

## CHAPTER – III

### Macro-Economic Parameters, Resources And Other Measures For The Tenth Plan – A National Perspective:

- 3.1. The target rate of growth fixed for the Tenth plan (20002-07) is 8 per cent of G.D.P. Table - I provides the macro economic parameters of the two alternative scenarios and a comparison of the two gives the dimensions of efforts to be made to meet the 8 per cent growth target of the 10<sup>th</sup> Plan. Past experience shows that the average gestation lag of the Indian economy as a whole is about 2.5 years. In such a situation the productive capacity that will be available in the first two years of the 10<sup>th</sup> Plan has already been determined by the investment made up to 2000-01. As it happened, the two years most relevant for the beginning of the 10<sup>th</sup> Plan period, 1999-2000 and 2000-01, recorded relatively low investment rates ranging between 23.3 and 24 per cent of GDP. In this light, the increase in investment rate to 32.6 per cent in the targeted scenario calls for significant increase in the domestic savings to nearly 29.8 per cent and the foreign saving (current account balance of the balance of payments) to 2.8 per cent from the present level of 1.5 per cent. This is reasonable in the light of the experience of other emerging countries. The more difficult task is to increase the public sector saving from 2.4 per cent to 4.6 per cent and especially the government saving from a negative level to 1.7 per cent of GDP in the Target Growth scenario. As the economy is likely to move more on the market-based private sector activities, an increase in the savings rate of the private corporate sector from 4.9 to 5.8 per cent has been regarded to be achievable. The household sector saving will remain almost at the same percentage level.

**TABLE I: Macroeconomic Parameters for the Tenth Plan – A Comparison**

	<b>Base –Line</b>	<b>Target</b>
Average GDP Growth Rate (% p.a.)	6.5	8.0
Gross Investment Rate (% of GDPmp)	27.8	32.6
Implicit ICOR	4.28	4.08
Current Account Deficit	1.5	2.8
Gross Domestic Savings, of which :	26.3	29.8
Public Sector (of which)	2.4	4.6
Government	-0.6	1.7
Public Enterprises	3.0	2.9
Private Corporate Sector	4.9	5.8
Household Sector	19.0	19.4

- 3.2. **Table - II** presents the fiscal corrections needed to reach the target scenario from the base one. The average fiscal deficit of the Centre needs to be reduced from 2.8 per cent to 2.6 per cent of GDP at current market prices. This will need to be accompanied by a reduction in the consolidated fiscal deficit of the Centre and States from 4.4 per cent of GDP in the base line scenario to 3.3 per cent in the target scenario. It will also be necessary to ask for a reduction in the revenue deficit by nearly 1 per cent on the average both in the States and in the Centre in the “Target” scenario from the “Base” one.

**TABLE II: Fiscal Correction in the Tenth Plan – A Comparison**  
(% of GDP at market prices)

	<b>Base-Line</b>	<b>Target</b>
Consolidated Fiscal Deficit	4.4	3.3
Gross Centre	2.8	2.6
Net Centre	2.0	1.8
States	2.4	1.5
Consolidated Revenue Deficit	2.9	0.8
Centre	1.8	0.5
States	1.1	0.3

- 3.3. **Table- III** below indicates the possible scenario of the receipts and expenditures of the Central Government as percentage of GDP. The details are given in Table - VI. As it is shown in the Table, the 8 per cent growth scenario will need significant efforts and several policy changes to increase the revenue rates from 9 per cent average of GDP in the 9<sup>th</sup> Plan to 10.2 per cent in the 10<sup>th</sup> Plan. This again seems to be an achievable target since this percentage has already been achieved in the near past. Revenue expenditure should be reduced from 12.5 per cent to 10.7 per cent through reduction in subsidies and downsizing. The rationale behind this is given in the next paragraph. What all this means is the revenue deficit of the Central Government must be reduced to hardly 0.5 per cent over the Tenth Plan period and the non-plan expenditure may be reduced from 11.5 per cent to 9.5 per cent and the fiscal deficit from 5.0 per cent to 2.6 per cent, close to the target set by the Ministry of Finance.

**Table III: Target Growth Scenario – Fiscal Parameters of the Central Government**

*(percentage of GDP)*

	<b>Ninth Plan</b>	<b>Tenth Plan</b>
1. Revenue receipts	9.1	10.2
2. Revenue expenditure	12.5	10.7
3. Revenue deficit	3.4	0.5
4. Total expenditure	15.4	14.0
(a) Plan expenditure	3.9	4.5
(b) Non-Plan expenditure	11.5	9.5
Non-debt Capital Receipts	0.8	1.2
6. Fiscal deficit	5.0	2.6

- 3.4. **Table – IV** below indicates the national growth target and the anticipated Intersectoral Flow of Funds scenario for the Tenth Plan :-

**TABLE – IV**

	<b>Government</b>	<b>Public Enterprises</b>	<b>Private Corporate</b>	<b>Household</b>	<b>Total</b>
Gross Investment	5.0	4.1	12.2	11.3	32.6
Financed by :					
Own Savings	1.7	2.9	5.8	19.4	29.8
Borrowings	3.3	1.2	6.4	-8.1	2.8
From :					
Households	2.7	1.2	4.2	-8.1	0.0
External Sources	0.6	0.0	2.2	0.0	2.8

3.5. **Table – V** below indicates the scenario of Central Government finances at 8 % growth rate during the Tenth Plan (2002-07) :-

**Table – V**

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Price Index	1.0654	1.1617	1.1997	1.2777	1.3543	1.4221	1.4932	1.5678	1.6462	1.7285
GDP (COP)	1424078	1520353	1617656	1714715	1826171	1948525	2088819	2260102	2456731	2682750
GDP (CUP)	1517213	1766213	1940702	2190858	2473260	2770917	3118944	3543432	4044296	4637190
Budget Support to Plan (COP)	55451	57517	64729	67496	73910	79894	89785	101543	116049	134175
- do - CUP)	59077	66818	76182	86238	100100	113614	134064	159201	191041	231924
(% of GDP)	3.89 %	3.78 %	3.93 %	3.94 %	4.05 %	4.10 %	4.30 %	4.49 %	4.72 %	5.00 %
Interest	65637	77882	90248	100669	111307	121366	130762	139168	146969	153948
(% of GDP)	4.33 %	4.41 %	4.65 %	4.59 %	4.50 %	4.38 %	4.19 %	3.93 %	3.63 %	3.32 %
Defence	35278	39897	47071	54461	62000	70370	79870	90653	102891	116781
(% of GDP)	2.33 %	2.26 %	2.43 %	2.49 %	2.51 %	2.54 %	2.56 %	2.56 %	2.54 %	2.52 %
Extended W&M/EFC Grant			3000	10154	7203	6631	5745	5627	5627	5627
Small Savings Loans to States	15732	23026	26883	30243	34024	38277	43061	48444	54500	61312
Pay & Allowances	26688	31286	32692	30231	31969	33210	34498	35837	37227	38672
(% of GDP)	1.76 %	1.77 %	1.68 %	1.38 %	1.29 %	1.20 %	1.11 %	1.01 %	0.92 %	0.83 %
Other Non-Plan	29640	40456	48911	53768	61876	64970	68218	71629	75211	78971
(% of GDP)	1.95 %	2.29 %	2.52 %	2.45 %	2.50 %	2.34 %	2.19 %	2.02 %	1.86 %	1.70 %
Total Non-Plan (CUP)	172975	212546	221922	249283	274355	294916	315849	337287	362298	388372
(% of GDP)	11.40 %	12.03 %	11.44 %	11.38 %	11.09 %	10.64 %	10.13 %	9.52 %	8.96 %	8.38 %
Total Expenditure (CUP)	232052	279365	298104	335521	374455	408530	449913	496487	553339	620296
(% of GDP)	15.29 %	15.82 %	15.36 %	15.31 %	15.14 %	14.74 %	14.43 %	14.01 %	13.68 %	13.38 %
Gross Tax (excl. Cess)	139221	143797	169835	192521	220437	258639	305418	365275	439624	532430
(% of GDP)	9.18 %	8.14 %	8.75 %	8.79 %	8.91 %	9.33 %	9.79 %	10.31 %	10.87 %	11.48 %
Less : share of States	43548	39145	43991	52418	61617	73905	88571	105930	127491	154405
(% of GDP)	31.28 %	27.22 %	25.90 %	27.23 %	27.95 %	28.57 %	29.00 %	29.00 %	29.00 %	29.00 %
Cess			900	5800	6200	6636	7138	7752	8461	9278
Net Tax to Centre	95673	104652	128271	144403	163020	191370	223984	267097	320594	387303
(% of GDP)	6.31 %	5.93 %	6.61 %	6.59 %	6.59 %	6.91 %	7.18 %	7.54 %	7.93 %	8.35 %
Non-tax Revenue	38214	44858	53242	61761	68715	76452	85061	94638	105295	117151
(% of GDP)	2.52 %	2.54 %	2.74 %	2.82 %	2.78 %	2.76 %	2.73 %	2.67 %	2.60 %	2.53 %
Recoveries of Loans	8138	10633	10131	14885	15164	17060	19192	21591	24290	27326
Disinvestment	912	5874	1723	2500	12000	15000	18000	16000	15000	14000
(% of GDP)	0.61 %	0.93 %	0.61 %	0.79 %	1.10 %	1.16 %	1.19 %	1.06 %	0.97 %	0.89 %
Total Non-debt receipts	143117	166016	193367	223549	258899	299882	346237	399237	465178	545781
(% of GDP)	9.43 %	9.40 %	9.96 %	10.20 %	10.47 %	10.82 %	11.10 %	11.27 %	11.50 %	11.77 %
Fiscal Deficit (old method)	88936	113348	131620	142216	145800	142672	141953	140222	136605	129015
FD/GDP (old method)	5.86 %	6.42 %	6.78 %	6.49 %	5.90 %	5.15 %	4.55 %	3.96 %	3.38 %	2.78 %
Fiscal Deficit (new method)	73204	90322	104737	111973	111776	104395	98891	91778	82105	67703
FD/GDP (new method)	4.82 %	5.11 %	5.40 %	5.11 %	4.52 %	3.77 %	3.17 %	2.59 %	2.03 %	1.46 %

[ Source : Approach Paper to the Tenth Five Year Plan Plan as prepared by the Planning Commission.]