

## FISCAL POLICY STRATEGY STATEMENT

### A. FISCAL POLICY OVERVIEW

1. The annual Budget for the financial year 2010-11 was presented in the background of signs of recovery in the global economy led by emerging market economies. Uncertainty however was still persisting at that point of time, particularly in Europe where some of the countries were facing difficult fiscal situation and probability of sovereign debt default was looming large. India along with other emerging market economies continued to be the fastest growing economies in 2009-10. The latest released data on 2009-10 growth shows that India has performed even better (8.0 per cent growth rate) than what was estimated earlier (7.4 per cent). Details of this may be read in the Macro-Economic Framework Statement.

2. Formulation of Budget 2010-11 was done in this uncertain situation where on the one hand government had to start unwinding expansionary measures which were not sustainable in the medium term and on the other hand the exit policy had to be calibrated in such careful manner that it would not hurt the revival process in the middle of recovery. Looking back at the performance in the first half of 2010-11, wherein Indian economy grew at 8.9 per cent, and is estimated to grow at 8.6 per cent in the full year, it is evident that government's policy of gradual exit has yielded desired result. Moreover, the recovery is swift and broad based.

3. Budget 2010-11 had enumerated the path for fiscal consolidation in the medium term and the process started with targeted fiscal deficit of 5.5 per cent of GDP in 2010-11 from a level of 6.5 per cent (inclusive of bonds issued in lieu of securities) in 2009-10. Even when the demand of resources was at higher level, the government kept to its commitment towards not exceeding the fiscal deficit beyond 5.5 per cent of GDP. During the year 2010-11, with higher receipts of non-tax revenue through 3G and BWA auction, government decided to increase financial allocation for priority sectors without exceeding the fiscal deficit target.

4. With better than estimated tax revenue aided with higher growth in GDP, the fiscal deficit in 2010-11 is estimated to decline to 5.1 per cent of GDP as against 5.7 per cent recommended in the 13<sup>th</sup> Finance Commission fiscal consolidation roadmap. However, higher nominal GDP growth (due to inflation) coupled with tax measures undertaken during the crisis period has resulted in decline in Tax to GDP ratio significantly.

5. The gross tax to GDP ratio which increased to an all time high of 11.9 per cent in 2007-08, thanks to the economy riding on high growth trajectory, has sharply declined to 10.8 per cent in 2008-09 and 9.5 per cent in 2009-10. At the same time total expenditure as percentage of GDP (inclusive of securities in lieu of subsidies) has increased from 15.1 per cent in 2007-08 to 17.6 per cent in 2008-09 and moderated to 15.7 per cent in 2009-10. The decline in tax to GDP ratio coupled with higher expenditure brought out the problems of structural imbalance in fiscal account. Though part of this imbalance was of cyclical nature, however a large proportion of the increase in fiscal deficit could be attributed to structural problems. Government has started addressing this issue in the right earnest. The medium term fiscal policy statement brings out in detail the strategy of the government to reduce the fiscal deficit closer to the mandated level under the FRBM Act and Rules by 2013-14. However, the revenue deficit as percentage of GDP is estimated to decline from 5.3 per cent in 2009-10 (inclusive of Securities issued in lieu of subsidies) to 3.4 per cent in RE 2010-11. This correction is largely attributed to higher non tax receipts from 3G and BWA spectrum auction. In absence of this source of revenue in the coming financial year, revenue deficit is estimated to be static at 3.4 per cent of GDP in BE 2011-12. It is further projected to decline to 2.1 per cent of GDP by 2013-14. The revenue deficit and fiscal deficit in R.E. 2010-2011 are higher than the targets set under the FRBM Act and Rules. The deviation from the mandate under FRBM Act and Rules may be seen in the context of developments during 2008-09 and 2009-10. With the decision of the government to revert back to the path of fiscal consolidation starting from 2010-11, it is estimated to bring down the fiscal deficit from 7.8 per cent (inclusive of oil and fertiliser bonds) in 2008-09 to 4.6 per cent in BE 2011-12. The projections for fiscal deficit under MTFP Statement show marginal improvement from the 13<sup>th</sup> Finance Commission recommendations.

6. It may be recalled that the Government had made a conscious effort to avoid issuing Government securities in lieu of cash subsidies to oil and fertiliser companies. This trend of extending Government subsidy in cash rather than by way of bonds will continue in coming years, thereby bringing in all subsidy related liabilities into Government's fiscal accounting. For the year 2011-12, sum of ₹20,000 crore has been provided for compensation to oil

companies for under recoveries in select petroleum products.

7. The Budget 2011-2012 is being presented in the background when Indian economy has swiftly come back to a broad based growth recovery path. However, the rising inflation which is becoming sticky has to be addressed through policy and administrative measures through this Budget. On one hand the government has to ensure that the continuance of recovery is aided through policy actions and at the same time the growth trajectory has to be balanced with rising concerns on inflation.

#### **B. FISCAL POLICY FOR 2011-12**

8. The fiscal policy of 2011-12 will continue to be guided by the principles of gradual adjustment from the fiscal expansion undertaken during the crisis period in 2008-09 and 2009-10. The adjustment path has been slightly front loaded when compared to the recommendations of the 13<sup>th</sup> FC. It may be seen that the fiscal deficit is estimated at 5.1 per cent and 4.6 per cent of GDP as against 5.7 per cent and 4.8 per cent in 2010-11 and 2011-12 respectively. This accelerated adjustment will help the government in reducing the debt to GDP ratio at faster pace which in turn will help in unlocking more resources from government revenue in future to be used for developmental programmes instead of debt servicing. In order to achieve the enumerated accelerated fiscal consolidation path, the government has focused on expenditure correction in 2011-12. In the absence of one time receipts from spectrum auction and only gradual improvement in tax to GDP ratio, the structural nature of fiscal imbalance can not be addressed without controlling overall expenditure.

9. Total expenditure of the government is estimated to decline from 15.7 per cent in 2009-10 to 15.4 per cent in RE 2010-11 and 14.0 per cent in BE 2011-12. The lower than expected correction in total expenditure in RE 2010-11 could be seen in the context of additional revenue available (of the order of 1.3 per cent of GDP from 3G and BWA spectrum auction) with the government. Sharp correction in BE 2011-12 is designed with reorientation of expenditure to priority sectors and reducing the growth of non-plan expenditure. While plan expenditure as percentage of GDP in BE 2011-12 has been maintained almost at the level of RE 2010-11, non plan expenditure has dropped from 10.5 per cent in RE 2010-11 to 9.1 per cent in BE 2011-12. This reduction was possible partly with lower residual commitments on account of Agricultural Debt waiver and Debt relief facilities, one off salary arrear payments to defence personnel and educational

institutions in RE 2010-11 and lower growth in subsidy out go (as percentage of GDP) for 2011-12 when compared to 2010-11. The reduction in total expenditure is key to the fiscal adjustment path and it would be a challenging task to adhere to it during the course of the year.

10. In order to keep the overall expenditure under the estimated level, government has taken certain decisions to control the growth of expenditure in subsidies and other related items. Decision of the Government on move towards nutrient based subsidy (NBS) regime in fertiliser subsidy along with increase in the MRP of urea have helped in containing expenditure on fertiliser subsidy during 2010-11 when compared to 2009-10. At the same time, NBS regime 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 in this sector. Based on successful introduction of NBS policy for other fertilizers except urea, Government is actively considering the extension of NBS regime to cover urea as well. It is also proposed to encourage the use of bio and organic fertilisers to reduce reliance on imported fertilisers.

11. With respect to rationalization of petroleum subsidy, government has already decontrolled the pricing of petrol. In a departure from the past practice, the Government has started providing petroleum subsidy for under recoveries of oil marketing companies in cash instead of securities from the year 2009-10. In order to arrest the diversion of subsidised kerosene oil, LPG and fertilizers and to ensure greater efficiency, cost effectiveness and better delivery, the Government will move towards direct transfer of cash subsidy to people living below poverty line in a phased manner.

12. In a move towards better depiction of revenue expenditure of the government, starting from BE 2011-12, data is being collated to depict how much of Centre's revenue expenditure is actually in the form of grant for the creation of capital assets to the other tiers of government as well as other grantee bodies. This information would help in determining the effective imbalance in the revenue account which government should eliminate in a given timeframe with desired policy initiatives and administrative efficiency.

#### **Tax Policy**

13. In recent years, tax policy has been guided by the need to increase the tax-GDP ratio and achieve fiscal consolidation. In these years, the tax-GDP ratio improved significantly from 9.2 per cent in 2003-04 to 11.9 per cent in 2007-08. This has been achieved

through rationalisation of the tax structure (moderate levels and a few rates), widening of the tax base, and reduction in compliance costs through improvement in tax administration. The extensive adoption of information technology solutions and re-engineering of business processes has also fostered a less intrusive tax system and encouraged voluntary compliance. These measures have resulted in increased buoyancy in tax revenues till 2007-08 and helped in fiscal consolidation. However, the process of consolidation was paused during the crisis period of 2008-09 and 2009-10 and various fiscal and administrative measures were undertaken to insulate Indian economy from the adverse impact of global economic crisis.

14. Due to the policy interventions for inflation management and subsequently for providing a stimulus to growth, Government had to forego substantial revenues from excise and customs duties during 2008-09 and 2009-10. On the positive side, however, the results of these proactive measures have helped in swift and broad based recovery particularly in manufacturing and services sector.

#### **Indirect taxes**

15. The strategic priority of the Government in the area of indirect taxation continues to be to achieve further improvement in the tax-GDP ratio through an expansion in the tax base, removal of exemptions and moderation of tax rates. It is an important priority to reduce complexities in the tax system by rationalizing the number of taxes, reducing rate dispersion and simplifying procedure so that voluntary compliance is encouraged. Maintaining the integrity of the credit chain is also a key priority as it reduces cascading and improves the overall efficiency of a VAT type of tax. With the blurring of distinction between goods and services, it is equally important to harmonise the provisions across Central Excise and Service Tax to prevent anomalies and leakages.

16. In the medium term, these objectives are sought to be achieved through the introduction of a comprehensive Goods and Services Tax (GST). A dialogue is already underway between the Centre and the States for designing the structure and framework of this tax and the Central Government proposes to introduce a Constitutional Amendment Bill in Parliament to enable the levy of GST by the Centre and the States.

17. The overall approach to tax proposals in this Budget is dovetailed to this medium term objective. In specific terms, proposals aimed at taking forward

the path of fiscal consolidation without adversely affecting economic growth are summarized as under:

#### **CENTRAL EXCISE:**

- i. Enhancement in the merit rate of Central Excise from 4% to 5%
- ii. Expansion of the tax base through –
  - a. Imposition of a nominal duty of 1% *ad valorem* on about 130 items that were hitherto exempt or chargeable to nil rate of duty without CENVAT credit
  - b. Imposition of mandatory excise duty of 10% on ready made garments bearing or sold under a brand name
- iii. Rationalization of rate structure on paper and availability of CENVAT credit to ship-breaking units

#### **CUSTOMS:**

- i. Enhancement in export duty on iron ore at a unified rate of 20% for both lumps and fines
- ii. Rationalisation of customs duty rates of 2%, 2.5% and 3% to the median rate of 2.5% as well as the rate structure for aircraft

#### **SERVICE TAX:**

- i. Imposition of service tax on a few more service categories
- ii. Rationalisation in the scope of many existing service categories such as insurance, banking and financial services, health services, commercial training and coaching, clubs or associations etc.
- iii. Rationalisation in the valuation provisions and import rules; and
- iv. Rationalisation of the CENVAT Credit scheme provisions especially with regard to the apportionment of credit between dutiable/taxable and exempt goods or services.

#### **Direct Taxes**

18. The contribution of direct taxes to the total taxes collected by the Centre has increased in the last decade from 33.8% in 1999-2000 to 58.6% in 2009-10.

19. The substantial increase in direct taxes has been based on the following strategy:

- (i) Maintaining moderate rates of tax while expanding the tax base by minimizing exemptions and phasing out profit linked deductions.
- (ii) Strengthening tax administration to provide better taxpayer services and increased deterrence levels to promote voluntary compliance.

- (iii) Re-engineering the business processes in the Income-tax Department 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.
- (v) Proposing an Alternate Minimum Tax (AMT) on Limited Liability Partnerships (LLPs) to preserve the tax base vis-à-vis profit-linked deductions.

22. A number of administrative initiatives are also proposed to reduce the compliance burden and promote voluntary compliance. Some of these are detailed below.

- (i) A category of salaried taxpayers, who will not be required to file returns of income, will be notified.
- (ii) A new simplified return form for taxpayers who fall within the scope of presumptive taxation (businesses with turnover less than Rs.60 lakhs) will be introduced.
- (iii) Three more Benches of Settlement Commission will be set up to fast track the resolution of tax disputes.
- (iv) The tax effect limits of tax disputes which the Government will not litigate in higher courts have been raised.
- (v) The administrative as well as legislative framework for exchange of information with other countries is being strengthened.

20. The Union Budget for 2010-11 announced that after concluding wide-ranging discussions with stakeholders, the Government would implement the Direct Taxes Code from April 1, 2011. The Government has subsequently introduced the Direct Taxes Code Bill, 2010 (DTC) in Parliament in August, 2010. The DTC consolidates and integrates all direct tax laws, simplifies the language by using direct, active speech, indicates stability in direct tax rates by proposing the rates of taxes in a Schedule to the Code, strengthens taxation provisions for international transactions, further moderates the tax rates, minimizes exemptions and deductions to widen the tax base, and replaces profit linked deductions with investment linked deductions for priority areas. In order to help tax payers, tax practitioners as well as tax administrators to adjust to the new provisions and procedures, the legislation is proposed to be effective from April 1, 2012. It is currently being examined in Parliament by the Standing Committee on Finance.

21. The major policy proposals in the Union Budget 2011-12 intended to consolidate past achievements and align with the DTC provisions are:

- (i) Enhancing the exemption limit of Personal Income Tax (PIT) for the general category of individual taxpayers. This will reduce the tax liability of a majority of individual taxpayers.
- (ii) Reducing the surcharge on Corporate Income Tax (CIT) in the case of domestic companies from 7.5 per cent to 5 per cent. This reduces the overall rate (inclusive of surcharge and cess) from 33.2 per cent to 32.4 per cent. In the case of foreign companies, the surcharge has been reduced from 2.5 per cent to 2 per cent.
- (iii) Increasing the rate of Minimum Alternate Tax (MAT) on companies from 18 per cent to 18.5 per cent. This will keep the effective rate of MAT (inclusive of surcharge and cess) at the same level.
- (iv) Levying Minimum Alternative Tax (MAT) in case of SEZ developers and units located in SEZ. Dividend Distribution Tax (DDT) is also proposed to be levied in the case of SEZ developers.

The information technology initiatives are as follows:

- (i) The Centralised Processing Centre (CPC) at Bengaluru is now processing 1.5 lakh returns per day. Two new CPCs at Manesar and Pune will be functional by May, 2011. Another CPC will be set up at Kolkata in 2011-12.
- (ii) Three taxpayer help centres called Aayakar Seva Kendras (ASKs) are already functional. Eight ASKs will begin operations in 2010-11 while fifty more will be set up in 2011-12.
- (iii) A web based facility which will provide direct, stand alone interface for taxpayers to report and track refunds and credit for prepaid taxes will be set up in 2011-12.

### **Contingent and other Liabilities**

23. 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.

24. In furtherance to better management of contingent liabilities, government guarantee policy has been framed and released during 2010-11. It enumerates various principles which need to be followed before new contingent liabilities in the form of sovereign guarantees are undertaken. These principles inter alia include assessment of risk and probability of devolvement, institutional limits on guarantees for limiting exposure towards select sectors and requirement of guarantee vis a vis other forms of budgetary support or comfort. Additional measures to further streamline the process of assuming risk could include charging of risk based premia, disincentive for wilful default, only part sharing of risk by the government and insisting on guaranteed debt cost to be near the benchmarked government securities rate.

25. The stock of contingent liabilities in the form of guarantees given by the government has increased in absolute terms from Rs.1,07,957 crore at the beginning of the FRBM Act regime in 2004-05 to ₹1,37,460 crore at the end of 2009-10. However, as a percentage of GDP, it has reduced from 3.3 per cent in 2004-05 to 2.1 per cent in 2009-10. The disclosure statement on outstanding Guarantees as prescribed in the FRBM Rules, 2004 is appended in the Receipts Budget as Annex 5 (iii).

26. During the year 2009-10, gross addition in guarantees was Rs.37,102 crore amounting to 0.6 per cent of GDP. However, net addition in guarantees during 2009-10 was Rs.24,126 crore amounting to 0.4 per cent of GDP. The assumption of contingent liability in the form of guarantee for 2009-10 was 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**

27. Finance Minister in his Budget Speech for 2010-11 has indicated his intention to bring out a status paper giving detailed analysis of the government's debt situation and a road map for curtailing the overall public debt. Accordingly, in November 2010, a paper "Government Debt – Status and Road Ahead" has been brought out with detailed analysis of status of

Central Government debt. At the same time it also charts out a well calibrated roadmap for reduction in the overall debt as percentage of GDP for the general government during the period 2010-11 to 2014-15.

28. 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.

29. The overall objective of the Government debt management policy is to meet Central Government's financing need at the lowest possible long term borrowing costs and also to keep the total debt within sustainable levels. Additionally, it aims at supporting development of a well functioning and vibrant domestic bond market.

30. During 2010-11, market borrowings of the government through dated securities have remained within the estimated requirement in BE 2010-11. Gross and net market borrowings (dated securities) of the Central Government were estimated at ₹4,57,143 crore and ₹3,45,010 crore in BE 2010-11. During the current financial year (upto 27<sup>th</sup> February, 2011), gross and net market borrowings through dated securities amounted to ₹4,37,000 crore and ₹3,25,414 crore respectively as compared to Rs.4,18,000 crore and ₹3,65,411 crore respectively during the previous financial year. Including the de-sequestered amount from MSS, the gross and net market borrowings during the previous year for the same period amounted to ₹4,46,000 crore and ₹3,93,411 crore respectively.

31. The weighted average maturity of dated securities issued during 2010-11 (upto 27<sup>th</sup> February, 2011) at 11.62 years was higher than 11.16 years in the corresponding period of 2009-10. Reflecting tightening of yields as also upward sloping yield curve, the weighted average yield of issuance during the same period was higher at 7.9 per cent during 2010-11 compared to 7.2 per cent in 2009-10.

32. The debt financing strategy for 2011-12 has been formulated after factoring in the comfortable cash position of the government in the current financial year as well as the existing inflationary expectations in the economy. Along with other components of financing, fiscal deficit of ₹4,12,817 crore is proposed to be financed to the extent of ₹3,43,000 crore (amounting

to 83 per cent of deficit) through issuance of dated securities, ₹24,182 crore (5.9 per cent of deficit) through securities issued against NSSF, ₹15,000 crore through Treasury Bills (3.6 per cent of deficit), ₹14,500 crore (3.5 per cent of deficit) of external debt and ₹20,000 crore (4.8 per cent of deficit) through cash-draw down from the built up estimated in the current financial year.

33. The outstanding balance under Market Stabilization Scheme (MSS) on 1<sup>st</sup> April, 2010 was ₹2,737 crore. There is no balance estimated at the end of financial year 2010-11. Net accretion in MSS to the tune of ₹20,000 crore is estimated for BE 2011-12.

34. The shift in policy on the uses of disinvestment proceeds from Central PSUs received under the National Investment Fund (NIF) will continue for the year 2011-12. The disinvestment proceeds received during 2011-12 have been 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.

35. Middle office has started bringing out various reports and information with respect to public debt. The debt issuance calendar along with selection of instruments for issuance is now being done in consultation with Middle Office and RBI. In due course it will transit into the proposed Debt Management Office.

#### **Initiatives in Public Expenditure Management**

36. The focus on outcomes has got institutionalized with the practice of select departments being mandated to come up with their "Result Framework (RF) Document". This puts emphasis on tracking on measurable outcomes in the form of Key Performance Indicators (KPIs). Result Frameworks are so drawn up that quarterly monitoring becomes possible. During the year, the RF as well as the achievements against the KPIs are being reviewed by a Committee on Government Performance and the report of such review are being submitted to the Prime Minister through the concerned Minister for further action as deemed necessary. At the end of the year, all Ministries/Departments covered under the RF system

review and prepare a report listing the achievements against the agreed goals in form of KPIs and these results are to be placed before the Cabinet for information by 1st June of each year.

37. 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. 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.

38. Central Plan Scheme Monitoring System (CPSMS) is an initiative towards establishing a suitable on-line management information and decision support system. This MIS tracks devolution of funds as well as their utilization through all tiers of implementing agencies and in some cases upto the end beneficiaries. The real time availability of information on status of fund utilization and balances in respective bank accounts will enable better cash management system with timely release of adequate funds and avoidance of parking of funds without actual requirement. While ensuring reduced cost of carrying borrowed fund, it will also bring in accountability as people can access information about a particular scheme in their respective areas.

#### **C. POLICY EVALUATION**

39. Fiscal performance along with growth in economy during 2010-11 has been better than the budget estimates presented in February 2010. While fiscal deficit is estimated to decline from 5.5 per cent of GDP in BE 2010-11 to 5.1 per cent in RE 2010-11, the growth in Indian economy is estimated at 8.6 per cent against 8.5 per cent estimated in Budget 2010-11. The growth in 2010-11 has to be seen on top of 8 per cent growth in 2009-10 as per CSO's latest estimates. Better than estimated performance during 2010-11 has reinforced the belief in the strategy adopted for fiscal consolidation with calibrated exit from expansionary measures. However, the pressure on inflation front has to be dealt with in focused manner.

40. The process of fiscal consolidation which resumed in 2010-11 will be continued during 2011-12 after the deviations experienced during 2008-09 and 2009-10. Though the tax revenue base has not yet

reached near to the level of 2007-08, still, by doing expenditure reforms, together with better non –tax revenue realization and with the help of disinvestment proceeds, the Government is able to bring down the estimated fiscal deficit in 2011-12 to 4.6 per cent of GDP. This is better than the target of 4.8 per cent recommended by the 13<sup>th</sup> FC. It is further projected to be brought down to 4.1 per cent of GDP in 2012-13 and 3.5 per cent in 2013-14. The suggested roadmap on fiscal consolidation will help in reducing the debt to GDP ratio from 48.1 per cent in 2009-10 to 44.2 per cent in BE 2011-12 and further to 41.5 per cent by 2013-14. This reduction in debt GDP ratio may be seen in the context of recommended debt level of 44.8 per cent of GDP by 2014-15 by the 13<sup>th</sup> FC.

41. There are however difficulties in achieving revenue surplus. This was explained in detail in the Fiscal Policy Strategy Statement of 2010-11. 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 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. Starting from this year, a statement is being presented in Expenditure Budget Volume 1, which collates all such grants to various tiers of government which are used for creation of capital assets. The total expenditure on such items are significant at about 1.6 per cent of GDP. This reflects that half of the government revenue deficit is attributed towards these grants and therefore effective revenue deficit of the government is estimated at 1.8 per cent of GDP in 2011-12. It would be the endeavour of the government to eliminate this component of revenue deficit in the medium term.