms during the period (1996-2006). Accordingly, a factor of 2.55 is multiplied to the average basic salary that was adopted in 1996. At present, i.e. in the year 2006-07 the emolument of the government servant including DA and 50% DA merger is equal to 1.93 times of the original basic. This factor has been adjusted since pay revision would be effective from the financial year 2006-07.

After arriving at the revised salary bill for 2006-07 an annual increase of 6.5% has been applied for each year of the projection (5% increase due to inflation and 1.5% due to annual increment). The annual projected figure has been phased in a manner so as to have the financial implication reflected from year 2009-10 onwards, with the provision of arrears of 3 years being to be paid in the year 2009-10 and 2010-11.

Defence Expenditure:

Defence expenditure accounts for more than 2.3% of GDP. In our projection we have compressed this budget number to 2.2% of GDP for the first two years of the 11th Plan keeping in view the FRBM constraint. However, this number is projected to increase to 2.4% of GDP in the next two years and then slide down to 2.3% of GDP in the terminal year of 11th Plan. The increase of defence expenditure in the year 2009-10 and 2010-11 to 2.4% of GDP are mainly accounted for by the Sixth Pay Commission effect.

Other Non-Plan Expenditure:

Other non-plan expenditure of the Central Government includes subsidy, pension payment and others. The subsidies are projected to grow at an annual rate of 6% allowing a marginal increase of 1% in real terms. This is in line with the policy of withdrawing non-targeted subsidies of the Government. The Pension Bill has been separately projected taking into account the full impact of Sixth Pay Commission. The methodology adopted is similar to that of salary projection. The annual increment in pension bill of the Central government has been assumed to be 8.5% (5% due to inflation 3.5% due to growth in the number of pensioners). Arrear payments are staggered over two years starting with the year 2010-11. The components other than subsidy and pension is projected to grow at an annual growth rate of 10%

2.4 Gross Budget Support to Plan:

As has been described in the above paragraphs the budget numbers for Non-plan expenditure, revenue receipt and non-debt capital receipt has been projected under different growth rate scenarios such as 7%, 8%, 8.5% and 9%. The summary result of these projections can be seen at **Annexure II to Annexure XI**. As can be seen from the tables in the Annexure, interest payment liability of the Central Government is projected to come down significantly from the present level of 3.5% of GDP. In the terminal year of the Eleventh Plan interest payment to GDP ratio is projected to remain within a range of 2.66 to 2.89 under alternative growth rates assumptions. This is primarily because the fresh borrowings of the Government have been contained at 3% of GDP due to FRBM constraint. The interest payment liability could be compressed further if the structure and

composition of the Government finances follows the same revenue capital mix of the GBS that has been followed in the past. In the case of a fixed revenue capital mix of GBS, the borrowing of the Central Government have to be compressed much below the 3% of GDP norm resulting in less fresh borrowing of the Central government and therefore further decline in the interest payment liability.

The average fiscal deficit under fixed ratio of revenue capital mix of GBS varies within a range of 1.75 to 1.83 during the 11th Five Year Plan under different growth target scenario. Thus, if the revenue-capital mix of the GBS is kept constant at the Tenth Plan level, the interest payment liability of the Central Government would decline further. Other components of Non-plan expenditure like defence expenditure pay and allowance, non-plan grant to States subsidies and other Non-Plan are not driven by FRBM constraint. Most of the increase in the Non-plan expenditure of the Central Government is attributed to the anticipated pay revision due to Sixth Pay Commission effect.

As has already been indicated, GBS to Plan has been taken as residual. This projected number varies under alternative growth target scenario as well as under alternative assumptions regarding the FRBM constraint that has been adopted under the projection. As has been indicated in the introduction section, for each of the growth rate scenario we have adopted two variations in the structure and composition of GBS and accordingly two sets of GFD figure emerge. First, we assume the capital ratio (K-ratio) of GBS to be fixed at 22%. The fixed ratio assumption confirms to the fiscal stance under which (a) plan programme/schemes are to be operationalised under the same guidelines as those during the Tenth Plan and (b) Central Plan transfer to the States under NCA/ACA and CSS follow the same pattern that was adopted during the Tenth Plan. In this case the revenue balance would come under pressure since the GBS with fixed capital ratio has a very large revenue component. The only way to bring down the revenue deficit would be to compress the GBS resulting in a level of fiscal deficit, which is much below the FRBM specified level of 3% of GDP. Under these assumptions the plan outlay is estimated with the following formula.

$$\text{Plan Revenue Expenditure} = \text{RR} + \text{RD} - \text{NPRES} \quad \text{-----} \quad (2)$$

$$\text{Plan Outlay} = \text{Plan Revenue Expenditure} / (1 - 0.22) \quad \text{-----} \quad (3)$$

Where,

RR= Revenue Receipt

RD= Revenue deficit

NPRE= Non-plan Revenue Expenditure

In this case the GFD is not exogenously given. GFD is calculated automatically with the conventional formula, which has been found to be much below the 3% of GDP norm.

The alternative option for Central finance would be to allow the capital ratio of GBS to change such that the plan revenue expenditure could conform to the FRBM specified revenue deficit target, while allowing the plan capital expenditure to be raised beyond the fixed ratios. The additional K-expenditure could be resourced by borrowing within the FRBM ceiling of GFD. The formula used to calculate the GBS under changed capital ratio option is as follows:

$$\text{Plan Outlay} = \text{RR} + \text{Non-debt Capital receipt} + \text{GFD} - \text{NPE} \quad \text{-----} \quad (4)$$

Where,

RR= Revenue Receipt

GFD= Gross Fiscal Deficit

NPE= Non-plan Expenditure

The projected figure of GBS, GFD and RD of Central government finance under 7% growth scenario for both fixed capital ratio of GBS and changed capital ratio of GBS is provided in the table below (Table 3). The details are given at Annexures II and III.

Table 3: Government Finance Projection for Eleventh Five Year Plan

(as per cent of GDP)

7.0% growth Scenario with FRBM target

K-ratio fixed	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	11th Plan average
GBS to Central Plan	4.38	3.47	2.89	2.51	2.34	3.62	2.96
of which Revenue Expenditure	3.64	2.70	2.25	1.96	1.83	2.82	2.53

Capital expenditure	0.73	0.76	0.63	0.55	0.52	0.80	0.65
Capital Exp as % of GBS	0.17	0.22	0.22	0.22	0.22	0.22	0.21
GFD	3.77	2.56	1.46	1.49	1.48	1.74	1.75
RD	2.15	1.00	0.00	0.00	0.00	0.00	0.20
K-ratio changed							
GBS to Central Plan	4.38	4.30	4.37	3.86	3.61	4.55	4.14
of which Revenue Expenditure	3.64	2.70	2.19	1.79	1.58	2.49	2.40
Capital expenditure	0.73	1.60	2.18	2.06	2.03	2.06	1.99
Capital Exp as % of GBS	0.17	0.37	0.50	0.54	0.56	0.45	0.43
GFD	3.77	3.40	3.00	3.00	3.00	3.00	3.08
RD	2.15	1.00	0.00	0.00	0.00	0.00	0.20

As can be seen the projected GBS with fixed capital ratio indicates sharp decline through out the plan period except for the last year (2011-12) when the GBS as percent of GDP increases to 3.62%, but is still below the base year level of 4.4%. The corresponding GFD comes down from 3.8% of GDP in the base year to 1.5% in the year 2010-11 and rises to 1.7% in the terminal year of the 11th Plan. The average net borrowing of the Central government during the 11th Plan is projected to be 1.75% of GDP. The corresponding revenue deficit figure would be 0.20% of GDP.

The fixed capital ratio of GBS option projects the GBS for Eleventh Plan at such a low level (2.96% of GDP), which is not only unacceptable but also disruptive for the macroeconomic balance. Under the changed capital ratio option of GBS, the projected GBS for Central plan declines from the base year level of 4.4% of GDP to 3.6% of GDP in the year 2010-11 and then increases to 4.55%. The sharp decline in GBS in the year 2009-10 and 2010-11 are attributed to sudden increase in the non-plan expenditure caused by implementation of 6th Central Pay Revision along with arrear payment and increase in the non-plan grant to the States, which is expected to be effected in the year 2010-2011 through the 13th Finance Commission award. In the terminal year of the 11th Plan, the Central finance would be in a position to free up resources for plan since the salary bill of the Central government would no more contain any arrear payment to the Central government employees.

Similar projection has been extended to the alternative growth target scenario of 8.0%, 8.5% and 9.0%. Under each of this growth scenario alternative structure of capital ratio of GBS has been taken to make the projection of Central government finances and the findings are summarized in the Table 4, Table 5 and Table 6 (details are in Annexure IV, V, VI, VII, VIII and IX).

Table 4: Government Finance Projection for Eleventh Five Year Plan

(as per cent of GDP)

8.0% growth Scenario with FRBM target

K-ratio fixed	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	11th Plan average
GBS to Central Plan	4.38	3.47	2.93	2.63	2.60	4.00	3.12
of which Revenue							
Expenditure	3.64	2.70	2.28	2.05	2.03	3.12	2.64
Capital expenditure	0.73	0.76	0.64	0.58	0.57	0.88	0.69
Capital Exp as % of GBS	0.17	0.22	0.22	0.22	0.22	0.22	0.21
GFD	3.77	2.56	1.47	1.52	1.54	1.82	1.78
RD	2.15	1.00	0.00	0.00	0.00	0.00	0.20
K-ratio changed							
GBS to Central Plan	4.38	4.30	4.40	3.95	3.81	4.87	4.27
of which Revenue							
Expenditure	3.64	2.70	2.22	1.89	1.78	2.81	2.51

Capital expenditure	0.73	1.60	2.18	2.06	2.03	2.06	1.99
Capital Exp as % of GBS	0.17	0.37	0.49	0.52	0.53	0.42	0.42
GFD	3.77	3.40	3.00	3.00	3.00	3.00	3.08
RD	2.15	1.00	0.00	0.00	0.00	0.00	0.20

Table 5: Government Finance Projection for Eleventh Five Year Plan

(as per cent of GDP)

8.5% growth Scenario with FRBM target

K-ratio fixed	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	11th Plan average
	GBS to Central Plan	4.38	3.48	2.96	2.70	2.75	4.18
of which Revenue							
Expenditure	3.64	2.72	2.31	2.11	2.15	3.26	2.70
Capital expenditure	0.73	0.77	0.65	0.59	0.61	0.92	0.71
Capital Exp as % of GBS	0.17	0.22	0.22	0.22	0.22	0.22	0.21
GFD	3.77	2.57	1.48	1.53	1.57	1.86	1.80
RD	2.15	1.00	0.00	0.00	0.00	0.00	0.20
K-ratio changed							
GBS to Central Plan	4.38	4.31	4.43	4.01	3.94	5.02	4.34
of which Revenue							
Expenditure	3.64	2.72	2.25	1.95	1.90	2.96	2.57
Capital expenditure	0.73	1.60	2.18	2.06	2.03	2.06	1.99
Capital Exp as % of GBS	0.17	0.17	0.17	0.17	0.17	0.17	0.17
GFD	3.77	3.40	3.00	3.00	3.00	3.00	3.08
RD	2.15	1.00	0.00	0.00	0.00	0.00	0.20

Table 6: Government Finance Projection for Eleventh Five Year Plan

(as per cent of GDP)

9.0% growth Scenario with FRBM target

K-ratio fixed	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	11th Plan average
	GBS to Central Plan	4.38	3.55	3.08	2.87	2.92	4.36
of which Revenue							
Expenditure	3.64	2.77	2.40	2.24	2.28	3.40	2.79
Capital expenditure	0.73	0.78	0.68	0.63	0.64	0.96	0.74
Capital Exp as % of GBS	0.17	0.22	0.22	0.22	0.22	0.22	0.21

K-ratio fixed	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	average
GBS to Central Plan	4.38	4.19	4.30	3.34	2.73	4.19	3.75
of which							
Revenue							
Expenditure	3.64	3.27	3.35	2.61	2.13	3.27	3.04
Capital							
expenditure	0.73	0.92	0.95	0.74	0.60	0.92	0.83
Capital Exp as % of							
GBS	0.17	0.22	0.22	0.22	0.22	0.22	0.21
GFD	3.77	3.22	2.77	2.17	1.57	1.86	2.32
RD	2.15	1.50	1.00	0.50	0.00	0.00	0.60
K-ratio changed							
GBS to Central Plan	4.38	4.56	4.90	4.30	4.03	5.12	4.58
of which							
Revenue							
Expenditure	3.64	3.27	3.33	2.54	2.00	3.06	2.97
Capital							
expenditure	0.73	1.30	1.58	1.76	2.03	2.06	1.75
Capital Exp as % of							
GBS	0.17	0.29	0.32	0.41	0.50	0.40	0.35
GFD	3.77	3.60	3.40	3.20	3.00	3.00	3.24
RD	2.15	1.50	1.00	0.50	0.00	0.00	0.60

Shifting the target year of FRBM rules improves the projected GBS to 4.58% of GDP for the Eleventh plan from a figure of 4.45% of GDP under the enacted FRBM rules with a 9% growth scenario. The net borrowing of Central government increases to 3.24% of GDP compared to 3.08% under the enacted FRBM path. Revenue deficit of the Central government for Eleventh plan rises to 0.6% of GDP. These have implication for Central government draft on private savings as well as government savings.

III: Projection of State Government Finances

As indicated under projection of Central government finances, the plan outlay under State finances is also derived as a residual after making projection for total non-plan expenditure, total revenue receipt and total capital receipt including non-debt capital receipts and government borrowing. The following paragraphs explains in detail the steps undertaken to project various components under the heads of non-plan expenditure, revenue receipts and capital receipts

3.1 Revenue Receipt of State Government:

Revenue receipt of States comprises States' own tax revenue, share of States from Central tax revenue, States own non-tax revenue and grant from Centre.

State's Own Tax Revenue

State's own tax revenue is projected by assuming overall tax buoyancy on the basis of tax buoyancy realized in the past as well as specific information on state level policy on revenue mobilization. During the Tenth Plan all States together have realized a tax buoyancy of 1.1 on average. In our projection we assume a tax buoyancy of 1.15 for the State finances. This may be little optimistic but not infeasible keeping in view consolidation of VAT in all States and anticipated acceleration in the industrial growth. **This tax buoyancy figure need to be compared with the findings of the sub-group report on Tax resources of the States constituted under the Working group of State Plan resources for Eleventh Five Year Plan.**

Share of States in the Central Tax Revenue

Share of States in the Central tax revenue is calculated on the basis of TFC recommendation and the projection of Central government finances. This budget number under State finances has been linked to the Central finance projection as discussed in the earlier section.

States Own Non-Tax Revenue

States own non-tax revenue is projected on the basis of past trend, states policy on user charges, and anticipated revenue generation from the state level public enterprises (SLPEs) and departmental undertaking. Realisation of non-tax revenue at the State level in the past few years has not been very optimistic. Therefore, the sub group agreed to assume an annual growth rate of 5% for the Eleventh plan.

Grant from Centre

Grant from Centre to States comprises both non-plan grant and plan grant. **Non-plan grant** is transferred to the states on TFC recommendation, which is already indicated under Central finance projection. For the last two years of the Eleventh Plan non-plan grants have been doubled in relation to 2009-10 figures.

Plan grant from centre comprises grant under normal central assistance (NCA), additional central assistance (ACA) and Centrally Sponsored Schemes (CSS). NCA and ACA grant together constituted about 31.5% of the revenue component of GBS of Centre during the Tenth Plan on average; although the last 2 years of the Tenth Plan experienced substantial decline. The CSS grant, as a share of GBS (Revenue component) has remained almost stable at 15%, during each year of the Tenth Plan. Keeping in view the plan grant transfer to States during the Tenth Plan as well as requirement of larger plan resources at State level to support the acceleration in economic growth as targeted for EFP, the plan grant to States under NCA and ACA is projected to be 33% of the revenue account of GBS. This is comparable to the share of grant transfer to the States under NCA and ACA in the GBS during the first 3 years of the Tenth Plan. The CSS grant is maintained at 15% of the GBS (revenue account) in our projection.

3.2 Non-Debt Capital Receipts:

Non-debt capital receipt of the States comprises recoveries of loan from SLPEs and fund accrued from disinvestment in SLPEs. Non-debt capital receipts constitute a small proportion of the total receipts and are gradually declining in absolute terms (0.1% of GDP in 2006-07). Therefore, this budget number has been taken as zero in our projection in absence of any State level information.

3.3 Non-Plan expenditure of State Governments:

The specific budget numbers under Non-plan expenditure of States such as interest payment, pay and allowances, pensions and other Non-Plan expenditure including subsidies are projected as given below:

Interest Payment

The interest payment liability of the State Government has been divided into two components, such as (a) the interest payment to the Central government against the loans from Centre and (b) interest paid to the market against market borrowing. The latter includes all borrowing of the State government other than borrowing from Centre. The projection of the interest payment to the Centre follows TFC recommendation on debt consolidation and restructuring and debt relief. This component has been linked to interest receipt from state/UTs component of Central finance under non-tax revenue. The projection of interest payment to the market would depend on the past debt stock against market borrowing, fresh borrowing and the nominal interest rate on the fresh borrowing. As per the TFC recommendations loans from Centre cease to exist, therefore, the entire fresh borrowing of the State government would be accessed from the market and NSSF. The formula for calculating the interest payment against the market borrowing is same as that under Central finance. The nominal interest rate on fresh borrowing is assumed to be 9.0% as indicated in the earlier section.

Pay and Allowance

Projection of pay and allowance has to be based on some assumptions relating to rate of growth in the number of government employees during EFYP, rate of inflation, and possibility of pay revision during the plan period. Rate of inflation is already assumed to be 5%. As regards pay revision, since Sixth Central Pay Commission has already been setup, pay revision at State level during the EFP would be unavoidable. Hence pay revision has been factored into in the State finance projection in the same way as has been done for the Centre with the variation that the pay revision would be adopted in the year 2010-11 i.e. after TFC award period is over. The salary bill projection under State finances may have been on a higher side, since we have assumed all States to follow the Central pay revision in the similar manner and with same year of effectiveness as that under Central finances. However, going by past experience of Fifth Pay Commission on State Finance, some States implemented the pay revision in the same manners and same year of effectiveness as the Centre. Some States followed their own

pay revision independent of the pay revision at the Centre. And some States followed Centre pay revision, but deferred the year of implementation and effectiveness by 2 years. To the extent there would be inter State variation in the pay revision like the one adopted after fifth Central pay revision, the actual salary bill would fall short of the projected number as adopted in our projection.

Pension payment projection would also be in the line of the projection made for the salary bill. Ideally the annual rate of growth of government's pension bill would be equal to the rate of inflation plus the rate of increase in the number of pensioners. However, it is difficult at this stage to get a number for rate of increase in the number of pensioners at State level. In this situation, projections have been based on the rate of growth of pension bill realized during Tenth Plan. Thus annual growth rate of pension payment after pay revision is made effective in 2006-07, has been taken as 9% at State level. The pension payment outgo during each year of the EFP has been adjusted by making the actual payment implementable in the year 2010-11, and the arrear payment to be staggered over 2 years period.

As per the projection of non-Plan expenditure of States made by the TFC, 30% of plan revenue expenditure of non-special category States in the base year of the Eleventh Plan would be shifted to non-plan head in the beginning of Eleventh Plan. For special category States it is 20%. In our projection of other non-plan expenditure for States this principle has been applied to estimate the budget number for the first year of Eleventh Plan. There after a 10% of annual increase has been applied. This should take care of a part of pay revision that is expected during the projection period.³

3.4 State Plan Outlay:

Plan outlay for States has been estimated as residual after obtaining the projected figure for Non-plan expenditure of the States' revenue receipt of the State and non-debt

³ In our projection of Salary Bill for States we have not factored in any increase in the number of employees. The incremental number of employees would be taken care of under other non-plan head.

capital receipt of the States as described in the previous paragraphs. Most of the States have enacted FRBM legislation in conformity with the conditionality imposed by the 12th Finance Commission so as to make themselves eligible for availing the benefits of debt restructuring and debt relief. It is worth mentioning here that the enacted FRBM legislation at the State level mandates the States to bring down their gross fiscal deficit to 3.0% of their respective GSDP by the year 2008-09 and to bring down the revenue deficit to zero by the same year. However, for the fiscally better managed States which have already realised a GFD to GSDP ratio of less than 3.0% in the year 2004-05, they are constrained to maintain their fiscal deficit at that level only. Therefore, for all states together the GFD limit as a percentage of all India GDP would be much less than 3% due to the following reasons:

- The gap between All India GDP and all States GSDP is about 10%. This brings down the required GFD to GDP ratio for all States to 2.7% under a 3.0% GFD/GSDP norm for the States.
- The conditionality imposed on the fiscally better managed States to maintain their GFD to GSDP ratio at less than 3.0% level (if less than 3.0% level is already attained) would bring down the aggregate GFD to GDP ratio for all States by another 0.1 percentage point.

Keeping this in view, the upper limit of the fiscal deficits for all States together in our projection has been kept at 2.6% of GDP up to the year 2009-10 i.e. the last year of TFC award period. Subsequently, for the last two years of the Eleventh Plan the GFD to GDP ratio of the States have been pushed up to 2.7% implying that each state would be allowed to borrow a maximum of 3.0% of their respective GSDP.

Once the borrowing limit of the State finances is obtained under various growth rate scenarios, the plan outlay of the States is obtained as a residual using the similar formula that has been used to calculate Central plan outlay. It may be noted that most of the plan schemes and programmes at the State level follow same non-flexible guidelines under which it may be difficult for the states to change the revenue capital mix of the plan programmes. If the states would be constrained to continue with a fixed revenue

capital mix of 50:50 of plan outlay (as in the Tenth plan) during the Eleventh Plan then the projection of State government finances with the assumptions of fixed revenue capital mix for GBS can be calculated by the following formula :

$$\text{Plan Revenue Expenditure} = \text{RR} + \text{RD} - \text{NPRE} \quad \text{-----} \quad (5)$$

$$\text{Plan Outlay} = \text{Plan Revenue Expenditure} / (1-0.5) \quad \text{-----} \quad (6)$$

Where,

RR= Revenue Receipt

RD= Revenue deficit

NPRE= Non-plan Revenue Expenditure

The fixed revenue capital mix for GBS would compress the plan outlay automatically. This is because the states would not be in a position to increase the plan size beyond a point since under fixed revenue capital mix of plan outlay an increase in plan outlay would imply an automatic increase in the plan revenue expenditure which would put upward pressure on revenue deficit and violate the revenue deficit target of the FRBM. Therefore, the revenue deficit constraint of FRBM being binding on the state finances, it would be necessary for the States to bring down the plan size so as to keep the plan size expenditure within limit. In this case the GFD is not exogenously given. GFD is calculated automatically with the conventional formula, which has been found to be much below the 2.6% of GDP. Wherever fiscal deficit is found to exceed the FRBM target, the revenue balance of the states has been adjusted and a surplus has been provided so as to bring down the fiscal deficit to FRBM target level i.e. 2.6% / 2.7% for the States.

In the alternative structure of GBS in which the revenue capital mix of the projected plan outlay is allowed to change, both GFD and RD constraint are met simultaneously and plan outlay as well as plan revenue expenditure of States are calculated by the same formula as under Central finance. The summary results of the projection of State finances under alternative growth rate scenarios for the Eleventh plan with both fixed capital ratio of GBS and changed capital ratio of GBS are indicated in Table 8 to Table 12.

Table 8: Government Finance Projection for Eleventh Five Year Plan-States

(as per cent of GDP)

7.0% growth Scenario with FRBM target

K-ratio fixed	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	11th Plan
							average
GBS to State Plan	4.19	3.62	3.93	4.41	0.35	2.75	3.01
GFD	2.68	2.06	2.21	2.45	0.42	1.61	1.75
RD	0.05	0.00	0.00	0.00	0.00	0.00	0.00
K-ratio changed							
GBS to State Plan	4.19	4.15	4.24	4.41	2.44	3.43	3.74
GFD	2.68	2.60	2.60	2.60	2.70	2.70	2.64
RD	0.05	0.00	0.00	0.00	0.00	0.00	0.00

Table 9: Government Finance Projection for Eleventh Five Year Plan-States

(as per cent of GDP)

8.0% growth Scenario with FRBM target

K-ratio fixed	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	11th Plan
							average
GBS to State Plan	4.19	3.62	4.05	4.74	1.20	4.03	3.53
GFD	2.68	2.06	2.28	2.59	0.83	2.24	2.00
RD	0.05	0.00	0.00	-0.02	0.00	0.00	0.00
K-ratio changed							
GBS to State Plan	4.19	4.15	4.31	4.61	2.89	4.15	4.02
GFD	2.68	2.60	2.60	2.60	2.70	2.70	2.64
RD	0.05	0.00	0.00	0.00	0.00	0.00	0.00

Table 10: Government Finance Projection for Eleventh Five Year Plan-States

(as per cent of GDP)

8.5% growth Scenario with FRBM target

K-ratio fixed	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	11th Plan
							average
GBS to State Plan	4.19	3.67	4.18	4.84	1.70	4.65	3.81
GFD	2.68	2.09	2.34	2.59	1.08	2.54	2.13
RD	0.05	0.00	0.00	-0.07	0.00	0.00	-0.01
K-ratio changed							
GBS to State Plan	4.19	4.18	4.37	4.72	3.15	4.49	4.18
GFD	2.68	2.60	2.60	2.60	2.70	2.70	2.64
RD	0.05	0.00	0.00	0.00	0.00	0.00	0.00

Table 11: Government Finance Projection for Eleventh Five Year Plan-States
(as per cent of GDP)

9.0% growth Scenario with FRBM target

K-ratio fixed	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	11th Plan
							average
GBS to State Plan	4.19	3.88	4.53	5.07	2.27	5.08	4.16
GFD	2.68	2.19	2.51	2.58	1.36	2.69	2.27
RD	0.05	0.00	0.00	-0.19	0.00	-0.06	-0.05
K-ratio changed							
GBS to State Plan	4.19	4.28	4.56	4.98	3.46	4.82	4.42
GFD	2.68	2.60	2.60	2.60	2.70	2.70	2.64
RD	0.05	0.00	0.00	0.00	0.00	0.00	0.00

Under each of the growth target scenario, confirmation to the FRBM Act requires the plan outlay to be compressed substantially under fixed capital ratio of GBS option. The projected plan outlay for the States varies within a range of 3.01% of GDP to 4.16% of GDP under 7.0% and 9.0% growth rate scenario respectively. The projected plan outlay under 9.0% growth scenario, though indicates slight improvement of 10th Plan average at 3.98%, is less than the base year figure of 4.19. This is not consistent with the 9.0% growth target scenario. Under the changed capital ratio of GBS option, the projected States plan outlay varies from 3.74% of GDP to 4.42% of GDP under 7.0% to 9.0% growth rate scenarios respectively for the Eleventh plan. Though there is improvement in the plan outlay compared to that under fixed capital ratio of GBS option as well as 10th plan average, the public investment requirement for realizing the envisaged high growth path may not be adequately supported by this level of plan outlay.

Shifting the target year of FRBM rules for Central government improves the projected plan outlay of States through higher revenue (plan grant) transfer from Centre to 4.60% of GDP for the Eleventh plan from a figure of 4.42% of GDP under the enacted FRBM rules with a 9% growth scenario and changed of capital ratio of plan outlay. The net borrowing of State government remains at 2.64% of GDP since no change has been

made in FRBM path to be followed by the States. Revenue deficit remains at zero level for the Eleventh Plan.

Table 12: Government Finance Projection for Eleventh Five Year Plan-States
(as per cent of GDP)

9.0% growth Scenario with FRBM target shifted to 2010-11

K-ratio fixed	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	11th Plan average
	GBS to State Plan	4.19	4.36	5.06	5.25	2.08	4.93
GFD	2.68	2.43	2.60	2.60	1.26	2.62	2.30
RD	0.05	0.00	-0.18	-0.26	0.00	-0.06	-0.10
K-ratio changed							
GBS to State Plan	4.19	4.52	5.03	5.20	3.44	4.79	4.60
GFD	2.68	2.60	2.60	2.60	2.70	2.70	2.64
RD	0.05	0.00	0.00	0.00	0.00	0.00	0.00

IV. Draft on Private Savings

The projection of the governments' draft on private savings under the alternative scenario is an exercise to maintain the macro-economic balances under a very high projection of economic growth. The combined gross fiscal deficit of Centre and States under alternative growth rate scenarios with the assumption of fixed capital ratio to GBS varies within a range of 3.5% of GDP to 4.1% of GDP as indicated in the Table below (Table 13). **On average Government finances would claim about 3.5 to 4.1 percent of GDP during the Eleventh plan from the private savings.** This is comparable to the projection of made by the sub group for the Tenth plan under 8.0% growth rate scenario (3.76% of GDP was projected as governments' draft from the private sectors saving during the Tenth Plan). The corresponding revenue deficit of the Government works out to be within the range of 0.2% to 0.15% of the GDP. In this case capital ratio of GBS being fixed at 22% for the Centre and 50% for the States, revenue deficit target becomes the binding constraint and total Plan outlay is compressed much below the level that is required for macroeconomic consistency.

Table 13: Combined GFD, RD and Plan Outlay – Centre & States- Eleventh Plan

Under Alternative Growth Target Scenarios
(Fixed Capital ratio of GBS)

Growth target	7.0%	8.0%	8.5%	9.0%
Plan outlay	4.86	5.48	5.83	6.25
Fiscal Deficit	3.50	3.78	3.93	4.10
Revenue Deficit	0.20	0.20	0.19	0.15

Under varying Capital ratio to GDP assumption, both levels of government would be in a position to borrow at the ceiling level of GFD. **Therefore, the combined GFD would remain at 5.72% of GDP for all the growth rate scenarios as indicated in the Table 14 below and Government finances would claim about 5.72% of GDP during the Eleventh plan from the private savings.** The total plan outlay of the Centre and States together, in this case has much improved and works out to vary within a range of 6.85% to 7.7% of GDP. The corresponding revenue deficit of the Government is maintained within the FRBM constraint of 0.2% of GDP on average in the Eleventh plan.

Table 14: Combined GFD, RD and Plan Outlay - Centre+States- Eleventh Plan
Under Alternative Growth Target Scenarios
(Changed Capital ratio of GBS)

Growth target	7.0%	8.0%	8.5%	9.0%
Plan outlay	6.85	7.20	7.39	7.69
Fiscal Deficit	5.72	5.72	5.72	5.72
Revenue Deficit	0.20	0.20	0.20	0.20

Disinvestments

In our projection we have assumed zero dis-investment of the PSUs. However, if there would be some disinvestment of the PSUs during the Eleventh plan, the implications will be the followings:

- (a) Dis-investment of the PSUs would change the budgetary position of the Government, since the investment proceeds are considered as a part of non-debt receipt. Inclusion of a positive budget number under this head would not change the revenue balance and therefore, the Plan revenue expenditure of the Government would not change. Under fixed revenue – capital mix of GBS assumption, there would not be any change in the budgetary resources for Plan. However, under the changed revenue capital mix assumptions of Plan outlay, a positive dis-investment number would push up the plan resources.
- (b) The dis-investment proceeds would be considered a draft on private savings.

Extra Budgetary Resources (EBR)/Borrowing by PSUs:

So far public sector undertakings have been net contributor to the private savings since the investment by PSUs have been less than the savings of public sector in the past few years. The borrowing decision of the PSUs would be driven by their future investment decision, on which we do not have much information. **It may be noted that, a sub-group on IEBR for plan have been constituted under the Working group on Central Plan resources for the Eleventh Plan. Some clear picture EBR component would emerge once the sub group submits its report.**

Public Savings

The public sector's savings are constituted of: (i) government savings; and (ii) savings generated by the public sector undertakings in the form of internal resources. It is the government saving which can properly be linked to the combined revenue deficit of the government, although the correspondence is not exact. The reason for this is that (a) the CSO, which measures savings, uses an economic classification of expenditure to distinguish between investment and consumption, while the Government budgets, on the other hand, use an accounting classification and (b) CSO factors in the depreciation of government owned capital assets, which is not accounted for in the government budgets. These two reasons create a certain amount of non-comparability between the two

measures of current expenditures. The other reason for discrepancy between savings and revenue deficit lies in the definitions:

$$\text{Revenue surplus} = \text{Revenue receipts} - \text{revenue expenditures}$$

$$\text{Government Savings} = \text{Current receipts} - \text{consumption expenditures}$$

The difference between the two is:-

$$\text{Revenue expenditures} = \text{consumption expenditures} + \text{net transfers}$$

where:

$$\text{Net transfers} = \text{Total transfers} - \text{direct taxes}$$

In the absence of an exact relationship between the combined revenue deficit of the Government and the Government savings, the Government savings could be estimated through the observed relationship between the two variables over the past few years. On the basis of observation of the last 10 years data, the gap between Government savings and combined revenue deficit as percentage of GDP at market prices is estimated as 1.8 percentage points on average. Applying this factor to the combined revenue deficit projected in the Sub Group report, the **Government savings is projected to be 1.6% of the GDP. The projected government saving does not vary under alternative growth scenario, because the revenue deficit is taken as an exogenous policy variable under FRBM constraint. However, under the fixed capital ratio of GBS option the projected government saving for 9% growth rate scenario would be 1.65% of GDP, which is a marginal improvement over the previous one.**

As regards the **savings generated by public sector enterprises** in the form of internal resources (IR), no estimate is available for the future. A perusal of the past data, however, reveals that such savings have more or less steadily increased from 2.95% of GDP in 1990-91 to 3.12% in 1999-2000 and to 4.51 % in 2004-05. If this trend were to continue in the future, then the average for the Eleventh Plan period could be higher than 4.5% of GDP. However, it may be appropriate at this stage to maintain the projection of IR at 2004-05 level of 4.5% of GDP. **Thus, total public savings by this method is**

estimated to be 4.5% higher than the projected government savings that has been discussed in the previous paragraph.

Annexure I

No.3/3/2006-FR
Government of India
Planning commission
(Financial Resources Division)

Yojana Bhavan, Sansad Marg,
New Delhi, 1st September, 2006

ORDER

Subject: Formulation of Eleventh five Year Plan (2007-2012) – Constitution of the Sub-Group on Public Sector's Draft on Private Sector Saving

In the context of the formulation of the Eleventh Five Year Plan (2007-2012), and estimation of savings, it has been decided to constitute a Sub-Group on on Public Sector's Draft on Private Sector Saving as a part of the Working Group on Savings.

2. The composition of the Sub- Group is as follows:

- | | | |
|------|---|----------|
| i) | Dr. Pronab Sen
Principal Adviser, Planning Commission | Convener |
| ii) | Dr. Pinaki Chakraborty
NIPFP | Member |
| iii) | Shri M.C. Singhi,
Economic Adviser, Ministry of Finance | Member |
| iv) | Shri K.U.B. Rao,
Adviser, RBI, Mumbai | Member |
| v) | Dr. Ramesh Kolli
DDG, CSO, New Delhi | Member |
| vi) | Prof. Pulin B. Nayak,
Delhi School of Economics,
University of Delhi, Delhi | Member |
| vii) | Shri C.R. Sundaramurti,
Additional Controller General of Accounts, Delhi | Member |

3. The terms of reference of the Sub Group are as follows:

- To review the developments and likely behavioral pattern during the 11th Plan period;
- To estimate the public sector draft on private savings keeping in view the fiscal sustainability and commitments under the Fiscal Responsibility Act;
- To explain the procedures followed for estimation.

4. The Chairman of the Sub-group may co-opt additional members as may be considered necessary.

5. The expenditure on TA/DA etc. of the official members in connection with the meetings of the Sub-Group will be borne by the respective Government/Department/Institutions to which the member belongs. Non-official member will be entitled to TA/DA as admissible to Grade I officers of the Government of India and this expenditure will be paid by the Planning commission.

6. The Sub-group should endeavour to finalize its report within 2 months from the date of this order.

(A.K. Panda)
Director (FR)
Planning Commission

Copy to: Chairman and all members of the Sub Group on Public Sector's Draft on Private Sector Saving

Copy also to:

- 1) IFA Unit, Planning Commission
- 2) Admn./Accounts/General Branches, Planning Commission
- 3) US (Admn.), Planning Commission
- 4) Information Officer, Planning Commission
- 5) Library, Planning Commission
- 6) Plan Coordination Division, Planning commission,
- 7) PS to Deputy Secretary (Admn.), Planning Commission
- 8) PS to Deputy Governor, RBI
- 9) PS to Pr. Adviser (PP)
- 10) PPS to Adviser (FR)
- 11) PS to Director (PP)
- 12) PS to Branch Officer (FR)

(A.K. Panda)
Director (FR)

Government Finance Projection for Eleventh Five Year Plan (2007-12)- Centre
(as per cent of GDP)

	9.0% growth Scenario with FRBM target shifted to 2010-11 for Centre						revenue capital mix fixed for GBS (78:22)
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Plan Average Eleventh Plan
1. GBS to Central Plan	4.38	4.19	4.30	3.34	2.73	4.19	3.75
of which							
(i) Grant to States	1.45	1.57	1.61	1.25	1.02	1.57	1.40
(ii) Other Plan revenue Expenditure	2.19	1.70	1.74	1.36	1.11	1.70	1.52
(iii) Plan Capital Expenditure	0.73	0.92	0.95	0.74	0.60	0.92	0.83
Cap Exp as % of GBS	16.77	22.00	22.00	22.00	22.00	22.00	22.00
2. Total Non-Plan	9.91	9.49	9.00	9.46	9.60	8.58	9.23
of which							
(i) Interest payments	3.54	3.39	3.20	2.99	2.75	2.49	2.97
(ii) Defence	2.26	2.20	2.20	2.40	2.40	2.30	2.30
(iii) Pay & Allowances	1.01	0.95	0.89	1.43	1.30	0.93	1.10
(iv) non-plan grant to States	0.90	0.85	0.71	0.62	1.07	0.93	0.83
(v) Subsidies	1.17	1.09	1.02	0.94	0.87	0.80	0.94
(vi) Other Non-Plan	1.04	1.01	0.97	1.08	1.20	1.13	1.08
3. Total Expenditure	14.29	13.68	13.30	12.81	12.33	12.77	12.98
4. Gross tax revenue	11.20	11.52	11.86	12.21	12.60	13.00	12.24
Less : Share of States	2.91	3.13	3.22	3.33	3.43	3.55	3.33
5. Net Tax to Centre	8.29	8.39	8.63	8.89	9.16	9.45	8.90
6. Non-tax Revenue	1.93	1.80	1.67	1.54	1.42	1.30	1.54
7. Total Revenue Receipt	10.22	10.19	10.30	10.43	10.58	10.75	10.45
Gross Fiscal Deficit	3.77	3.22	2.77	2.17	1.57	1.86	2.32
Revenue Deficit	2.15	1.50	1.00	0.50	0.00	0.00	0.60
Primary deficit	0.22	-0.17	-0.43	-0.82	-1.18	-0.63	-0.65

Government Finance Projection for Eleventh Five Year Plan (2007-12)- All States
(as % of GDP)

	revenue capital mix fixed for GBS (50:50)						
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Plan Average Eleventh Plan
1. States Plan	4.19	4.36	5.06	5.25	2.08	4.93	4.33
2. Total Non-Plan	11.85	11.37	10.86	10.35	12.56	11.63	11.35
of which							
(i) Interest payments	2.52	2.43	2.32	2.23	2.15	1.96	2.22
(iii) Pay & Allowances	2.95	2.77	2.59	2.41	4.15	3.76	3.14
(iii) Pension	1.16	1.12	1.07	1.02	1.77	1.63	1.32
(vi) Other Non-Plan	4.96	5.06	4.88	4.69	4.49	4.28	4.68
3. Total Expenditure	16.04	15.72	15.92	15.60	14.63	16.56	15.69
4. Tax Revenue	9.15	9.64	9.86	10.08	10.33	10.58	10.10
of which							
(i) State Own Tax Revenue	6.40	6.51	6.63	6.76	6.89	7.03	6.77
(ii) Share from Centre	2.75	3.13	3.22	3.33	3.43	3.55	3.33
5. Non-tax Revenue	3.86	3.65	3.46	2.91	3.05	3.36	3.29
of which							
(i) plan grant from Centre	1.45	1.57	1.61	1.25	1.02	1.57	1.40
(ii) non plan grant from Centre	0.90	0.85	0.71	0.62	1.07	0.93	0.83
(ii) State own non-tax Revenue	1.34	1.24	1.14	1.05	0.95	0.87	1.05
6. Total Revenue Receipts	13.00	13.29	13.32	13.00	13.37	13.94	13.39
Gross Fiscal Deficit	2.68	2.43	2.60	2.60	1.26	2.62	2.30
Revenue Deficit	0.05	0.00	-0.18	-0.26	0.00	-0.06	-0.10
Primary deficit	0.16	0.00	0.27	0.37	-0.88	0.66	0.08

Total GBS to Plan (Centre & States)	7.12	6.98	7.75	7.34	3.78	7.56	6.68
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Assumptions for Projection: -

Rate of Inflation 5 per cent

Assumptions for Central Finance

marginal rate of interest (nominal)	8.0%
tax buoyancy	1.25
annual growth in non tax revenue*	7.5%
Growth in ONP	10%
States' share in Central Tax	29%
* other than interest receipt	

Assumptions for State Finance

marginal rate of interest (nominal)	9.0%
tax buoyancy	1.15
annual growth in own non tax reve	5%
annual growth in pay & allowance	12%
Rate of Growth in ONP	10%

Annexure X

Government Finance Projection for Eleventh Five Year Plan (2007-12)- Centre
(as per cent of GDP)

9.0% growth Scenario with FRBM target shifted to 2010-11

Revenue capital mix has been allowed to change

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Plan Average Eleventh Plan
1. GBS to Central Plan	4.38	4.56	4.90	4.30	4.03	5.12	4.58
of which							
(i) Grant to States	1.45	1.57	1.60	1.22	0.96	1.47	1.36
(ii) Other Plan revenue Expenditure	2.19	1.70	1.73	1.32	1.04	1.59	1.48
(iii) Plan Capital Expenditure	0.73	1.30	1.58	1.76	2.03	2.06	1.75
Cap Exp as % of GBS	16.77	28.43	32.14	40.96	50.42	40.27	38.45
2. Total Non-Plan	9.91	9.49	9.03	9.53	9.73	8.79	9.31
of which							
(i) Interest payments	3.54	3.39	3.23	3.06	2.88	2.70	3.05
(ii) Defence	2.26	2.20	2.20	2.40	2.40	2.30	2.30
(iii) Pay & Allowances	1.01	0.95	0.89	1.43	1.30	0.93	1.10
(iv) non-plan grant to States	0.90	0.85	0.71	0.62	1.07	0.93	0.83
(v) Subsidies	1.17	1.09	1.02	0.94	0.87	0.80	0.94
(vi) Other Non-Plan	1.04	1.01	0.97	1.08	1.20	1.13	1.08
3. Total Expenditure	14.29	14.06	13.93	13.83	13.76	13.91	13.90
4. Gross tax revenue	11.20	11.52	11.86	12.21	12.60	13.00	12.24
Less : Share of States	2.91	3.13	3.22	3.33	3.43	3.55	3.33
5. Net Tax to Centre	8.29	8.39	8.63	8.89	9.16	9.45	8.90
6. Non-tax Revenue	1.93	1.80	1.67	1.54	1.42	1.30	1.54
7. Total Revenue Receipt	10.22	10.19	10.30	10.43	10.58	10.75	10.45
Gross Fiscal Deficit	3.77	3.60	3.40	3.20	3.00	3.00	3.24
Revenue Deficit	2.15	1.50	1.00	0.50	0.00	0.00	0.60
Primary deficit	0.22	0.21	0.17	0.14	0.12	0.30	0.19

Government Finance Projection for Eleventh Five Year Plan (2007-12)- All States
(as % of GDP)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Plan Average Eleventh Plan
1. States Plan	4.19	4.52	5.03	5.20	3.44	4.79	4.60
2. Total Non-Plan	11.85	11.37	10.87	10.36	12.57	11.75	11.38
of which							
(i) Interest payments	2.52	2.43	2.34	2.25	2.16	2.08	2.25
(iii) Pay & Allowances	2.95	2.77	2.59	2.41	4.15	3.76	3.14
(iii) Pension	1.16	1.12	1.07	1.02	1.77	1.63	1.32
(vi) Other Non-Plan	4.96	5.06	4.88	4.69	4.49	4.28	4.68
3. Total Expenditure	16.04	15.89	15.91	15.57	16.01	16.54	15.98
4. Tax Revenue	9.15	9.64	9.86	10.08	10.33	10.58	10.10
of which							
(i) State Own Tax Revenue	6.40	6.51	6.63	6.76	6.89	7.03	6.77
(ii) Share from Centre	2.75	3.13	3.22	3.33	3.43	3.55	3.33

5. Non-tax Revenue	3.86	3.65	3.45	2.88	2.98	3.26	3.25
of which							
(i) plan grant from Centre	1.45	1.57	1.60	1.22	0.96	1.47	1.36
(ii) non plan grant from Centre	0.90	0.85	0.71	0.62	1.07	0.93	0.83
(ii) State own non-tax Revenue	1.34	1.24	1.14	1.05	0.95	0.87	1.05
6. Total Revenue Receipts	13.00	13.29	13.31	12.97	13.31	13.84	13.34

Gross Fiscal Deficit	2.68	2.60	2.60	2.60	2.70	2.70	2.64
Revenue Deficit	0.05	0.00	0.00	0.00	0.00	0.00	0.00
Primary deficit	0.16	0.17	0.26	0.35	0.54	0.62	0.39

Total GBS to Plan (Centre & States)	7.12	7.52	8.34	8.28	6.51	8.45	7.82
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Assumptions for Projection: -

Rate of Inflation 5 per cent

Assumptions for Central Finance

marginal rate of interest (nominal)	8.0%
tax buoyancy	1.25
annual growth in non tax revenue*	7.5%
Growth in ONP	10%
States' share in Central Tax	29%
* other than interest receipt	

Assumptions for State Finance

marginal rate of interest (nominal)	9.0%
tax buoyancy	1.15
annual growth in own non tax reve	5%
annual growth in pay & allowance	12%
Rate of Growth in ONP	10%

Annexure VIII

Government Finance Projection for Eleventh Five Year Plan (2007-12)- Centre
(as per cent of GDP)

9.0% growth Scenario with FRBM target

revenue capital mix fixed for GBS (78:22)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Plan Average Eleventh Plan
1. GBS to Central Plan	4.38	3.55	3.08	2.87	2.92	4.36	3.35
of which							
(i) Grant to States	1.45	1.33	1.15	1.07	1.09	1.63	1.26
(ii) Other Plan revenue Expenditure	2.19	1.44	1.25	1.16	1.19	1.77	1.36
(iii) Plan Capital Expenditure	0.73	0.78	0.68	0.63	0.64	0.96	0.74
Cap Exp as % of GBS	16.77	22.00	22.00	22.00	22.00	22.00	22.00
2. Total Non-Plan	9.91	9.49	8.96	9.33	9.45	8.45	9.14
of which							
(i) Interest payments	3.54	3.39	3.16	2.86	2.60	2.36	2.87
(ii) Defence	2.26	2.20	2.20	2.40	2.40	2.30	2.30
(iii) Pay & Allowances	1.01	0.95	0.89	1.43	1.30	0.93	1.10
(iv) non-plan grant to States	0.90	0.85	0.71	0.62	1.07	0.93	0.83
(v) Subsidies	1.17	1.09	1.02	0.94	0.87	0.80	0.94
(vi) Other Non-Plan	1.04	1.01	0.97	1.08	1.20	1.13	1.08
3. Total Expenditure	14.29	13.04	12.03	12.20	12.37	12.81	12.49
4. Gross tax revenue	11.20	11.52	11.86	12.21	12.60	13.00	12.24
Less : Share of States	2.91	3.13	3.22	3.33	3.43	3.55	3.33
5. Net Tax to Centre	8.29	8.39	8.63	8.89	9.16	9.45	8.90
6. Non-tax Revenue	1.93	1.80	1.67	1.54	1.42	1.30	1.54
7. Total Revenue Receipt	10.22	10.19	10.30	10.43	10.58	10.75	10.45
Gross Fiscal Deficit	3.77	2.58	1.50	1.57	1.61	1.90	1.83
Revenue Deficit	2.15	1.00	0.00	0.00	0.00	0.00	0.20
Primary deficit	0.22	-0.81	-1.66	-1.30	-0.99	-0.47	-1.04

Government Finance Projection for Eleventh Five Year Plan (2007-12)- All States
(as % of GDP)

revenue capital mix fixed for GBS (50:50)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Plan Average Eleventh Plan
1. States Plan	4.19	3.88	4.53	5.07	2.27	5.08	4.16
2. Total Non-Plan	11.85	11.37	10.84	10.33	12.54	11.61	11.34
of which							
(i) Interest payments	2.52	2.43	2.30	2.21	2.13	1.95	2.20
(iii) Pay & Allowances	2.95	2.77	2.59	2.41	4.15	3.76	3.14
(iii) Pension	1.16	1.12	1.07	1.02	1.77	1.63	1.32
(vi) Other Non-Plan	4.96	5.06	4.88	4.69	4.49	4.28	4.68
3. Total Expenditure	16.04	15.24	15.37	15.40	14.80	16.70	15.50
4. Tax Revenue	9.15	9.64	9.86	10.08	10.33	10.58	10.10
of which							
(i) State Own Tax Revenue	6.40	6.51	6.63	6.76	6.89	7.03	6.77
(ii) Share from Centre	2.75	3.13	3.22	3.33	3.43	3.55	3.33
5. Non-tax Revenue	3.86	3.41	3.01	2.73	3.12	3.43	3.14
of which							
(i) plan grant from Centre	1.45	1.33	1.15	1.07	1.09	1.63	1.26
(ii) non plan grant from Centre	0.90	0.85	0.71	0.62	1.07	0.93	0.83
(ii) State own non-tax Revenue	1.34	1.24	1.14	1.05	0.95	0.87	1.05
6. Total Revenue Receipts	13.00	13.05	12.86	12.82	13.45	14.01	13.24
Gross Fiscal Deficit	2.68	2.19	2.51	2.58	1.36	2.69	2.27
Revenue Deficit	0.05	0.00	0.00	-0.19	0.00	-0.06	-0.05
Primary deficit	0.16	-0.24	0.21	0.37	-0.77	0.74	0.06
Total GBS to Plan (Centre & States)	7.12	6.09	6.45	6.87	4.10	7.81	6.26

Assumptions for Projection: -

Rate of Inflation

5 per cent

Assumptions for Central Finance**Assumptions for State Finance**

marginal rate of interest (nominal)	8.0%
tax buoyancy	1.25
annual growth in non tax revenue*	7.5%
Growth in ONP	10%
States' share in Central Tax	29%
* other than interest receipt	

marginal rate of interest (nominal)	9.0%
tax buoyancy	1.15
annual growth in own non tax revenue	5%
annual growth in pay & allowance	12%
Rate of Growth in ONP	10%

Annexure IX

Government Finance Projection for Eleventh Five Year Plan (2007-12)- Centre (as per cent of GDP)

9.0% growth Scenario with FRBM target	Revenue capital mix has been allowed to change						Plan Average Eleventh Plan
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	
1. GBS to Central Plan	4.38	4.36	4.52	4.14	4.08	5.16	4.45
of which							
(i) Grant to States	1.45	1.33	1.12	1.00	0.98	1.49	1.18
(ii) Other Plan revenue Expenditure	2.19	1.44	1.22	1.08	1.06	1.61	1.28
(iii) Plan Capital Expenditure	0.73	1.60	2.18	2.06	2.03	2.06	1.99
Cap Exp as % of GBS	16.77	36.61	48.16	49.78	49.81	39.94	44.86
2. Total Non-Plan	9.91	9.49	9.01	9.49	9.68	8.75	9.29
of which							
(i) Interest payments	3.54	3.39	3.21	3.02	2.83	2.66	3.02
(ii) Defence	2.26	2.20	2.20	2.40	2.40	2.30	2.30
(iii) Pay & Allowances	1.01	0.95	0.89	1.43	1.30	0.93	1.10
(iv) non-plan grant to States	0.90	0.85	0.71	0.62	1.07	0.93	0.83
(v) Subsidies	1.17	1.09	1.02	0.94	0.87	0.80	0.94
(vi) Other Non-Plan	1.04	1.01	0.97	1.08	1.20	1.13	1.08
3. Total Expenditure	14.29	13.86	13.53	13.63	13.76	13.91	13.74
4. Gross tax revenue	11.20	11.52	11.86	12.21	12.60	13.00	12.24
Less : Share of States	2.91	3.13	3.22	3.33	3.43	3.55	3.33
5. Net Tax to Centre	8.29	8.39	8.63	8.89	9.16	9.45	8.90
6. Non-tax Revenue	1.93	1.80	1.67	1.54	1.42	1.30	1.54
7. Total Revenue Receipt	10.22	10.19	10.30	10.43	10.58	10.75	10.45
Gross Fiscal Deficit	3.77	3.40	3.00	3.00	3.00	3.00	3.08
Revenue Deficit	2.15	1.00	0.00	0.00	0.00	0.00	0.20
Primary deficit	0.22	0.01	-0.21	-0.02	0.17	0.34	0.06

Government Finance Projection for Eleventh Five Year Plan (2007-12)- All States (as % of GDP)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Plan Average Eleventh Plan
1. States Plan	4.19	4.28	4.56	4.98	3.46	4.82	4.42
2. Total Non-Plan	11.85	11.37	10.87	10.36	12.57	11.75	11.38
of which							
(i) Interest payments	2.52	2.43	2.34	2.25	2.16	2.08	2.25
(iii) Pay & Allowances	2.95	2.77	2.59	2.41	4.15	3.76	3.14
(iii) Pension	1.16	1.12	1.07	1.02	1.77	1.63	1.32
(vi) Other Non-Plan	4.96	5.06	4.88	4.69	4.49	4.28	4.68
3. Total Expenditure	16.04	15.65	15.44	15.34	16.03	16.56	15.81
4. Tax Revenue	9.15	9.64	9.86	10.08	10.33	10.58	10.10
of which							
(i) State Own Tax Revenue	6.40	6.51	6.63	6.76	6.89	7.03	6.77
(ii) Share from Centre	2.75	3.13	3.22	3.33	3.43	3.55	3.33
5. Non-tax Revenue	3.86	3.41	2.98	2.66	3.01	3.28	3.07
of which							
(i) plan grant from Centre	1.45	1.33	1.12	1.00	0.98	1.49	1.18
(ii) non plan grant from Centre	0.90	0.85	0.71	0.62	1.07	0.93	0.83
(ii) State own non-tax Revenue	1.34	1.24	1.14	1.05	0.95	0.87	1.05
6. Total Revenue Receipts	13.00	13.05	12.84	12.74	13.33	13.86	13.17
Gross Fiscal Deficit	2.68	2.60	2.60	2.60	2.70	2.70	2.64
Revenue Deficit	0.05	0.00	0.00	0.00	0.00	0.00	0.00
Primary deficit	0.16	0.17	0.26	0.35	0.54	0.62	0.39

Total GBS to Plan (Centre & States)	7.12	7.32	7.95	8.12	6.56	8.49	7.69
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Assumptions for Projection: -

Rate of Inflation 5 per cent

Assumptions for Central Finance

marginal rate of interest (nominal)	8.0%
tax buoyancy	1.25
annual growth in non tax revenue*	7.5%
Growth in ONP	10%
States' share in Central Tax	29%
* other than interest receipt	

Assumptions for State Finance

marginal rate of interest (nominal)	9.0%
tax buoyancy	1.15
annual growth in own non tax revenue	5%
annual growth in pay & allowance	12%
Rate of Growth in ONP	10%

Annexure VI

Government Finance Projection for Eleventh Five Year Plan (2007-12)- Centre
(as per cent of GDP)

8.5% growth Scenario with FRBM target

revenue capital mix fixed for GBS (78:22)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Plan Average Eleventh Plan
1. GBS to Central Plan	4.38	3.48	2.96	2.70	2.75	4.18	3.22
of which							
(i) Grant to States	1.45	1.30	1.11	1.01	1.03	1.57	1.20
(ii) Other Plan revenue Expenditure	2.19	1.41	1.20	1.10	1.12	1.70	1.30
(iii) Plan Capital Expenditure	0.73	0.77	0.65	0.59	0.61	0.92	0.71
Cap Exp as % of GBS	16.77	22.00	22.00	22.00	22.00	22.00	22.00
2. Total Non-Plan	9.91	9.54	9.05	9.46	9.58	8.57	9.24
of which							
(i) Interest payments	3.54	3.42	3.20	2.91	2.64	2.40	2.92
(ii) Defence	2.26	2.20	2.20	2.40	2.40	2.30	2.30
(iii) Pay & Allowances	1.01	0.96	0.91	1.46	1.33	0.95	1.12
(iv) non-plan grant to States	0.90	0.85	0.72	0.63	1.09	0.95	0.85
(v) Subsidies	1.17	1.10	1.03	0.96	0.89	0.82	0.96
(vi) Other Non-Plan	1.04	1.01	0.98	1.10	1.22	1.16	1.10
3. Total Expenditure	14.29	13.03	12.01	12.16	12.33	12.76	12.46
4. Gross tax revenue	11.20	11.50	11.82	12.17	12.54	12.94	12.19
Less : Share of States	2.91	3.12	3.21	3.31	3.42	3.53	3.32
5. Net Tax to Centre	8.29	8.38	8.61	8.85	9.12	9.41	8.87
6. Non-tax Revenue	1.93	1.81	1.69	1.57	1.45	1.33	1.57
7. Total Revenue Receipt	10.22	10.19	10.30	10.42	10.57	10.74	10.44
Gross Fiscal Deficit	3.77	2.57	1.48	1.53	1.57	1.86	1.80
Revenue Deficit	2.15	1.00	0.00	0.00	0.00	0.00	0.20
Primary deficit	0.22	-0.85	-1.72	-1.38	-1.07	-0.54	-1.11

Government Finance Projection for Eleventh Five Year Plan (2007-12)- All States
(as % of GDP)

revenue capital mix fixed for GBS (50:50)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Plan Average Eleventh Plan
1. States Plan	4.19	3.67	4.18	4.84	1.70	4.65	3.81
2. Total Non-Plan	11.85	11.45	10.98	10.51	12.77	11.84	11.51
of which							
(i) Interest payments	2.52	2.44	2.33	2.23	2.14	1.95	2.22
(iii) Pay & Allowances	2.95	2.79	2.62	2.46	4.24	3.85	3.19
(iii) Pension	1.16	1.12	1.08	1.04	1.80	1.67	1.34
(vi) Other Non-Plan	4.96	5.10	4.95	4.79	4.58	4.38	4.76
3. Total Expenditure	16.04	15.12	15.16	15.35	14.47	16.49	15.32
4. Tax Revenue	9.15	9.63	9.84	10.05	10.29	10.54	10.07
of which							
(i) State Own Tax Revenue	6.40	6.51	6.62	6.74	6.87	7.01	6.75
(ii) Share from Centre	2.75	3.12	3.21	3.31	3.42	3.53	3.32
5. Non-tax Revenue	3.86	3.40	2.99	2.71	3.10	3.40	3.12
of which							
(i) plan grant from Centre	1.45	1.30	1.11	1.01	1.03	1.57	1.20
(ii) non plan grant from Centre	0.90	0.85	0.72	0.63	1.09	0.95	0.85
(ii) State own non-tax Revenue	1.34	1.25	1.16	1.07	0.97	0.89	1.07
6. Total Revenue Receipts	13.00	13.03	12.83	12.76	13.39	13.94	13.19
Gross Fiscal Deficit	2.68	2.09	2.34	2.59	1.08	2.54	2.13
Revenue Deficit	0.05	0.00	0.00	-0.07	0.00	0.00	-0.01
Primary deficit	0.16	-0.36	0.01	0.36	-1.07	0.60	-0.09
Total GBS to Plan (Centre & States)	7.12	5.85	6.03	6.53	3.42	7.26	5.82

Assumptions for Projection: -

Rate of Inflation 5 per cent

Assumptions for Central Finance

marginal rate of interest (nominal)	8.0%
tax buoyancy	1.25
annual growth in non tax revenue*	7.5%
Growth in ONP	10%
States' share in Central Tax	29%
* other than interest receipt	

Assumptions for State Finance

marginal rate of interest (nominal)	9.0%
tax buoyancy	1.15
annual growth in own non tax revenue	5%
annual growth in pay & allowance	12%
Rate of Growth in ONP	10%

Annexure VII**Government Finance Projection for Eleventh Five Year Plan (2007-12)- Centre**
(as per cent of GDP)**8.5% growth Scenario with FRBM target**

Revenue capital mix has been allowed to change

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Plan Average Eleventh Plan
1. GBS to Central Plan	4.38	4.31	4.43	4.01	3.94	5.02	4.34
of which							
(i) Grant to States	1.45	1.30	1.08	0.94	0.91	1.42	1.13
(ii) Other Plan revenue Expenditure	2.19	1.41	1.17	1.01	0.99	1.54	1.22
(iii) Plan Capital Expenditure	0.73	1.60	2.18	2.06	2.03	2.06	1.99
Cap Exp as % of GBS	16.77	37.05	49.14	51.42	51.61	41.08	46.06
2. Total Non-Plan	9.91	9.54	9.11	9.62	9.82	8.88	9.39
of which							
(i) Interest payments	3.54	3.42	3.26	3.07	2.88	2.71	3.07
(ii) Defence	2.26	2.20	2.20	2.40	2.40	2.30	2.30
(iii) Pay & Allowances	1.01	0.96	0.91	1.46	1.33	0.95	1.12
(iv) non-plan grant to States	0.90	0.85	0.72	0.63	1.09	0.95	0.85
(v) Subsidies	1.17	1.10	1.03	0.96	0.89	0.82	0.96
(vi) Other Non-Plan	1.04	1.01	0.98	1.10	1.22	1.16	1.10
3. Total Expenditure	14.29	13.86	13.54	13.63	13.75	13.90	13.74
4. Gross tax revenue	11.20	11.50	11.82	12.17	12.54	12.94	12.19
Less : Share of States	2.91	3.12	3.21	3.31	3.42	3.53	3.32
5. Net Tax to Centre	8.29	8.38	8.61	8.85	9.12	9.41	8.87
6. Non-tax Revenue	1.93	1.81	1.69	1.57	1.45	1.33	1.57
7. Total Revenue Receipt	10.22	10.19	10.30	10.42	10.57	10.74	10.44
Gross Fiscal Deficit	3.77	3.40	3.00	3.00	3.00	3.00	3.08
Revenue Deficit	2.15	1.00	0.00	0.00	0.00	0.00	0.20
Primary deficit	0.22	-0.02	-0.26	-0.07	0.12	0.29	0.01

Government Finance Projection for Eleventh Five Year Plan (2007-12)- All States
(as % of GDP)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Plan Average Eleventh Plan
1. States Plan	4.19	4.18	4.37	4.72	3.15	4.49	4.18
2. Total Non-Plan	11.85	11.45	11.03	10.56	12.82	12.01	11.57
of which							
(i) Interest payments	2.52	2.44	2.37	2.29	2.19	2.12	2.28
(ii) Pay & Allowances	2.95	2.79	2.62	2.46	4.24	3.85	3.19
(iii) Pension	1.16	1.12	1.08	1.04	1.80	1.67	1.34
(vi) Other Non-Plan	4.96	5.10	4.95	4.79	4.58	4.38	4.76
3. Total Expenditure	16.04	15.63	15.40	15.28	15.97	16.50	15.76
4. Tax Revenue	9.15	9.63	9.84	10.05	10.29	10.54	10.07
of which							
(i) State Own Tax Revenue	6.40	6.51	6.62	6.74	6.87	7.01	6.75
(ii) Share from Centre	2.75	3.12	3.21	3.31	3.42	3.53	3.32
5. Non-tax Revenue	3.86	3.40	2.96	2.63	2.98	3.26	3.05
of which							
(i) plan grant from Centre	1.45	1.30	1.08	0.94	0.91	1.42	1.13
(ii) non plan grant from Centre	0.90	0.85	0.72	0.63	1.09	0.95	0.85
(ii) State own non-tax Revenue	1.34	1.25	1.16	1.07	0.97	0.89	1.07
6. Total Revenue Receipts	13.00	13.03	12.80	12.68	13.27	13.80	13.12

Gross Fiscal Deficit	2.68	2.60	2.60	2.60	2.70	2.70	2.64
Revenue Deficit	0.05	0.00	0.00	0.00	0.00	0.00	0.00
Primary deficit	0.16	0.16	0.23	0.31	0.51	0.58	0.36
Total GBS to Plan (Centre & States)	7.12	7.19	7.72	7.80	6.18	8.08	7.39

Assumptions for Projection: -

Rate of Inflation 5 per cent

Assumptions for Central Finance

marginal rate of interest (nominal)	8.0%
tax buoyancy	1.25
annual growth in non tax revenue*	7.5%
Growth in ONP	10%
States' share in Central Tax	29%
* other than interest receipt	

Assumptions for State Finance

marginal rate of interest (nominal)	9.0%
tax buoyancy	1.15
annual growth in own non tax reve	5%
annual growth in pay & allowance	12%
Rate of Growth in ONP	10%

Annexure IV

Government Finance Projection for Eleventh Five Year Plan (2007-12)- Centre
(as per cent of GDP)

8.0% growth Scenario with FRBM target

revenue capital mix fixed for GBS (78:22)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Plan Average Eleventh Plan
1. GBS to Central Plan	4.38	3.47	2.93	2.63	2.60	4.00	3.12
of which							
(i) Grant to States	1.45	1.30	1.10	0.98	0.97	1.50	1.17
(ii) Other Plan revenue Expenditure	2.19	1.41	1.19	1.07	1.05	1.62	1.27
(iii) Plan Capital Expenditure	0.73	0.76	0.64	0.58	0.57	0.88	0.69
Cap Exp as % of GBS	16.77	22.00	22.00	22.00	22.00	22.00	22.00
2. Total Non-Plan	9.91	9.56	9.08	9.52	9.69	8.71	9.31
of which							
(i) Interest payments	3.54	3.42	3.21	2.94	2.68	2.45	2.94
(ii) Defence	2.26	2.20	2.20	2.40	2.40	2.30	2.30
(iii) Pay & Allowances	1.01	0.96	0.91	1.47	1.35	0.97	1.13
(iv) non-plan grant to States	0.90	0.85	0.73	0.63	1.11	0.97	0.86
(v) Subsidies	1.17	1.10	1.04	0.97	0.90	0.84	0.97
(vi) Other Non-Plan	1.04	1.02	0.99	1.11	1.24	1.18	1.11
3. Total Expenditure	14.29	13.02	12.00	12.15	12.29	12.71	12.44
4. Gross tax revenue	11.20	11.50	11.81	12.15	12.50	12.88	12.17
Less : Share of States	2.91	3.12	3.21	3.31	3.41	3.51	3.31
5. Net Tax to Centre	8.29	8.38	8.60	8.84	9.09	9.36	8.85
6. Non-tax Revenue	1.93	1.81	1.70	1.58	1.47	1.37	1.59
7. Total Revenue Receipt	10.22	10.19	10.30	10.42	10.57	10.73	10.44
Gross Fiscal Deficit	3.77	2.56	1.47	1.52	1.54	1.82	1.78
Revenue Deficit	2.15	1.00	0.00	0.00	0.00	0.00	0.20
Primary deficit	0.22	-0.86	-1.75	-1.42	-1.14	-0.63	-1.16

Government Finance Projection for Eleventh Five Year Plan (2007-12)- All States
(as % of GDP)

revenue capital mix fixed for GBS (50:50)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Plan Average Eleventh Plan
1. States Plan	4.19	3.62	4.05	4.74	1.20	4.03	3.53
2. Total Non-Plan	11.85	11.48	11.03	10.59	12.98	12.09	11.63
of which							
(i) Interest payments	2.52	2.45	2.33	2.24	2.17	1.96	2.23
(iii) Pay & Allowances	2.95	2.79	2.64	2.48	4.31	3.94	3.23
(iii) Pension	1.16	1.13	1.09	1.05	1.83	1.71	1.36
(vi) Other Non-Plan	4.96	5.11	4.98	4.83	4.66	4.48	4.81
3. Total Expenditure	16.04	15.09	15.09	15.33	14.17	16.12	15.16
4. Tax Revenue	9.15	9.63	9.83	10.04	10.27	10.50	10.05
of which							
(i) State Own Tax Revenue	6.40	6.51	6.62	6.73	6.86	6.99	6.74
(ii) Share from Centre	2.75	3.12	3.21	3.31	3.41	3.51	3.31
5. Non-tax Revenue	3.86	3.40	2.98	2.69	3.08	3.38	3.11
of which							
(i) plan grant from Centre	1.45	1.30	1.10	0.98	0.97	1.50	1.17
(ii) non plan grant from Centre	0.90	0.85	0.73	0.63	1.11	0.97	0.86
(ii) State own non-tax Revenue	1.34	1.25	1.16	1.08	0.99	0.91	1.08
6. Total Revenue Receipts	13.00	13.03	12.81	12.73	13.34	13.88	13.16
Gross Fiscal Deficit	2.68	2.06	2.28	2.59	0.83	2.24	2.00
Revenue Deficit	0.05	0.00	0.00	-0.02	0.00	0.00	0.00
Primary deficit	0.16	-0.39	-0.06	0.35	-1.34	0.28	-0.23
Total GBS to Plan (Centre & States)	7.12	5.78	5.88	6.39	2.82	6.54	5.48

Assumptions for Projection: -

Rate of Inflation 5 per cent

Assumptions for Central Finance

marginal rate of interest (nominal)	8.0%
tax buoyancy	1.25
annual growth in non tax revenue*	7.5%
Growth in ONP	10%
States' share in Central Tax	29%
* other than interest receipt	

Assumptions for State Finance

marginal rate of interest (nominal)	9.0%
tax buoyancy	1.15
annual growth in own non tax revenue	5%
annual growth in pay & allowance	12%
Rate of Growth in ONP	10%

Annexure V

Government Finance Projection for Eleventh Five Year Plan (2007-12)- Centre
(as per cent of GDP)

8.0% growth Scenario with FRBM target

Revenue capital mix has been allowed to change

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Plan Average Eleventh Plan
1. GBS to Central Plan	4.38	4.30	4.40	3.95	3.81	4.87	4.27
of which							
(i) Grant to States	1.45	1.30	1.07	0.91	0.86	1.35	1.09
(ii) Other Plan revenue Expenditure	2.19	1.41	1.16	0.98	0.93	1.46	1.19
(iii) Plan Capital Expenditure	0.73	1.60	2.18	2.06	2.03	2.06	1.99
Cap Exp as % of GBS	16.77	37.16	49.48	52.17	53.24	42.35	46.88
2. Total Non-Plan	9.91	9.56	9.14	9.68	9.94	9.02	9.47
of which							
(i) Interest payments	3.54	3.42	3.27	3.10	2.93	2.77	3.10
(ii) Defence	2.26	2.20	2.20	2.40	2.40	2.30	2.30
(iii) Pay & Allowances	1.01	0.96	0.91	1.47	1.35	0.97	1.13
(iv) non-plan grant to States	0.90	0.85	0.73	0.63	1.11	0.97	0.86
(v) Subsidies	1.17	1.10	1.04	0.97	0.90	0.84	0.97
(vi) Other Non-Plan	1.04	1.02	0.99	1.11	1.24	1.18	1.11
3. Total Expenditure	14.29	13.86	13.54	13.63	13.75	13.89	13.73
4. Gross tax revenue	11.20	11.50	11.81	12.15	12.50	12.88	12.17
Less : Share of States	2.91	3.12	3.21	3.31	3.41	3.51	3.31
5. Net Tax to Centre	8.29	8.38	8.60	8.84	9.09	9.36	8.85
6. Non-tax Revenue	1.93	1.81	1.70	1.58	1.47	1.37	1.59
7. Total Revenue Receipt	10.22	10.19	10.30	10.42	10.57	10.73	10.44
Gross Fiscal Deficit	3.77	3.40	3.00	3.00	3.00	3.00	3.08
Revenue Deficit	2.15	1.00	0.00	0.00	0.00	0.00	0.20
Primary deficit	0.22	-0.02	-0.27	-0.10	0.07	0.23	-0.02

Government Finance Projection for Eleventh Five Year Plan (2007-12)- All States
(as % of GDP)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Plan Average Eleventh Plan
1. States Plan	4.19	4.15	4.31	4.61	2.89	4.15	4.02
2. Total Non-Plan	11.85	11.48	11.08	10.65	13.03	12.28	11.70
of which							
(i) Interest payments	2.52	2.45	2.38	2.30	2.23	2.16	2.30
(iii) Pay & Allowances	2.95	2.79	2.64	2.48	4.31	3.94	3.23
(iii) Pension	1.16	1.13	1.09	1.05	1.83	1.71	1.36
(vi) Other Non-Plan	4.96	5.11	4.98	4.83	4.66	4.48	4.81
3. Total Expenditure	16.04	15.63	15.38	15.26	15.92	16.43	15.72
4. Tax Revenue	9.15	9.63	9.83	10.04	10.27	10.50	10.05
of which							
(i) State Own Tax Revenue	6.40	6.51	6.62	6.73	6.86	6.99	6.74
(ii) Share from Centre	2.75	3.12	3.21	3.31	3.41	3.51	3.31
5. Non-tax Revenue	3.86	3.40	2.96	2.62	2.96	3.23	3.03
of which							
(i) plan grant from Centre	1.45	1.30	1.07	0.91	0.86	1.35	1.09
(ii) non plan grant from Centre	0.90	0.85	0.73	0.63	1.11	0.97	0.86
(ii) State own non-tax Revenue	1.34	1.25	1.16	1.08	0.99	0.91	1.08
6. Total Revenue Receipts	13.00	13.03	12.78	12.66	13.22	13.73	13.08
Gross Fiscal Deficit	2.68	2.60	2.60	2.60	2.70	2.70	2.64
Revenue Deficit	0.05	0.00	0.00	0.00	0.00	0.00	0.00
Primary deficit	0.16	0.15	0.22	0.30	0.47	0.54	0.34
Total GBS to Plan (Centre & States)	7.12	7.16	7.64	7.65	5.85	7.66	7.19

Assumptions for Projection: -

Rate of Inflation 5 per cent

Assumptions for Central Finance

marginal rate of interest (nominal)	8.0%
tax buoyancy	1.25
annual growth in non tax revenue*	7.5%
Growth in ONP	10%
States' share in Central Tax	29%
* other than interest receipt	

Assumptions for State Finance

marginal rate of interest (nominal)	9.0%
tax buoyancy	1.15
annual growth in own non tax revenue	5%
annual growth in pay & allowance	12%
Rate of Growth in ONP	10%

Annexure II

Government Finance Projection for Eleventh Five Year Plan (2007-12)- Centre
(as per cent of GDP)

	revenue capital mix fixed for GBS (78:22)						Eleventh Plan average
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	
7.0% growth Scenario with FRBM target							
1. GBS to Central Plan	4.38	3.47	2.89	2.51	2.34	3.62	2.96
of which							
(i) Grant to States	1.45	1.30	1.08	0.94	0.88	1.36	1.11
(ii) Other Plan revenue Expenditure	2.19	1.41	1.17	1.02	0.95	1.47	1.20
(iii) Plan Capital Expenditure	0.73	0.76	0.63	0.55	0.52	0.80	0.65
Cap Exp as % of GBS	16.77	22.00	22.00	22.00	22.00	22.00	22.00
2. Total Non-Plan	9.91	9.56	9.11	9.61	9.89	8.99	9.43
of which							
(i) Interest payments	3.54	3.42	3.23	2.98	2.76	2.56	2.99
(ii) Defence	2.26	2.20	2.20	2.40	2.40	2.30	2.30
(iii) Pay & Allowances	1.01	0.96	0.92	1.49	1.39	1.02	1.15
(iv) non-plan grant to States	0.90	0.85	0.73	0.64	1.14	1.02	0.88
(v) Subsidies	1.17	1.10	1.04	0.98	0.93	0.88	0.99
(vi) Other Non-Plan	1.04	1.02	0.99	1.12	1.27	1.22	1.12
3. Total Expenditure	14.29	13.02	11.99	12.12	12.23	12.61	12.40
4. Gross tax revenue	11.20	11.50	11.80	12.11	12.43	12.76	12.12
Less : Share of States	2.91	3.12	3.21	3.30	3.39	3.48	3.30
5. Net Tax to Centre	8.29	8.38	8.59	8.81	9.04	9.28	8.82
6. Non-tax Revenue	1.93	1.81	1.70	1.60	1.51	1.43	1.61
7. Total Revenue Receipt	10.22	10.19	10.30	10.42	10.56	10.71	10.43
Gross Fiscal Deficit	3.77	2.56	1.46	1.49	1.48	1.74	1.75
Revenue Deficit	2.15	1.00	0.00	0.00	0.00	0.00	0.20
Primary deficit	0.22	-0.86	-1.77	-1.49	-1.27	-0.82	-1.24

Government Finance Projection for Eleventh Five Year Plan (2007-12)- All States
(as % of GDP)

	revenue capital mix fixed for GBS (50:50)						Eleventh Plan average
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	
1. States Plan	4.19	3.62	3.93	4.41	0.35	2.75	3.01
2. Total Non-Plan	11.85	11.48	11.09	10.73	13.32	12.61	11.84
of which							
(i) Interest payments	2.52	2.45	2.35	2.27	2.21	2.00	2.26
(iii) Pay & Allowances	2.95	2.79	2.65	2.51	4.43	4.13	3.30
(iii) Pension	1.16	1.13	1.09	1.06	1.89	1.79	1.39
(vi) Other Non-Plan	4.96	5.11	5.00	4.89	4.79	4.69	4.90
3. Total Expenditure	16.04	15.09	15.01	15.14	13.67	15.36	14.86
4. Tax Revenue	9.15	9.63	9.82	10.02	10.22	10.43	10.02
of which							
(i) State Own Tax Revenue	6.40	6.51	6.61	6.72	6.83	6.95	6.72
(ii) Share from Centre	2.75	3.12	3.21	3.30	3.39	3.48	3.30
5. Non-tax Revenue	3.86	3.40	2.98	2.67	3.04	3.32	3.08
of which							
(i) plan grant from Centre	1.45	1.30	1.08	0.94	0.88	1.36	1.11
(ii) non plan grant from Centre	0.90	0.85	0.73	0.64	1.14	1.02	0.88
(ii) State own non-tax Revenue	1.34	1.25	1.17	1.09	1.02	0.95	1.10
6. Total Revenue Receipts	13.00	13.03	12.80	12.69	13.26	13.75	13.11
Gross Fiscal Deficit	2.68	2.06	2.21	2.45	0.42	1.61	1.75
Revenue Deficit	0.05	0.00	0.00	0.00	0.00	0.00	0.00
Primary deficit	0.16	-0.39	-0.13	0.18	-1.80	-0.39	-0.51
Total GBS to Plan (Centre & States)	7.12	5.78	5.73	5.98	1.82	5.02	4.87

Primary deficit	0.16	0.15	0.21	0.27	0.41	0.45	0.30
Total GBS to Plan (Centre & States)	7.12	7.16	7.56	7.41	5.29	6.79	6.84

Assumptions for Projection: -

Rate of Inflation 5 per cent

Assumptions for Central Finance

marginal rate of interest (nominal)	8.0%
tax buoyancy	1.25
annual growth in non tax revenue*	7.5%
Growth in ONP	10%
States' share in Central Tax	29%
* other than interest receipt	

Assumptions for State Finance

marginal rate of interest (nominal)	9.0%
tax buoyancy	1.15
annual growth in own non tax revenue	5%
annual growth in pay & allowance	12%
Rate of Growth in ONP	10%