सत्यमेव जयते

GOVERNMENT OF INDIA

Medium-term Expenditure Framework Statement laid before Parliament as required under the Fiscal Responsibility and Budget Management Act, 2003

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PREFACE

Section 3 of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 require the Government to place three Statements in both Houses of Parliament. This section has been amended to require the Government to lay a fourth statement viz. the Medium Term Expenditure Framework (MTEF) in both Houses of Parliament, immediately following the session of the Parliament in which the budget has been presented.

The MTEF is to set forth a three-year rolling target for the expenditure indicators with specification of underlying assumptions and risks involved. The MTEF is essentially expected to be a vertical expansion of the expenditure projections in the MTEF Statement. The objecive of the MTEF is to provide closer integration between budget and the FRBM Statements. It also furthers the Governmentôs comitment towards fiscal consolidation.

MEDIUM TERM EXPENDITURE FRAMEWORK

A. MEDIUM-TERM EXPENDITURE PROJECTIONS

(₹ Crore)

		Revised Estimates 2012-13	Budget Estimates 2013-14	Projection for next two years 2014-15	2015-16
Revenue Expenditure					
1.	Salary	72282	78873	86578	95107
2.	Interest	316674	370684	414350	457648
3.	Pension	63836	70726	77799	85578
4.	Subsidy-				
	a. Fertiliser	65975	65972	62274	63628
	b. Food	85000	90000	120000	135000
	c. Petroleum	96880	65000	35000	20000
5.	Centralised provision for Grants to States	129900	154416	168731	187829
6.	Defence	108925	116931	125116	133875
7.	Postal Deficit	5838	6717	6247	5810
8.	External Affairs	6846	8801	9475	10084
9.	Home Affairs	12635	15681	16801	17808
10.	Tax Administration	2253	11965	12922	13698
11.	Finance	13748	15225	16360	17418
12.	Education	57620	69688	81439	90212
13.	Health	23256	29492	33575	39420
14.	Social Welfare	27134	34280	37600	42051
15.	Agriculature and Allied	22775	27612	30094	33569
16.	Commerce and Industry	12770	13966	15748	17331
17.	Urban Development	2052	2803	3016	3306
18.	Rural Development	71978	102428	112008	124540
19.	Development of North East	1557	1832	1979	2147
20.	Planning and Statistics	5701	11677	7379	8005
21.	Scietific Departments	7880	9650	10402	11243
22.	Energy	5707	12411	12268	14462
23.	Transport	18453	15315	16300	17527
24.	IT and Telecom	2900	6137	6433	6749
25.	UT	5541	6388	6823	7333
26.	Others	16955	21499	22913	24589
Total-	**Revenue Expenditure**	**1263072**	**1436169**	**1549629**	**1685966**
of which					
Grants for Creation of Capital Assets		**124275**	**174656**	**233345**	**304185**

(₹ Crore)

		Revised Estimates 2012-13	Budget Estimates 2013-14	Projection for next two years 2014-15	2015-16
Capital Expenditure					
1.	Defence	69579	86741	94547	103057
2.	Home Affairs	6741	9269	9870	10891
3.	Finance	15424	38015	23649	26067
4.	Education	0	0	0	0
5.	Health	1501	2887	3318	3914
6.	Commerce and Industry	1673	2217	2370	2633
7.	Urban Development	5891	7531	8373	9550
8.	Planning and Statistics	279	916	989	1118
9.	Scietific Departments	2203	3973	4365	4932
10.	Energy	8487	6709	7561	8610
11.	Transport	36189	48902	52945	63554
12.	IT and Telecom	1740	2690	2832	2997
13.	Loans to States	11000	11000	11880	13306
14.	UT	1238	1906	2102	2383
15.	Others	5807	6373	6661	7169
Total-	**Capital Expenditure**	**167753**	**229129**	**231462**	**260180**
Total Expenditure		**1430825**	**1665297**	**1781091**	**1946146**

B. ASSUMPTIONS UNDERLYING THE MEDIUM-TERM EXPENDITURE PROJECTIONS

India witnessed a rate of GDP growth of 9.3 per cent in 2010-11. However, strong monetary response by RBI during most of 2011-12 to curb inflation along with bottlenecks such as obtaining environmental clearances, land acquisition, etc. might have led to a slowdown in investment, and the lower growth rate of 6.2 per cent in 2011-12 and 5 per cent in 2012-13. The Budget 2013-14 was presented on the assumption of GDP growth in the range of 6.1 to 6.7 per cent of GDP. The higher growth rate in 2013-14 vis-a-vis 2012-13 assumed normal monsoon, further moderation in inflation, mild recovery in global growth and measures undertaken by the Government to improve investor sentiments and fiscal situation. Headline WPI inflation has moderated significantly in recent months. While several steps have been taken by the Government in recent months to improve investor sentiments and to address the slowdown in growth as well as the fiscal situation, the global economic scenario is yet to witness decisive improvement.

According to July, 2013 update of World Economic Outlook published by International Monetary Fund, the growth rate of the World output has slowed from 3.9 per cent in 2011 to 3.1 per cent in 2012. The growth of the advanced economies has declined from 1.7 per cent in 2011 to 1.2 per cent in 2012. However, signs of economic recovery are emerging in the USA. Though market sentiments have revived to an extent, the Euro zone is in recession with high levels of unemployment.

Assessment of the fiscal position and consequent expenditure projection for the Government has to be made in this macroeconomic backdrop. As committed by Government there was a marked improvement in fiscal situation in 2012-13. As per the fiscal roadmap, Government committed to reduce the fiscal deficit as percentage of GDP to 5.3 per cent in 2012-13. This is to be progressively reduced to 3 per cent by the end of Plan period. Budgetary estimates of 5.1 per cent for fiscal deficit in 2012-13 were revised to 5.2 per cent against which actual achievement was 4.9 per cent. Measures undertaken by Government to rationalize expenditure and mobilize resources have thus created necessary fiscal space.

In line with the fiscal roadmap adopted by Government, Budget 2013-14 was presented with the fiscal deficit of 4.8 per cent. In the medium term, this is to be reduced to 4.2 per cent in 2014-15 and 3.6 per cent in 2015-16. Similarly Revenue deficit of 3.3 per cent of GDP in 2013-14 is to be reduced to 2.7 per cent in 2014-15 and 2 per cent in 2015-16. Effective Revenue deficit of 1.8 per cent in 2013-14 is to be reduced to ñnilò by 2015-16. The above mentioned fiscal targets have been informed in the Medium Term Fiscal Policy statement in the Budget Session of Parliament.

In the process of achieving these fiscal targets, it has been estimated that outstanding liabilities as percentage of GDP will be reduced to 42.3 per cent in 2015-16 from the level of 45.7 per cent estimated for 2013-14. Further Gross Tax revenue (before devolution of State share) as a percentage of GDP will progressively rise to 11.5 per cent by 2015-16 from the level of 10.9 per cent estimated in Budget 2013-14. Increase from Tax to GDP ratio of 10.9 per cent to 11.5 per cent requires an average annual growth in gross tax collection of 17.5 per cent and an average tax buoyancy of 1.23. It has to be kept in view that in the past Tax to GDP ratio of 11.9 per cent has been achieved in 2007-08. This was backed by an average tax growth rate of nearly 21.3 per cent in the period 2003-08. In pre-crisis period, growth in gross tax revenue for 2006-07 and 2007-08 was 28.9 per cent and 25.3 per cent respectively. These reforms were driven mainly by direct taxes , whose average annual growth rate during 2003-08 was about 28 per cent. The buoyancy of tax revenue with respect to GDP was nearly 1.5 during this period. Therefore, fiscal consolidation strategy of Government primarily hinges on reclaiming high growth in gross tax revenue achieved in the past. This is also essential for creating space for financing various welfare programmes of Government.

One of the risks to the assumption on resources side is the award of XIV Finance Commission. The projection period includes a Financial Year in which award of XIV Finance Commission will become effective. Devolution pattern of XIII Finance Commission has been assumed for making projections for 2015-16.

Non-Tax Revenue of Government comprises of Interest receipts, Dividend and profits, User charges, Receipts from telecom sector and royalties etc. Budget 2013-14 has been presented with non-tax revenue as 1.5 per cent of GDP. It has further been assumed that certain one-time receipts budgeted in 2013-14 will not be available in 2014-15 and 2015-16. With these assumptions the ratio of Non-Tax revenue to GDP has been estimated to decline to 1.2 per cent of GDP in 2014-15 and to 1.1 per cent in 2015-16.

For Budget 2013-14, decision was taken by Government that disinvestment proceeds will only be used for specific authorized purposes. In Budget 2013-14, disinvestment proceeds are credited to National Investment Fund (NIF) and used for financing Plan expenditure of Indian Railways and Recapitalization of Public Sector Banks. Or in other words using NIF, Government is changing the nature of capital assets owned by it. Over medium term a nominal amount of ₹ 20,000 crore in 2014-15 and ₹ 15,000 crore in 2015-16 has been assumed from disinvestment proceeds.

With the resources outlined above and underlying assumptions, a projection for various items for expenditure over a medium term framework has been made.

REVENUE EXPENDITURE

Major items of Revenue expenditure include:

Interest payment: -

One of the largest items of revenue expenditure is the Interest payment commitment of the Government. As per the Constitutional provisions this is a charged item of expenditure. Fiscal expansionary measures undertaken by Government post crisis have resulted in sharp increase in the Interest payment commitments. Due to accumulation in the debt stock of the Government, Interest payments jumped to 46.7 per cent of net tax to centre in 2009-10. It has been estimated that during 2013-14, interest payment will be 42 per cent of net tax to Centre. Higher commitment of interest payments has been a result of both the greater accretion to the debt stock as well as a tough interest rate regime. It has been assumed that with Government deficit coming down in the medium term and softening of interest rate regime commitment on this count will decline.

Major Subsidies: -

National Food Security law provides food as a legal entitlement for nearly 2/3[rd] of Indian population. Separately, there are enabling provisions in the Law to provide for nutrition requirements of pregnant and lactating women. In BE 13-14, to provide adequate finances for enactment of the law, a provision of ₹ 10,000 crore was kept over and above the normal food subsidy allocation for meeting Targeted Public Distribution System (TPDS) requirement. In the medium term adequate provisions have been kept for smooth rollout of the above law. Constrained by the fiscal roadmap, Government faces the challenge of containing outlay on the other Subsidies viz. Petroleum and Fertilizer within the sustainable limits. Key to meeting these challenges lies in achieving greater efficiency in the systems delivering these subsidies. To improve targeting of subsidies, Government has embarked upon an ambitious programme to directly transfer government benefits into Aadhar linked bank accounts of beneficiaries. Issues of eligibility and duplicate transfers can be handled much better using the Aadhar platform. On the pricing issue, there is a need to undertake pricing reforms in the urea sector. This is not only essential for reducing the subsidy bill, but is also necessary for a more balanced usage pattern of N, P and K Fertilizers. Small price correction taken up by Oil Marketing Companies in pricing Petroleum and Diesel will ensure that under recoveries of OMCs are kept within fiscally manageable levels. A reassessment of these would be done at the stage of Revised Estimates.

Salaries: -

For the projection period it has been assumed that there will be a year on year growth of 10 per cent growth in salaries outlay. This will be adequate to provide for the increase in Dearness Allowance and normal annual increments. Salaries shown in the Medium term expenditure framework also includes ñGrants-in-aid for salariesò. This item has been included to provide adequately for increased salary requirements of the grantee institutions.

Pensions: -

Expenditure on Pension payment includes both Defence and Civil pensions. In nominal terms a provision of ₹ 70726 crore has been made in BE 2013-14 for Pensions. Keeping past trend in view the Pension expenditure of the Government is projected to grow at 10 per cent.

Non Plan grants to States: -

Non Plan grants to States mainly comprise of grants recommended by the Finance Commission. In BE 2013-14, Non Plan grants under Article 275(1) of the Constitution are estimated at ₹ 62134 crore. BE 2013-14 also includes a compensation of ₹ 9300 crore for the loss on account of Central Sales Tax (CST) to States, which is critical for the agreement between States and Centre towards finalization of GST. The projection for 2014-15 has been done keeping in view the XIII Finance Commission recommendations and the fact that CST compensation would continue in 2014-15 as well. Non Plan grants have been marginally increased in 2015-16 as XIV Finance Commission will come into force. Normally most of the grants recommended by Finance Commission are recommended to flow from the second year of the award period to provide preparatory period for the State Governments.

Defence Services: -

Defence expenditure on Revenue account mainly comprises of salary expenditure of armed forces and their operational expenses. Defence Revenue expenditure is estimated to grow at 7 per cent over the base of ₹ 1.17 lakh crore in BE 2013-14.

Heath and Education: -

Major programmes of Government viz. Sarva Shiksha Abhiyan(SSA). National Health Mission(NHM), Mid-day meal programme(MDM) and Rashtriya Madhyamik Shiksha Abhiyan(RMSA) are a part of this sector. Separately, there are provisions for University Grants Commission (UGC), AIDS Control, Medical research, Ayurveda, Yoga, Unani and Homeopathy. Projection for budgetary allocation in the medium term has been done keeping in view the financing requirement for various welfare programmes of Government in line with various decisions and commitments.

Agriculture and Allied:-

Major programmes in this sector include State Plan scheme of Rashtriya Krishi Vikas Yojana. National Horticulture Mission, Crop Insurance programmes, Micro Irrigation programme, National Micro Irrigation programme, Assistance to Indian Council of Agricultural Research and various programmes for dairy development and animal husbandry are also a part of this sector. In the projection period various programmes in this sector are synergistically restructured and merged for greater results.

Social Welfare:-

Various programmes of Government for welfare of Scheduled Caste and Scheduled Tribe Population, Minorities and Other backward classes, Women and Child Development are supported by budgetary support under this sector.

Rural Development:-

Major programmes such as Mahatma Gandhi National Rural Employment Guarantee scheme, Pradhan Mantri Gram Sadak Yojana, Indira Awas Yojana, Aajeevika, National Rural Drinking Water programmes, Total Sanitation Campaign and Rajiv Gandhi Panchayat Sashaktikaran Abhiyan are financed from the budgetary outlay under this sector.

External Affairs: -

The sector contains mainly provisions for expenditure of Indiaôs representation at Mission/ Posts abroad and for Technical and Economic Cooperation with other countries such as Afghanistan, Bangladesh, Bhutan, Nepal, Sri Lanka, Maldives and Myanmar etc. There are also provisions kept for aid to African countries and towards aid for disaster relief and humanitarian aid. In BE 13-14 there is a significant increase in aid for Technical and Economic Cooperation. In the medium term the growth is assumed on the elevated base of assistance for other countries.

Home Affairs: -

Major provisions are for assistance to States for modernization of police forces, special infrastructure in left wing extremist affected States and naxal management, strengthening of police stations. There are also provisions for various Central Paramilitary forces viz. NSG, ITBP, BSF, CISF and SSB etc. Provisions for collection of vital statistics and decennial population census by Census Commissioner of India and various schemes of Delhi police are also a part of this sector. In BE 13-14, Plan assistance has been provided for ñModernization of Police forcesò increasing the overall base of budgetary outlay for this programme. This has been assumed to continue for the projection period.

Tax Administration: -

Apart from expenditure on collection of Direct and Indirect taxes there is a provision of ₹ 9300 crore for CST compensation to State Governments which is critical for eventual roll out of GST. The provision has been kept in the medium term projection.

Postal Deficit: -

In BE 2013-14 a provision of ₹ 6717 crore has been made for Postal deficit. In the medium term it has been assumed that with enhanced efficiency in operations, dependence of D/o Posts on budgetary support will be gradually reduced.

CAPITAL EXPENDITURE:-

Plan: -

Plan Capital expenditure of Government mainly consists of gross budgetary support to Indian Railways, investment in National Highways and various Urban Metro construction and recapitalization of Public Sector Banks, external assistance backed loans to Public sector banks and equity infusion in PSUs. Since the overall effort would be to reduce the revenue deficit of the Government, it is essential that within the overall Plan expenditure, the expenditure on Capital components grows faster than the revenue component. Plan capital expenditure is budgeted at 20.2 per cent of total plan expenditure in 2013-14 and is projected to increase at a faster pace. It may be relevant to mention here that more items of Plan capital expenditure will be financed from National Investment Fund. This is being funded through disinvestment proceeds.

Non-Plan:

On the Non-Plan side, the major portion of Capital expenditure consists of outlay on Defence Capital expenditure. In BE 13-14 a provision of ₹ 86741 crore has been made for this purpose. Over the projection period this is estimated to grow at 9 per cent which is consistent with the overall resource availability and other demands of Centreﾒs resources. Other items of expenditure include expenditure for production of Heavy Water, investment in International Financial Institutions and for construction of certain strategic roads in border areas.