FISCAL POLICY STRATEGY STATEMENT

A. FISCAL POLICY OVERVIEW

1. In order to minimise the impact of the global slowdown on the Indian economy, the Government took a conscious decision to continue with the fiscal expansionary measures in the Budget 2009-10. The aim of the policy was to enhance public expenditure so as to boost demand and spur the process of development and economic revival. The above decision of the Government to increase public expenditure, even with lower revenue receipts, and stimulate the economy by creating demand was guided by the principle of insulating the vulnerable sections of society and sectors of economy from the impact of economic downturn and at the same time ensure revival of the economy with higher growth. These measures were expected to spur growth and restore revenue buoyancy in medium term and provide the required fiscal space to revert to the path of fiscal consolidation. The fiscal deficit of 6.8 per cent of GDP in BE 2009-10 may therefore be seen against this background.

2. The positive impact of these measures could be seen with Indian economy recording 7 per cent growth in real GDP in the first half of 2009-10 when most of the developed economies of the world were trying their best to stay afloat. Indian economy is estimated to grow at 7.2 per cent in 2009-10 as per the latest data, although there are possibilities that it may actually be slightly higher.

3. The measures taken by Government to counter the effects of the global meltdown on the Indian economy have resulted in shortfall in revenues and substantial increase in Government expenditures, leading to deviation from the fiscal consolidation path mandated under the FRBM Act. The gross tax to GDP ratio which increased to an all time high of 12 per cent in 2007-08, thanks to the economy riding on high growth trajectory, has steadily declined to 10.9 per cent in 2008-09 and 10.3 per cent in RE 2009-10 due to moderation in growth in economy and reduction in tax/duty rates. At the same time total expenditure as percentage of GDP has increased from 14.4 per cent in 2007-08 to 15.9 per cent in 2008-09 and 16.6 per cent in RE 2009-10. The fiscal expansion in the last 2 years has resulted in higher fiscal deficit of 6 per cent of GDP in 2008-09 and 6.7 per cent in RE 2009-10. Moreover, the revenue deficit as percentage of GDP has worsened to 4.5 per cent and 5.3 per cent in 2008-09 and RE 2009-10 respectively. The revenue deficit and fiscal deficit in RE 2009-2010 are higher than the targets set under the FRBM Act and Rules. The deviation from the mandate under FRBM Act and Rules was resorted to with the objective of keeping the economy on the higher growth trajectory amidst global slowdown by creating demand through increased public expenditure in identified sectors.

4. It is however important to note that the fiscal deficit in RE 2009-10 is broadly in line with BE 2009-10. Furthermore, against fiscal deficit of 7.8 per cent of GDP in 2008-09 (inclusive of oil and fertiliser bonds), the comparable fiscal deficit including the impact of Rs.10,306 crore of oil bonds towards under recoveries of the previous financial year, is 6.9 per cent of GDP as per RE 2009-10. Both these deficit figures are based on the revised GDP numbers published by the Central Statistical Organisation. It clearly marks an improvement of about 1 per cent of GDP in fiscal deficit in 2009-10 compared to 2008-09. The Government has made a conscious effort to avoid issuing Government securities in lieu of cash subsidies to oil and fertiliser companies. The Government would like to maintain this trend of extending Government subsidy in cash rather than by way of bonds. This is a major step towards bringing all subsidy related liabilities into Government's fiscal accounting.

5. The medium term objective as enumerated in the Fiscal Policy Strategy Statement presented in July 2009 is to revert to the path of fiscal consolidation at the earliest with emphasis on structural fiscal reforms and prudent fiscal management with improvement in the economic situation. Without putting at risk the revival process, the Government is looking at exit strategies with improvement in economic conditions.

6. The Budget 2010-2011 is being presented in this backdrop with signs of recovery in the Indian economy along with a few other economies in the world. However, it is still early to predict complete revival in the world economy and the Government has to be cautious in its exit strategy. The growth rate of 7.9 per cent in GDP in the second quarter of 2009-10 compared to the average growth of 5.8 per cent during the second

half of 2008-09 shows that the impact of fiscal stimuli has started showing results. Better than estimated direct tax receipts coupled with impressive growth data from manufacturing sector in recent months provide opportunities for the Government to revert back to the path of fiscal consolidation in a gradual manner staring from 2010-11. The 13th Finance Commission in its recommendations has also provided a roadmap for fiscal consolidation.

B. FISCAL POLICY FOR 2010-11

7. The fiscal policy of 2010-11 is being guided by the principles of gradual adjustment from the fiscal expansion undertaken during 2008-09 and 2009-10. The adjustment path is being so calibrated that it would not affect the revival process and at the same time stabilize the debt to GDP ratio of the Government in the medium term. In the Medium Term Fiscal Policy Statement of 2009-10, the Government had enumerated the roadmap for fiscal consolidation during 2010-11 and 2011-12. The Government is adhering to these commitments made in July 2009 and has also benefitted from the recommendations of the 13th Finance Commission on fiscal consolidation. Accordingly fiscal deficit in BE 2010-11 has been reduced to 5.5 per cent of GDP. This correction of fiscal deficit is attributed to reduction in total expenditure by 0.6 per cent of GDP (from 16.6 per cent in BE 2009-10 to 16.0 per cent in BE 2010-11), increase in gross tax revenue by 0.4 per cent of GDP (from 10.4 per cent in BE 2009-10 to 10.8 per cent in BE 2010-11) and increase in non debt capital receipt by 0.6 per cent of GDP (from 0.1 per cent in BE 2009-10 to 0.7 per cent in BE 2010-11). All the above numbers are with reference to the revised GDP numbers.

8. Total expenditure of the Government has shown compounded average annual growth rate of 19.6 per cent during the fiscal expansion period of 2008-2010. This level of growth in expenditure is not sustainable. In the fiscal policy strategy for ensuing financial year and the next two years, the Government has made efforts to moderate the growth rate of expenditure in order to bring down the deficit. Accordingly, non-plan expenditure as percentage of GDP has been reduced from 11.3 per cent in BE 2009-10 to 10.6 per cent in BE 2010-11. At the same time, adequate resources for plan expenditure have been provided at 5.4 per cent of GDP in BE 2010-11 as against 5.3 per cent in BE 2009-10. Total expenditure as percentage of GDP for the year 2011-12 and 2012-13 would be further brought down to 15.2 per cent and 14.6 per cent respectively. This would result in correction to the extent of 2 per cent of GDP from the level of 16.6 per cent in BE 2009-10. This adjustment in expenditure would be primarily on non-plan account and after factoring in adequate allocations for flagship schemes, Bharat Nirman programme and infrastructure sector. The correction in composition of expenditure would translate into deployment of borrowed resources largely for plan expenditure (97.8 per cent in BE 2010-11). This is further estimated to go upto 122.9 per cent in 2012-13 against only 81.1 per cent in BE 2009-10.

9. Intent of the Government to bring the fiscal deficit under control with institutional reform measures encompassing all aspects of fiscal management such as subsidies, taxes, disinvestment and other expenditures were indicated in the Budget 2009-10. The decision of the Government to move towards nutrient based subsidy (NBS) regime in fertiliser subsidy along with increase in the MRP of urea is one of the steps in order to translate the above intentions into concrete action. Under the NBS regime, the subsidy on subsidized nutrients will remain fixed and the retail prices of subsidized fertilisers at farmgate level will be decided by the manufacturers/importers. The government in consultation with the fertilizer industry will make interventions in such a manner that the farmgate prices of non-urea fertilizers are as far as possible near the current prices so that farmers are not adversely affected. It is also expected to promote balanced use of fertilizer with increase in agricultural productivity. Unshackling of fertilizer industry is also expected to attract fresh investments into this sector.

10. With respect to rationalization of petroleum subsidy, the report of the Parikh Committee on the above subject is under consideration of the Government. In a departure from past practice, the Government has agreed to provide petroleum subsidy in cash instead of securities in the year 2009-10. Government would like to continue to pay compensation for under recoveries, if any, to oil marketing companies in cash only.

11. It is estimated that subsidy expenditure as percentage of GDP would decline from 2.1 per cent in RE 2009-10 to 1.7 per cent in BE 2010-11 and further to 1.6 per cent and 1.4 per cent respectively in 2011-12 and 2012-13.

Tax Policy

Direct Taxes

12. The last decade has witnessed a substantial growth in direct taxes. The direct tax to GDP ratio has gone up from 2.97% in 1999-2000 to 6.36% in 2008-09. The contribution of direct taxes to the total taxes collected by the Centre has increased from 33.8% to 55.5% during the same period.

13. The following policy measures have driven this increase in direct tax contributions:

(i) Distortions within the tax structure have been minimised by expanding the tax base and by maintaining moderate tax rates;

(ii) Tax administration has been geared up to provide better taxpayer services and also to enhance deterrence levels. Both these objectives reinforce each other and have promoted voluntary compliance.

(iii) Business Processes in the Income-tax Department have been re-engineered through extensive use of information technology, viz., electronic reporting of tax collections, e-filing of returns, issue of refunds through ECS and refund bankers, computer assisted selection of returns for scrutiny, electronic reporting of foreign remittances liable to tax, online reporting and e-mailing of tax deduction at source details to taxpayers, etc. These measures have modernized the Department and enhanced its functional efficiency.

14. The Union Budget for 2009-10 announced that a draft Direct Taxes Code would be released within 45 days. The draft Code along with a Discussion Paper was released in August, 2009 inviting comments from the public. The proposed Direct Taxes Code is a new legislation which will replace the current Income-tax and Wealth Tax Acts. It is written in direct and simple language and is based on the philosophy of a wide tax base, moderate tax rates and an effective enforcement strategy. The Code proposes to minimise exemptions and deductions to widen the tax base. It also proposes to do away with profit linked deductions and introduce investment linked deductions for priority areas. At the same time, it advocates moderate tax rates with broad slabs. These measures will help to reduce litigation and free up the tax administration to provide better taxpayer services and focus on tackling tax evasion. The draft Code and Discussion Paper have generated healthy debate and a number of suggestions. After analysing the inputs received, the draft legislation will be finalised and introduced in Parliament.

15. The major policy proposals in the Union Budget 2010-11 intended to consolidate and carry forward the past achievements are:

(i) Rationalisation of the Personal Income Tax (PIT) rate structure for individuals by broadening the income slabs. This will reduce the tax liability of a majority of individual taxpayers.

(ii) Reducing the surcharge on Corporate Income Tax (CIT) from 10 per cent to 7.5 per cent. This is part of the initiative to phase out surcharges. Surcharge on PIT has already been removed last year.

(iii) Increasing the rate of Minimum Alternate Tax (MAT) on companies to 18 per cent from the existing level of 15 per cent. This will enhance the *inter* se equity in taxation of companies and will also raise the effective tax rate which is currently around 22% as against the nominal rate of 33.99%.

(iv) Raising the threshold limits on a number of transactions which are subject to Tax Deduction at Source (TDS). This will reduce the compliance burden for deductors as well as deductees and enable the tax administration to efficiently process claims for TDS credit.

(v) Reducing the compliance burden on small taxpayers by increasing the threshold level of turnover beyond which accounts of the business are to be compulsorily audited from Rs. 40 lakh to Rs. 60 lakh. The compliance burden of small taxpayers is being further reduced by providing a presumptive rate of taxation of 8 per cent of turnover and allowing the tax liability to be paid as self assessment tax instead of several advance tax instalments.

(vi) Enabling small companies to reduce their regulatory and compliance burden by converting to Limited Liability Partnerships (LLPs) by proposing that such conversion shall not attract capital gains tax liability under the Income-tax Act.

(vii) Expediting the resolution of major tax disputes by widening the scope of cases which can be admitted by the Income Tax Settlement Commission to also include assessment proceedings relating to search proceedings.

16. The use of information technology for providing better taxpayer services has been a cornerstone of direct tax policy. The mass processing of income tax returns is a key recommendation of the business process reengineering study conducted by the Income-tax Department. A Centralised Processing Centre (CPC) has been set up at Bengaluru for processing all e-filed income-tax returns as well as paper returns filed in the State of Karnataka. The CPC has commenced operations during this year and is currently processing 20,000 returns daily. Two more CPCs are proposed to be rolled out in the coming year. This initiative will help provide better tax payer service through faster processing of returns and issue of refunds.

Indirect Taxes

17. The medium term objective of the policy for indirect taxes in recent years has been to achieve fiscal consolidation through an improvement in the tax-GDP ratio. This is sought to be achieved through the widening of tax base and removal of exemptions coupled with moderation in the rates of tax. It is expected that these measures would foster voluntary compliance. There is an equally strong emphasis on procedural simplification and the adoption by tax departments of internal business processes leveraged on Information Technology so as to minimize day-to-day physical interface between the tax payer and tax administration.

18. In specific terms, the declared goal is to move to a comprehensive Goods and Services Tax (GST) both at the Centre and in the States. By addressing the problems of cascading and double taxation, this key reform in the realm of indirect taxation is expected to contribute significantly to efficiency and growth in the economy which, in turn, would augment the buoyancy of tax collections. The current fiscal year 2009-10 has seen considerable movement in the discussions on finalization of the model for the proposed GST. The Empowered Committee of State Finance Ministers released its First Discussion Paper on the model and roadmap for GST in November, 2009. Further work on the refinement of this model based on the feedback received from trade, industry and other stakeholders is underway.

19. The global financial crisis in September, 2008 and the resultant collapse of export markets triggered off an economic slowdown in India. Faced with the threat of a deepening crisis, the Government had to inject three rounds of fiscal stimulus packages to boost aggregate demand. An important element of these packages was the sharp, across the board reduction in the rates of Central Excise duty for non-petroleum products and the reduction in the rate of Service Tax from 12% to 10%.

20. Prior to the onset of the financial crisis, the surge in international prices of crude petroleum and other commodities posed a serious macro-economic challenge. Consequently, in June 2008, the import duty on crude petroleum and refined petroleum products was reduced by 5 percentage points each and the excise duty rates on motor spirit and diesel were also dropped significantly.

21. All these measures, taken together, strongly impacted revenue collections from indirect taxes in 2008-09. Their continuation in the current fiscal year has meant that revenue collections from customs, central excise and service tax continued to be under stress during 2009-10. The objective of fiscal consolidation, therefore, had to be temporarily suspended in the interest of economic recovery and maintenance of growth momentum. These measures have had a very positive impact in turning around the economy, particularly the manufacturing sector. As such, the Government seeks to return to the path of fiscal correction or consolidation in a gradual manner so as not to affect recovery and growth adversely. Some of the proposals contained in the Budget for 2010-11 aim to subserve this purpose. The important ones in this direction are as under:

Central Excise Duty

- After two successive reductions in December, 2008 and February, 2009, the standard rate of excise duty (Cenvat) of 8% has been increased to 10%.
- Duty on petrol and diesel has been increased by Re. I per litre.
- Duty has been increased on cigarettes and other tobacco products.
- Ad-valorem component of excise duty on large cars, Multi Utility Vehicles and Sports Utility Vehicles has been increased from 20% to 22%. The specific component of duty remains unchanged.
- Cement, at present attracting 8% duty, would now suffer a higher incidence of 10%. In cases where cement attracts specific rates of duty, the same have also been hiked proportionately.
- Full or partial excise duty exemptions/concessions available to many items have been withdrawn and duty imposed on them @ 4% or 10%.

Customs Duty

- No change has been made in the peak rate of customs duty on non-agricultural items, which remains at 10%.
- Customs duty on serially numbered gold bars (other than tola bars) and gold coins has been increased from 'Rs.200 per 10 gram' to 'Rs.300 per 10 gram'. On other forms of gold the duty has gone up from 'Rs.500 per 10 gram' to 'Rs.750 per 10 gram'. In case of silver, the duty has been increased from 'Rs.1000 per kg to Rs.1500 per kg.' Platinum would now attract customs duty of 'Rs.300 per 10 gram' as compared to earlier rate of 'Rs.200 per 10 gram'.
- In the petroleum sector, customs duty has been increased on: crude petroleum from Nil to 5%; petrol and diesel from 2.5% to 7.5%; and other specified petroleum products from 5% to 10%.

Service Tax

- The rate of service tax of 10% applicable since 24.02.2009 has been continued.
- Eight new services are being brought under the service tax net.
- Scope of many existing services has been modified to plug the loopholes and check evasion of tax.

Contingent and other Liabilities

22. The FRBM Act mandates the Central Government to specify the annual target for assuming contingent liabilities in the form of guarantees. Accordingly the FRBM Rules prescribe a cap of 0.5 per cent of GDP in any financial year on the quantum of guarantees that the Central Government can assume in the particular financial year. The Central Government extends guarantees primarily on loans from multilateral/bilateral agencies, bond issues and other loans raised by various Public Sector Undertakings/Public Sector Financial Institutions. The stock of contingent liabilities in the form of guarantees given by the Government has increased from Rs.1,07,957 crore at the beginning of the FRBM Act regime in 2004-05 to Rs.1,13,335 crore at the end of 2008-09. As a percentage of GDP, it has reduced from 3.3 per cent in 2004-05 to 2.0 per cent in 2008-09. The disclosure statement on outstanding Guarantees as prescribed in the FRBM Rules, 2004 is appended in the Receipts Budget as Annex 3 (iii).

23. Assumption of contingent liability in the form of guarantee by the sovereign helps to leverage private sector participation in areas of national priorities. In the current situation, wherein several infrastructure projects are being cleared for implementation under the Public Private Partnership (PPP) mode, difficulties are being faced in reaching financial closure due to the current uncertainties in the global financial market. Within the given fiscal constraints and with a view to supporting financing of above mentioned PPP projects, the India Infrastructure Financing Company Limited (IIFCL) has raised Rs.10,000 crore through Government guaranteed tax free bonds in the previous financial year 2008-09. The IIFCL would raise additional amounts on

the same basis as per requirement in the coming years. The capital so raised will be used by IIFCL to refinance bank lending of longer maturity to eligible infrastructure projects.

24. The assumption of contingent liability in the form of guarantee for 2009-10 upto January 2010 is Rs.38,778 crore which is 0.6 per cent of GDP during 2009-10, higher than the target of 0.5 per cent of GDP set under the FRBM Rules. This deviation has been necessitated in the larger interest of re-invigorating the economy in the background of the economic slowdown, to stimulate demand and increase investment in infrastructure sector projects with assistance from multilateral agencies. In the medium term while this may not have a potential budgetary impact, the additional investment will help restore the economy to its higher growth path and contribute to higher revenue buoyancy.

Government Borrowings, Lending and Investments

25. The Government policy towards borrowings to finance its deficit continues to remain anchored on the following principles, namely (i) greater reliance on domestic borrowings over external debt, (ii) preference for market borrowings over instruments carrying administered interest rates, (iii) consolidation of the debt portfolio and (iv) development of a deep and wide market for Government securities to improve liquidity in secondary market. For better cash management, a new instrument namely “cash management bill” has been introduced during the year. The tenure of this instrument will be less than 91 days.

26. In order to finance high level of fiscal deficit during 2009-10, market borrowings for the Government increased significantly. However, raising of indicated resources as per the published calendar for the current financial year has been completed without disrupting the market. The gross and net market borrowings (including dated securities and 364- day Treasury Bills) of the Central Government during 2009-10 upto 19th February amounted to Rs.4,78,383 crore and Rs.3,89,627 crore respectively as against Rs.3,18,550 crore and Rs. 2,42,317 crore during 2008-09. The weighted average maturity of dated securities issued during 2009-10 is 11.2 years as compared to 13.8 years during 2008-09. The weighted average yield of dated securities issued during 2009-10 is 7.23 per cent and is lower than 7.69 per cent during 2008-09.

27. The gross and net market borrowings (dated securities) of the Central Government during 2010-11 is estimated at Rs.4,57,143 crore and Rs.3,45,010 crore (4.98 per cent of GDP) respectively as against Rs.4,51,000 crore and Rs.3,98,411 crore (6.46 per cent of GDP) during 2009-10.

28. During the year 2010-11, the financing of fiscal deficit is estimated to be done without taking recourse to short-term borrowings through Treasury Bills or cash draw down. The share of market borrowings, external debt and NSSF in the financing of deficit for 2010-11 is estimated at 90.5 per cent, 5.9 per cent and 3.5 per cent respectively. However, to take care of temporary mismatch between receipts and expenditure, the Government may have to take recourse to ways and means advances from RBI.

29. The outstanding balance under Market Stabilization Scheme (MSS) on 1st April, 2009 was Rs.88,773 crore. The outstanding balance under the MSS is estimated to decline to Rs.2,737 crore at the end of 2009-10. As part of the Government decision to de-sequester Rs.45,000 crore from MSS for using it in financing increased fiscal deficit during 2008-09 and 2009-10, Rs.12,000 crore was de-sequestered during 2008-09. Of the balance Rs.33,000 crore, the option of de-sequestering MSS to the tune of Rs. 28,000 crore was exercised (up to February, 2010) during 2009-10. New accretion in MSS to the tune of Rs.50,000 crore is estimated for BE 2010-11 and with redemption of existing securities of Rs.2,737 crore during 2010-11, the closing balance is also estimated at Rs.50,000 crore.

30. In order to have prudent management of debt and greater focus on carrying cost as well as meeting secondary market liquidity, the government has set up a Middle Office which in due course will transit into the proposed Debt Management Office. The Middle Office is now being strengthened appropriately.

31. There is a shift in policy on the uses of disinvestment proceeds from Central PSUs received under the National Investment Fund (NIF). The disinvestment proceeds received during 2009-2012 period will be reckoned as resources for the purpose of financing the social sector programmes which are creating capital assets.

However, the income from investments made from proceeds received upto 2008-09 under NIF would continue to be used to finance social infrastructure and provide capital to viable public sector enterprises without depleting the corpus of NIF.

Initiatives in Public Expenditure Management

32. The focus has shifted from financial outlays to outcomes for ensuring that the budgetary provisions are not merely spent within the financial year but do result in intended outcomes. The Government had outlined in the President's address to the joint session of Parliament in June 2009 that an area of major focus would be reform of governance for effective delivery of public services. The following initiatives are being taken by the Government to achieve the above mentioned objective:

- Establishing mechanisms for performance monitoring and performance evaluation in Government on a regular basis;
    - At the beginning of the financial year with the approval of the Minister concerned, each Department will prepare a Result-Framework (RF) document;
    - To achieve results commensurate with the priorities listed in the RF document, the Minister incharge will approve the proposed schemes and activities of the Department;
    - The Minister incharge will also approve the corresponding success indicators (Key Performance Indicators-KPIs or Key Result Areas-KRAs) and time bound targets to measure progress in achieving these objectives;
    - RF will be drawn up in such manner that quarterly monitoring becomes possible;
    - During the year, the RF as well as the achievements against the KPIs will be reviewed by a Committee on Government Performance and the report of such review may be submitted to the Prime Minister through the concerned Minister for further action as deemed necessary;
    - At the end of the year, all Ministries/Departments will review and prepare a report listing the achievements against the agreed goals (KPIs); and
    - These results will be placed before the Cabinet for information by 1st June of each year.
- Strengthening public accountability of flagship programmes by the creation of Evaluation Office which will concurrently evaluate the impact of these programmes and place it in public domain;
- Putting up a public data policy to place all information covering non-strategic areas in the public domain which will help citizens to access the data and engage directly in governance reform.
- All Ministries/Departments have been directed to make their Citizen's Charter more effective and mandatory adoption of the 'Seven Step Model for Citizen Centricity'.

33. The Revised Estimates for 2009-10 have been fixed after factoring in the unspent balances available with the Ministries/Departments and duly considering their absorptive capacity for the remaining months of the financial year. This has resulted in better estimation of overall expenditures and reprioritizing of resources to needy Ministries/Departments. Initiatives have also been taken to evenly pace the plan expenditure during the year and also to avoid rush of expenditure at the year end which results in poor quality of outcomes. The practice of restricting the expenditure in the month of March to 15 per cent of budget allocation within the fourth quarter ceiling of 33 per cent is being enforced. The quarterly exchequer control based cash and expenditure management system which inter alia involves preparing a Monthly Expenditure Plan (MEP) continues to be followed in select Demands for Grants. The emphasis is on right pacing plan expenditure by ensuring adequate resources for execution of budgeted schemes. At the same time, steps have also been taken in the form of austerity instructions to reduce expenditure in non-priority areas without compromising operational efficiency. All these have resulted in availability of adequate resources from realised receipts for priority schemes.

34. Necessary monitoring mechanisms have been put in place with the help of the office of the Controller General of Accounts (CGA) to avoid parking of funds and to track expenditure.

35. A central monitoring, evaluation and accounting system for centrally sponsored schemes and central sector schemes of the Government has been instituted under the Central Plan Schemes Monitoring System. All sanctions issued by the Central Ministries under these schemes are now identified with a unique sanction ID that enables the tracking of release as per their accounting and budget heads across the different implementing agencies. This central system is hosted on the e-lekha portal of the CGA.

36. Expenditure data of all Ministries/Departments are being uploaded on a daily basis by the Pay and Accounts Offices on e-lekha. This is a significant step towards faster and accurate compilation of the accounts for the Government of India and will lead to the development of a core accounting solution. The monthly and annual Finance and Appropriation Accounts are regularly updated on the CGA website: www.cgaindia.gov.in.

C. POLICY EVALUATION

37. The process of fiscal consolidation is being restarted in 2010-11 after the deviations experienced during 2008-09 and 2009-10. Though the revenue base has not yet increased to the level of 2007-08, still, by doing expenditure reforms and with the help of disinvestment proceeds, the Government is able to bring down the fiscal deficit to earlier estimated level of 5.5 per cent of GDP in 2010-11. With the introduction of the Direct Tax Code in 2011-12 and also the likely introduction of GST in 2011-12, it is expected that the fiscal deficit would be brought down in 2011-12 and 2012-13 in line with the recommendations of the Thirteenth Finance Commission. This level of deficit would reduce the debt to GDP ratio from 51.1 per cent in RE 2009-10 to 48.2 per cent in 2012-13. However, the mandated correction under the FRBM Act and Rules can be achieved once the revenue buoyancy is restored to the earlier level of 2007-08.

38. There are however difficulties in achieving revenue surplus. This has to be seen in the context of present composition of expenditure. Revenue expenditure of the Central Government also includes releases made to States and other implementing agencies for implementation of Government schemes and programmes. The outcomes of many of these schemes are not in the nature of the outcomes related to revenue expenditure. In most of the cases these schemes are primarily in the nature of creating durable assets but these assets are not owned by the Central Government. Therefore, in technical classification of revenue and capital account, the Central Government is not able to show expenditure on these schemes as capital expenditure. Examples of such schemes are Rajiv Gandhi Grameen Vidyutikaran Yojana, Jawaharlal Nehru National Urban Renewal Mission, Pradhan Mantri Gram Sadak Yojana, Accelerated Irrigation Benefit Programme etc. Over the years, the number of such schemes funded by the Central Government and implemented by States/autonomous bodies has increased significantly. This has resulted in significant increase in funds transfer from Centre to States/autonomous bodies resulting in higher revenue expenditure. However, these revenue expenditures cannot be treated as unproductive in nature. On the contrary, they contribute to growth in economy.

39. At the same time in the current classification of expenditure, any release to a sick PSU in the form of loan is treated as capital expenditure. Similarly, defence capital expenditure constitutes bulk of the total capital expenditure of the Government. Presently, most of the infrastructure related expenditure is not directly funded from the capital account of the Central Government. The releases made to these agencies may not necessarily be reflected as capital expenditure of the Central Government. There are autonomous bodies or Central PSUs who are executing various infrastructure projects. There is a case for looking at Government of India expenditure classification in a more pragmatic way wherein more emphasis should be on the end outcomes of expenditure.

40. With the projected deficit targets the Government would be able to meet the targets set in by the 13th Finance Commission for debt to GDP ratio. However, the challenge remains for translating the outlays into outcomes.