Financing of the Eleventh Plan

2.39 The National Development Council at its 52nd meeting on December 9, 2006 adopted the Approach Paper to the Eleventh Plan setting a "faster, more broad-based and inclusive" growth at the average annual rate of 9 per cent for the five years starting from 2007-08. This, as the Approach Paper points out, 'requires a substantial increase in the allocation of public resources for plan programmes in critical areas', including education, health, agriculture and infrastructure; an improvement in government savings from around -1.5 per cent of gross domestic product (GDP) in 2005-06 to at least +1.0 per cent to support -- without a balance of payments problem -- an increase in the total investment rate (as a proportion of GDP) from 30.1 per cent in 2005-06 to an average of 35.1 per cent on average during the Eleventh Plan; and 'call for additional (public sector) plan expenditure above current levels, of about 1 percentage point of GDP in 2007-08, rising to about 2.5 percentage points of GDP in 2011-12'. The Approach Paper points out that "The final picture on the size of the 11th Plan will only emerge after further consultations with the States and Central Ministries, and taking account of the reports of the various working groups on Plan resources".

2.40 In view of the FRBMA passed by the Centre and most of the States, the Approach Paper notes that bringing down the combined fiscal deficit of the Centre and the States to no more than 6 per cent of GDP from 2008-09 onwards will require a reduction in the fiscal deficit by around 1 percentage point of GDP in the first two years of the Plan. It notes "Preliminary exercises suggest that the fiscal deficit reduction in the 11th Plan period to attain the FRBM target will be achieved consistent with an increase in GBS for the Plan by 2.3 percentage points of GDP for the Plan period as a whole. This would require an adjustment through lower non-plan expenditure or additional taxation by around 0.2 percentage points of GDP. However meeting the fiscal deficit targets will limit the scope for increasing Plan expenditure in the first two years unless the reduction in non-Plan expenditure can be significantly front loaded."

2.41 FRBMA, 2003 and the associated rules notified on July 5, 2004, by enjoining the Central Government to reduce the fiscal deficit by no less than 0.3 per cent of GDP every year and to bring it down to no more than 3 per cent of GDP by 2008-09, constrains the scope of enhancing GBS by resorting to more liabilities. However, it is necessary to take a more long-term view of the implications of FRBMA than a myopic one of how it constrains liabilities and hence GBS in the short run. Liabilities by increasing the debt, and hence the interest burden, of the Centre, increases non-plan revenue expenditure, and hence reduces GBS in the future. This is particularly true of liabilities above a certain sustainable level. It may be argued that high GBS through high liabilities beyond a prudent limit in the past, mortgaged the present GBS.