

Mid-term appraisal of the Tenth Plan

2.40 The mid-term appraisal (MTA) of the Tenth Plan takes mid-course stock of the economy with particular reference to the projected macroeconomic aggregates. The MTA lowers the growth projections for the Plan identifying less than adequate investment as the main bottleneck. The MTA makes an assessment of the public finances and highlights the following: total investment for the Plan initially estimated at Rs.12,12,802 crore was revised to Rs.9,81,113 crore on account of the lower public investment, particularly poor internal resource mobilisation

by PSUs; GBS is placed at 4.1 per cent of GDP in the last two years of the Plan, namely 2005-06 and 2006-07; total non-Plan expenditure, as a proportion of GDP, is expected to go down by nearly 1.5 percentage points over the Plan period, which is more or less in line with the decline projected in the Tenth Plan; on the tax revenue front, the projections made in the Union Budget 2005-06, suggest that the Tenth Plan targets of the gross tax/GDP ratio would be met; despite a positive outlook on taxes, total non-debt receipts of the Centre would fall significantly short of the Tenth Plan projections (Box 2.6).

Box 2.6 : Mid-term appraisal of the Tenth Plan

- Buoyancy of around 1.7, initially for the two remaining years of the Tenth Plan, and 1.9 later for the Eleventh Plan would be required. In the four year period 2004-05 to 2008-09, taxes would have to grow at 22 per cent annually.
- Public investment will have to rise to 31 per cent of total investment in the country in the post-Plan period, as compared to a likely 27.5 per cent during the Tenth Plan, to achieve an 8 per cent growth target during the Eleventh Plan.
- With the expected increase in private investment demand, and the consequent hardening of market terms, States may require Central borrowing support. Otherwise the fiscal deficit targets of the FRBM may turn out to be more binding constraint than the revenue deficit in so far as the size of the Plan is concerned.
- As far as macroeconomic balance is concerned, it appears that there is sufficient slack in the savings-investment balances of the economy (including external inflows) to be able to absorb higher fiscal deficits without any perceptible crowding out. However, care would need to be taken to ensure that the widening of the fiscal deficit does not lead to a spiralling interest burden on the exchequer, which would have sustainability implications, or to an increase in inflationary pressures.
- The principal source of the contradiction between the intent of the FRBM and its impact in practice is the budgetary classification that is followed in India, especially with regard to Additional Central Assistance (ACA) in support of the States or Centrally Sponsored Schemes (CSS). Since both these forms of support are by way of grants, they are routinely classified as revenue expenditures regardless of the purpose for which they are applied. Therefore, there is a need to change the classification system.
- Although the fiscal position of the States as a collective is not very different from the Centre, their ability to sustain such high levels of deficit is much less.