

Outcome of the review of the  
trends in receipts and expenditure  
in relation to the budget  
at the end of the second quarter of  
the financial year 2006-2007

and

Statement explaining deviations in meeting  
the obligations of the Government under the  
Fiscal Responsibility and Budget Management Act, 2003

(vide Section 7(1) and 7(3)(b) of the said Act)

Ministry of Finance



# MID-YEAR REVIEW

## CONTENTS

	Page no.
<b>I. INTRODUCTION</b>	<b>1-27</b>
i) Overview	1
ii) Output and prices	4
(a) Agriculture	4
(b) Industry	9
(c) Inflation	11
iii) External sector	18
iv) Money and capital markets	21
v) Infrastructure	25
vi) Social sector	27
<b>II. CENTRAL GOVERNMENT FINANCES</b>	<b>28-34</b>
i) Overview of fiscal trends during April-September 2006	28
ii) Receipts	28
(a) Tax revenue	28
(b) Non-tax revenue	29
(c) Non-debt capital receipts	30
iii) Expenditure	30
(a) Plan expenditure	30
(b) Non-Plan expenditure	30
iv) Net Resources transferred to States/Union Territories	31
v) Receipts and expenditure of Departmental Commercial Undertakings	31
vi) Financing of deficit and liability position	32
vii) Cash management	33
viii) Assessment vis-à-vis FRBM	33
<b>III. PROSPECTS AND POLICY ISSUES</b>	<b>35-43</b>
i) Investment	35
ii) Fiscal consolidation and reform	36
iii) Agriculture	38
iv) Industry	40
v) Inflation	41
vi) Infrastructure	42

**Annex I**

Status of Implementation of Budget Proposals

44-54

**Appendix Tables**

I.	Key Indicators	55
II.	Balance of Payments: Summary	56
III.	Monetary Survey	57
IV.	Trends in growth rates of infrastructure sectors	58
V.	Accounts at a Glance	59
VI.	Tax Revenues	60
VII.	Non-Tax Revenue	61
VIII.	Capital Receipts	62
IX.	Plan Expenditure	63-66
X.	Resources Transferred to State & UT Governemnts	67
XI.	Outstanding Liabilities of the Central Government	68

## I. INTRODUCTION

This mid-year review reports developments in the economy in the first half of 2006-07, with a particular focus on Central Government finances, outlining the performances in the real sector, economic prospects and the policy issues. The Fiscal Responsibility and Budget Management (FRBM) Act, 2003 mandates a review of trends in receipts and expenditure in relation to the Budget on a quarterly basis. The first quarterly review for the current year was presented in both the Houses of Parliament on August 18, 2006. This mid-year review is also the second quarterly review, as required under Section 7 (1) of the FRBM Act, 2003

### i. Overview

With an overall growth in real Gross Domestic Product (GDP) at factor cost estimated at 8.4 per cent in 2005-06, a ratcheting up of the average growth trajectory of the Indian economy was observed in the last three years. The continuance of the robust momentum in the current year (2006-07) with GDP growth in the first half (April-September) at 9.1 per cent (Appendix Table I) and in the mild acceleration in year-on-year growth from 8.9 per cent in the first quarter to 9.2 per cent in the second quarter vindicates this. At a disaggregated level, growth was 2.6 (1.7) per cent in agriculture, 10.0 (10.3) per cent in industry, and 10.7 (10.9) per cent in services in the first half (second quarter) of the fiscal.

An important and favourable development in recent times is the growing sign of an industrial resurgence – particularly, in manufacturing. Overall industrial growth, measured in terms of the Index of Industrial Production (IIP), was 10.9 per cent in April-September 2006 compared to a growth of 8.4 per cent in the corresponding period of the previous year. All the three sectors covered under IIP, namely mining, manufacturing and electricity, recorded improved performance in the current year by posting 3.1 per cent, 12.1 per cent and 6.6 per cent growth, respectively, as compared with 1.1 per cent, 9.5 per cent and 4.8 per cent, respectively, during the corresponding period of the previous year.

Mining and electricity, in spite of improved performance, continued to lag behind the overall growth rate of the economy. An increased momentum of manufacturing growth has been the most significant development in recent months. Measured in terms of IIP, manufacturing growth not only accelerated from an annual 9.1 per cent in each of the two years of 2004-05 and 2005-06 to 12.1 per cent in the first half of the current year, but has also been in double digits in each of the six months compared with only three and four of the 12 months of 2004-05 and 2005-06, respectively.

The healthy performance of the manufacturing sector was manifest in its balanced composition in terms of sources of demand. Output of capital goods is an indicator of the investment demand and business confidence in the economy. Of the four use-based components of industry – basic goods, capital goods, intermediate goods, and consumer goods – capital and consumer goods have led the growth in manufacturing. Thus, capital goods' growth surpassed overall manufacturing growth in 29 of the 30 months since April 2004, while consumer goods' growth exceeded overall manufacturing growth in 22 of the 30 months ending in September 2006. Furthermore, within consumer goods, production of consumer durables has grown much faster than that of non-durables. Industry groups of chemicals & pharmaceutical, machinery & equipments, basic metals, and transport & auto equipments contributed nearly three-fourths of the growth in manufacturing.

The growth acceleration in manufacturing is also reflected in the national accounts, where 'industry' consisting of mining, manufacturing, electricity, and construction has posted impressive performance, particularly from the second quarter of 2005-06. The national accounts data indicate a slowing down of growth in construction from double-digit rates to high single-digit rates in the first two quarters of the current year.

Agricultural growth remained subdued and averaged 2.6 per cent in the last eight quarters. Trend growth of foodgrains production during 1996-2006 was 0.22 per cent per annum. Negative growth was observed for rabi foodgrains, particularly for wheat and pulses, during this period. With a decline in the relative importance of agriculture and allied sector, particularly the core agriculture sector, in GDP, the negative impact of a subdued agricultural performance on overall GDP is not pronounced; but is significant in terms of sharing of the fruits of growth with more than half of the population who directly or indirectly depend on the sector for earning a livelihood.

After registering a growth of 10.9 per cent in the fourth quarter of 2005-06, the services sector continued to grow at 10.7 per cent in the first half of the current year. Overall growth of the services sector in the last ten quarters averaged 10 per cent. Within services, in 19 of the 23 quarters since January 2001, the sub-sector of trade, transport & communication recorded the highest growth rate. One of the major drivers of the rapid growth of this sub-sector was telecommunication which recorded an annual average growth of 27.1 per cent during 2000-05, resulting in an improvement in its share of total GDP at factor cost from 1.4 per cent in 1999-2000 to 3.5 per cent in 2004-05.

A significant increase in the ratio of gross domestic capital formation to GDP from 23.0 per cent in 2001-02 to 30.1 per cent in 2004-05 contributed to the acceleration in GDP growth from 5.8 per cent in 2001-02 to an average of above 8 per cent in the triennium ending in 2005-06. Nearly 97 per cent of the resources for gross capital formation were domestically generated. While figures for gross domestic capital formation are not available beyond 2004-05, from the IIP data on capital goods output and buoyant imports of such goods, it appears that the investment boom may be continuing.

The period since mid-April 2006 has been characterized by some inflationary pressures, stemming from an upward strain on prices of primary commodities. The point-to-point inflation rate, measured in terms of the wholesale price index (WPI), reached a peak of 5.5 per cent in mid-June 2006. In the first 27 weeks of the current financial year until September 30, 2006, inflation in primary commodities exceeded the overall inflation in every week except in the three weeks ending on July 8, 15 and 22, 2006. The excess of inflation in primary commodities over the overall WPI inflation was at a high of 3.60 per cent on September 23, 2006. The commodity-specific structural nature of inflation was also manifest in the rise in the prices of some essential commodities such as wheat, pulses and sugar and a higher inflation rate in terms of the Consumer Price Index (CPI). CPI inflation, on a period average basis, was 6.5 per cent in the first six months of the current year. Crude oil price, which for the Indian basket had rapidly climbed from US\$58.5 per barrel in July-September 2005 to US\$67.9 per barrel in July-September 2006, softened somewhat to decline to US\$56-58 per barrel around November 2006. This moderation in international oil prices was passed on to the consumers from the midnight of November 29, 2006 through a reduction in petrol and diesel prices of Rs.2 and Re 1 per litre; this would have a positive impact on inflation in the coming weeks.

In the first half of the current year, merchandise exports and imports, in US dollar terms and customs basis, on provisional to provisional basis, grew by 37.3 per cent and 32.1 per cent, respectively. Foreign direct investment (FDI) inflows were US\$4.9 billion during April-September, 2006. During the same period there was an outflow of US\$ 0.11 billion in respect of foreign institutional investment (FII). Foreign currency assets grew by US\$22.49 billion from end March 2006 to reach US\$167.6 billion on November 30, 2006.

In the face of continued international macroeconomic imbalances, the US dollar declined steeply reaching a 14-month trough against the Euro (US\$0.781 per €) during August 2006. Against Pound Sterling, US \$ declined to record a 15-month low (US\$0.528 per) in August 2006. The monthly average exchange rate of the rupee vis-à-vis US\$ generally exhibited a declining trend during first six months from Rs.44.95 in April 2006 to Rs.46.12 in September 2006) reaching a low of Rs 46.54 in August 2006. Rupee has generally been firm thereafter and stood at Rs 44.85 per US\$ in November 2006. Nominal effective exchange rate (6-country trade based weights with 1993-94=100) depreciated from 71.61 as on end March 2006 to 67.04 as on end September 2006 and appreciated thereafter to 68.46 on October 13, 2006. Real effective exchange rate also followed a similar pattern, depreciating from 108.11 as on end March 2006 to 103.25 as on end September 2006 and appreciating thereafter to 106.00 as on October 13, 2006.

Monetary policy continued to address the challenge of maintaining the growth momentum by meeting the credit needs of the productive sectors while containing the inflationary pressure. The acceleration in growth was achieved with a modest pick up in

inflation, which was also reflective of the overall supply situation in real sector. Notwithstanding an increase in prices of certain essential primary commodities, largely because of a demand-supply mis-match and hardening of international prices, overall inflation measured in terms of wholesale price index in first two quarters of the current year averaged 4.81 per cent compared to 4.64 per cent in 2005-06 and 6.68 per cent in 2004-05 having successfully weathered the increase in prices of crude oil.

## ii. Output and prices

### (a) Agriculture

#### Production of food grains

The first advance estimates (AE) of food grains production for 2006-07 (September 15, 2006) has placed kharif production at 105.2 million tonnes, the same as the first AE for 2005-06 but lower than the fourth AE for 2005-06 (Table 1). Compared with the target of 115 million tonnes for 2006-07 and output in 2005-06, kharif food grains production in 2006-07 is estimated to be lower by 10 million tonnes and 5 million tonnes, respectively.

**Table 1: Agriculture production**

Crop	2002-03	2003-04	2004-05	2005-06@	Kharif (million tonnes)	
					2005-06*	2006-07*
Rice	71.8	88.5	83.1	91.0	73.8	75.7
Wheat	65.8	72.1	68.6	69.5	-	-
Coarse Cereals	26.1	37.6	33.5	34.7	26.4	24.5
Pulses	11.1	14.9	13.1	13.1	5.0	5.0
Total foodgrains	174.8	213.2	198.4	208.3		
(i) Kharif	87.2	117.0	103.3	109.7	105.3	105.2
ii) Rabi	87.6	96.2	95.1	98.6		-
Oilseeds	14.8	25.2	24.4	27.7	14.6	13.2
Sugarcane	287.4	233.9	237.1	278.4	257.7	314.4

@: 4<sup>th</sup> Advance estimates \*: 1<sup>st</sup> Advance Estimates.

Source: Ministry of Agriculture.

The first assessment of rabi foodgrains output in 2006-07 will be available only in January 2007. However, early reports of sowings indicate a likely increase in area under wheat and pulses, particularly gram. While the exact impact of increase in acreage on output is not known, it has been estimated that an increase of one million hectares under wheat is likely to result in an increase in production by 3-5 million tonnes.

In the current year, the South West Monsoon (June-September) was 99 per cent of its long period average, and moisture distribution was normal in 56 per cent of



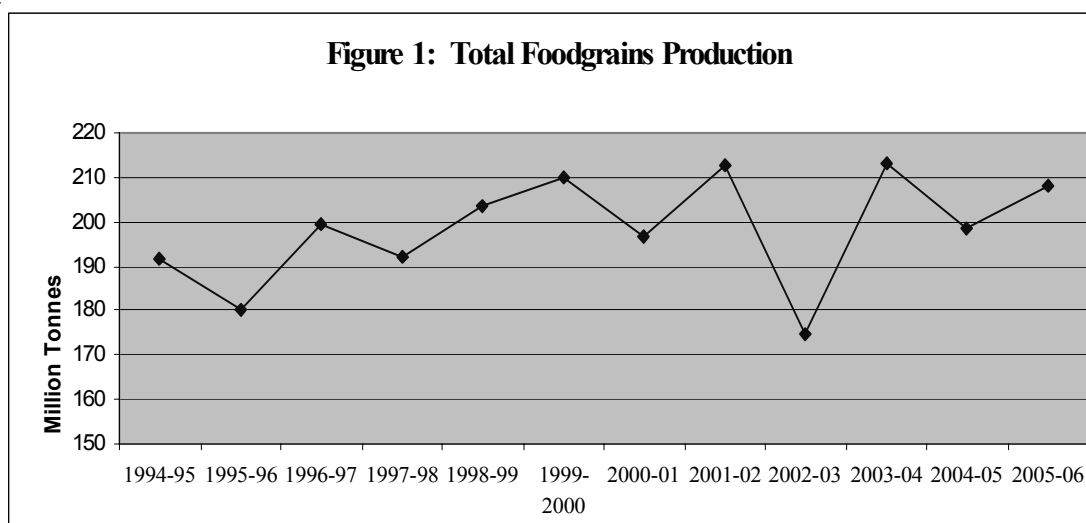
meteorological sub-divisions and deficient in 28 per cent of such sub-divisions. The distribution of South West Monsoon rainfall region wise is indicated below (Table 2).

**Table 2: Distribution of South-West Monsoon, 2006**

Region	Actual rainfall (mm)	Normal rainfall (mm)	Departure (%) /status
All India	878.6	879.8	0 normal
North West India	573.2	606.9	-6 normal
Central India	1138.9	982.2	+16 normal
South Peninsula	674.2	705.2	-4 normal
Northeast India	1169.5	1404.5	-17 normal

**Source:** India Meteorological Department

Post-monsoon rainfall during October 2006, however, recorded a shortfall in 26 out of 36 meteorological sub-divisions, constraining moisture level for major crops. As on October 19, 2006, in terms of Full Reservoir Level, live storage in 76 major reservoirs was 89 per cent, 8 per cent higher than in the corresponding period of 2005, and 26 per cent higher than the average in the last 10 years.



After an annual average of 2.3 per cent in the first five years of the new millennium starting 2001-02, growth of agriculture GDP at only 2.6 per cent in the first half of 2006-07, continued to disappoint. Agricultural growth at 1.7 per cent in the second quarter of the current year was sluggish. While this growth figure is derived by imputation mostly on the basis of acreage, it indicated the continuing need for moving simultaneously on all the four fronts of technology (including improved seeds), capital formation (particularly

irrigation), incentive system and post-harvest value addition. Apart from lacklustre growth, volatility of agriculture production (Figure 1) continued to afflict the overall economic performance of the economy. With considerable variation in the periodic output estimates in the five stages from the first to the final, firming up the estimates of agricultural output takes substantial time resulting in some complications in management of prices and food security related issues. To an extent, the problems are due to the unorganized nature of the sector and inherent flaws in information flows.

### *Agricultural credit*

Increased flow of institutional credit has been one of the priorities for agriculture. The total ground level credit flow for agriculture and allied activities increased from Rs.52,827 crore in 2000-01 to Rs.1,67,775 crore in 2005-06. The year-on-year increase in the credit to agriculture and allied activities in the first half of 2006-07 was Rs.94,345 crore or 13.0 per cent, compared to Rs.83,502 crore in the same period of the previous year. In consultation with States, a revival package for the short term cooperative credit structure, envisaging a total outlay of Rs 13,596 crore to be shared by the Government of India, State Governments and cooperative credit societies in the ratio of 68:28:4 on average has also been drawn.

Besides the flow of institutional credit, the need to have an institutional mechanism to deal with problems of repayment of institutional and other credit advanced to farmers during periods of crop failure and other distress was also addressed. The working group constituted by the Reserve Bank of India (RBI) to suggest measures for assisting distressed farmers including provision of financial counselling services and introduction of farmer-specific Credit Guarantee Scheme of the Deposit Insurance and Credit Guarantee Corporation (DICGC), submitted its interim report in October 2006. In the light of the recommendations, RBI has proposed that banks, with the approval of their boards, may formulate a transparent policy for providing One-Time-Settlement facility to those farmers whose accounts have been rescheduled/ restructured due to natural calamities as also those who have defaulted on account of circumstances beyond their control. A rehabilitation package of Rs 16,978.69 crore for 31 districts in the four states of Andhra Pradesh, Maharashtra, Karnataka and Kerala to be implemented over a period of three years for establishing a sustainable and viable farming and livelihood support system was also announced recently.

### *APMC Act Amendment*

Agriculture needs well-functioning markets to drive growth, employment and economic prosperity in rural areas of the country. In order to provide dynamism and efficiency into the marketing system, large investments are required for the development of post-harvest and cold chain infrastructure nearer to the farmers' fields. An appropriate regulatory and policy environment is absolutely essential to attract the necessary private investment, encourage procurement of agricultural commodities directly from farmers'

fields and seamlessly link farm production with the retail chain and food processing industries. The existing State Agriculture Product Marketing Control (APMC) Act was not conducive to promote investment in marketing infrastructure, motivate corporate sector to undertake direct marketing and to facilitate a integrated national market.

Amendment to the APMC Act was envisaged to fill this long-felt gap in the policy and regulatory framework. The Ministry of Agriculture formulated a model law on agricultural marketing for guidance and adoption by the States Governments. The model legislation provides for establishment of private markets/yards, direct purchase centres, consumers'/farmers' markets for direct sale and promotion of public-private-partnership (PPP) in the management and development of agricultural markets in the country. Provision has also been made in the Act for constitution of State Agricultural Produce Marketing Standards Bureau for promotion of grading, standardization and quality certification of agricultural produce to facilitate pledge financing, direct purchasing, forward/future trading and exports. Several States have initiated steps for amending the APMC Act (Table 3).

**Table 3:- State wise status of reforms in APMC Act**

SI. No.	Stage of Reforms	Name of States/ Union Territories
1.	States/ UTs where reforms to APMC Act have been done as suggested.	Madhya Pradesh, Himachal Pradesh, Punjab, Sikkim, Nagaland, Andhra Pradesh, Chattisgarh, Rajasthan, Orissa, Arunachal Pradesh and Maharashtra, Chandigarh
2.	States/ UTs where reforms to APMC Act has been done partially a) by amending APMC Act/ resolution b) by Executive Order	Haryana, Karnataka, Gujarat and NCT of Delhi U.P.
3.	States/ UTs where there is no APMC Act and hence not requiring reforms	Kerala, Manipur, Andaman & Nicobar Islands, Dadra & Nagar Haveli, Daman & Diu and Lakshadweep
4.	States/ UTs where APMC Act already provides for the reforms	Tamil Nadu
5.	States/ UTs where administrative action is initiated for the reforms	Assam, Mizoram, Tripura, Meghalaya, J&K, Uttaranchal, Goa, West Bengal Pondicherry, Bihar* and Jharkhand.

\* Confirmation is awaited

To encourage State Governments to undertake reforms in agricultural marketing as envisaged in the Model APMC Act, Ministry of Agriculture is implementing two schemes — Central Sector scheme for “Development/ Strengthening of Agricultural Marketing

Infrastructure, Grading and Standardization”, and setting up of Terminal Markets under National Horticulture Mission.

To improve rural connectivity, a flagship programme— Pradhan Mantri Gram Sadak Yojana (PMGSY)- is being implemented. Under this programme, as on October 31, 2006 projects with a total value of Rs 34,585 crore have been cleared. An amount of Rs 19,916 crore has already been released, out of which Rs 17,078 crore (86 per cent) has been spent. Road projects numbering 57,444 have been sanctioned. Nearly one-lakh kilometers of road length out of the sanctioned 1.88 lakh kilometers sanctioned has been completed linking 29,294 habitations.

#### *Food management*

As against the buffer norm of 16.2 million tonnes, comprising of 5.2 million tonnes of rice and 11 million tonnes of wheat, the total food-grains stock of rice and wheat in the central pool of the Food Corporation of India (FCI) was 12.4 million tonnes on September 30, 2006. While the rice stocks were above the buffer stock norms, wheat stocks were 4.6 million tonnes short of the norms.

**Table 4 :- Stocks of rice and wheat with Food Corporation of India and off take under Public Distribution System (lakh tonnes)**

	Opening	Off-take	Closing	Opening	Off-take	Closing
	Rice			Stock	Stocks	Stock
				Wheat		
2005-06						
April-June	133.41	62.73	100.71	40.66	47.19	144.54
July-September	100.71	63.44	48.49	144.54	41.9	102.9
October-December	48.49	56.50	126.41	102.9	39.85	61.88
January-March	126.41	67.72	136.75	61.88	42.69	20.09
2006-07						
April-June	136.75	58.54	111.43	20.09	30.4	82.07
July-September	111.43	63.39	59.69	82.07	26.56	64.12

The decline in the wheat stocks below buffer norms was largely due to lower procurement of wheat at 9.22 million tonnes in 2006-07, down from 14.79 million tonnes in 2005-06. Notwithstanding an increase in effective minimum support price (MSP) to Rs 700 per quintal in 2006-07 (inclusive of an ad-hoc bonus of Rs 50 per quintal) as against Rs 640 in 2005-06, procurement was affected by output stagnating at 68-69 million tonnes in the last two years. A decline in world output of wheat from 629 million

tonnes in 2004-05 to 587 million tonnes in 2006-07 and hardening of international prices of wheat also buoyed domestic price expectation and affected procurement. Though the off-take of both rice and wheat, particularly of wheat, in the first half of 2006-07 was lower than in 2005-06, stocks declined due to lower procurement. Government commissioned the State Trading Corporation to import 5.5 million tonnes of wheat to supplement domestic availability. Private trade was also permitted to import wheat at zero duty. Landed average cost of imported wheat is estimated to be in the range of Rs.7,981-10,582 per tonne.

*(b) Industry*

In the resurgence of the industrial sector, observed since 2004-05, manufacturing, with a weight of 79.4 per cent in the IIP, continued to dominate. The acceleration in growth of manufacturing by 3 percentage points from 9.1 per cent in 2005-06 to 12.1 per cent in the first half of 2006-07 and the steady and buoyant growth in capital goods and consumer durables were the two most important developments in the industrial sector. (Table 5, Figure 2) During the first half of 2006-07, consumer goods - both durables and non-durables - maintained the impressive double-digit growth rates of the last two years, owing to increasing incomes, improved access to a variety of better quality goods and easier availability of consumer credit.

**Table 5: Industrial growth by broad sectors and by use-based classification (year-on-year per cent)**

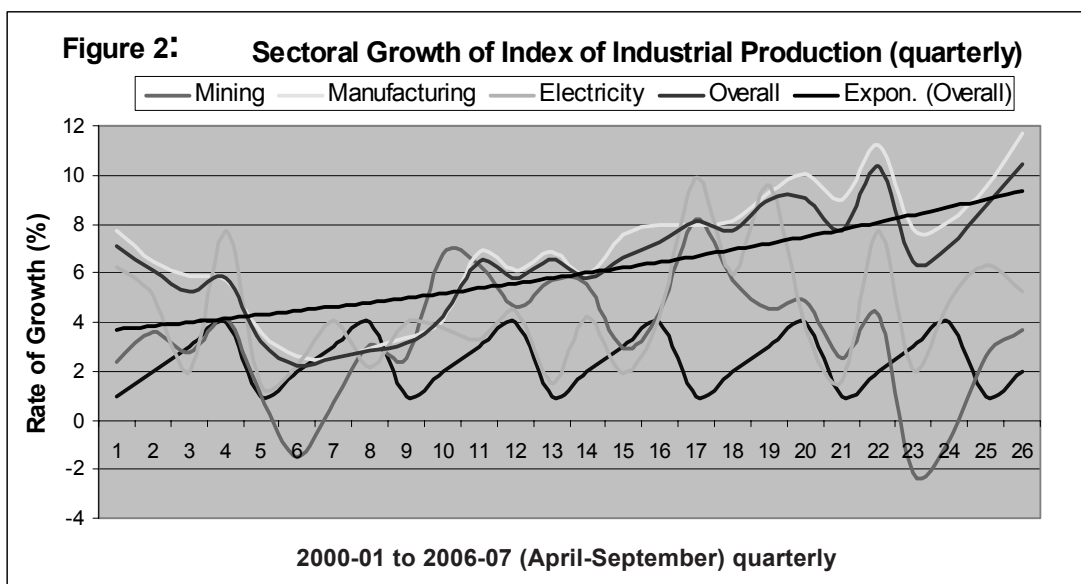
Broad sectors	Weight	2004-05	2005-06	April-September	
				2005-06	2006-07
Mining	104.7	4.4	1.0	1.1	3.1
Manufacturing	793.6	9.2	9.1	9.5	12.1
Electricity	101.7	5.2	5.2	4.8	6.6
Use-based classification:					
Basic goods	355.7	5.5	6.6	6.2	8.8
Capital goods	92.6	13.9	15.8	15.6	15.2
Intermediate goods	265.1	6.1	2.4	3.1	10.8
Consumer goods, of which	286.6	11.7	12	13.4	11.6
Durables	53.7	14.4	14.9	13.4	15.9
Non-durables	233	10.8	11.1	13.4	10.1
Overall	1000	8.4	8.2	8.4	10.9

**Source:** Central Statistical Organisation

In mining, after decelerating for two consecutive years – from 5.2 per cent in 2003-04 to 4.4 per cent and 1.0 per cent in 2004-05 and 2005-06, respectively – there was a pick-up in growth to 3.1 per cent in the first half of 2006-07. This higher growth has resulted in some relief to the sectors using coal and other essential minerals and metals, but the supply tightness continued with mining growing at a slower rate than overall GDP growth in general and manufacturing growth in particular.

There was an encouraging acceleration in growth of electricity generation to 6.6 per cent in the first half of 2006-07 (further reported to have improved to 7.3 per cent during April-November 2006) compared to 4.8 per cent in the corresponding period of the previous year. While this constituted some progress in ameliorating the electricity bottleneck, the growth rate was not high enough to remove the shortages altogether.

At the two-digit level of classification, 14 out of 17 industry groups recorded positive growth in April-September 2006-07. (Table 6) 'Basic Metal and Alloy Industries' registered the highest growth rate at 19.2 per cent, followed by 'Transport Equipment and Parts' (17.5 per cent) and 'Other Manufacturing Industries' (15.5 per cent). However, industry groups 'Leather and Leather Fur Products'; 'Wood and Wood Products'; 'Furniture and Fixtures'; and 'Jute and other vegetable fibre textiles (except cotton)', registered negative growth. However, one disturbing feature was the relatively lower growth of predominantly labour-intensive segments such as leather, cotton textiles, metal products, and food products.



**Table 6: Industrial growth at 2-digit industrial classification (per cent)**

Industry Group	Weight	2004-05	2005-06	April-September		Point Contribution	
				2005	2006	2005-06	2006-07
Food Products	90.83	-0.4	2.0	-5.8	1.7	-4.4	0.9
Beverages & Tobacco	23.82	10.8	15.7	17.2	14.5	8.2	5.8
Cotton Textiles	55.18	7.5	8.5	11.2	12.5	4.7	4.1
Other Textiles	22.58	3.5	0.0	-0.6	6.6	-0.2	1.6
Jute Textiles	5.90	3.7	0.5	2.3	-0.3	0.1	0.0
Textile Products	25.37	19.2	16.4	22.9	15.4	7.2	4.2
Wood Products	27.01	-8.5	-5.7	-3.1	-2.1	-0.4	-0.2
Paper Products	26.52	10.5	-0.9	6.2	7.9	2.2	2.1
Leather products	11.39	6.8	-4.8	3.8	-6.3	0.4	-0.5
Chemicals	140.02	14.5	8.3	12.8	10.8	25.6	17.4
Rubber & Petroleum	57.28	2.4	4.3	3.4	10.7	2.3	5.3
Non Metallic Minerals	43.97	1.5	11.0	8.6	13.4	5.5	6.6
Basic Metals	74.53	5.4	15.8	15.8	19.2	13.2	13.2
Metal Products	28.10	5.8	-1.2	-3.7	3.9	-1.0	0.8
Machinery & Equipments	95.65	19.8	11.9	10.3	14.8	15.8	17.8
Transport Equipments	39.84	4.1	12.7	12.1	17.5	7.8	9.0
Others	25.59	18.6	25.2	21.0	15.5	6.9	4.4
Mining	104.73	4.4	1.0	1.1	3.1	1.0	2.1
Manufacturing	793.58	9.1	9.1	9.5	12.1	93.5	92.5
Electricity	101.69	5.2	5.2	4.8	6.6	5.4	5.5
Overall	1000.00	8.4	8.2	8.4	10.9	100.0	100.0

*(c) Inflation**Wholesale Price Index (WPI)*

Measured in terms of the point-to-point increase in WPI since end-March of the preceding financial year, inflation on November 18 (September 30) at 5.9 (5.4) per cent was considerably higher in the current financial year than in the preceding three years (Table 7). However, with prices on a moderating trend in the later part of 2005-06, year-on-year inflation on November 18 (September 30) at 5.5 (5.2) per cent was not only lower than the point-to-point increase since end-March 2006, but also lower than the rates on the corresponding dates of 2003-04 and 2004-05. Furthermore, with much of the price increase in the current year concentrated in the later part of the first quarter of the current year, on an average basis, inflation in the first 34 (27) weeks of the current year was less than not only the rate on a point-to-point basis but also the average inflation in the corresponding period of 2003-04 and 2004-05.

**Table 7: WPI and inflation around November 18 in last four years**

Year		Inflation rates (Alternate Methods) (%)			
		2003—04	2004—05	2005—06	2006—07
Average of first 34 weeks in the financial year	Index	174.4	186.3	194.9	204.5
	Inflation	5.28	6.83	4.59	4.91
Average of 52 weeks ending around November 18	Index	172.6	183.7	192.8	201.8
	Inflation	5.09	6.44	4.97	4.66
Around November 18,2006 Increase from a year ago	Index	177.1	189.9	198.0	208.8
	Inflation	5.48	7.23	4.27	5.45
Increase from preceding end March	Index	177.1	189.9	198.0	208.8
	Inflation	2.79	5.32	4.49	5.88

The acceleration in inflation from 4.1 per cent at end-March 2006 to 5.5 per cent on June 17 and again on November 18, 2006 was caused mainly by acceleration in inflation in primary commodities and continued high inflation in the fuel group. Prices of primary commodities, after rising by 1.3 per cent to 1.6 per cent in each of the two previous years, rose by 5.4 per cent in 2005-06. Inflation in primary commodities accelerated to 6.3 per cent on June 10, 2006, and further to 9.0 per cent on September 23, 2006. Similarly, the high inflation in the fuel group observed in the previous two years (10.5 per cent and 8.9 per cent in 2004-05 and 2005-06, respectively) also accelerated to 9.9 per cent on June 10, 2006.

The root of the inflationary problem in the hardening of primary commodity prices was reflected in the excess of inflation in primary commodities' over overall inflation, and that too by a wide margin, in 31 (24) of the 34 (27) weeks until November 18 (September 30). Contribution of the primary articles with a weight of 22.03 per cent in WPI basket was 28.8 (33.7) per cent. Within primary articles, significant contribution to inflation was made by cereals: 7.5 (6.2) percent; pulses 3.8 (4.6) per cent; potatoes 1.4 (2.7) per cent; milk 5.3 (5.9) per cent; condiments and spices 4.0 (3.6); and minerals 3.2 (3.3) percent. The overall weight of these commodities in WPI basket was 10.78 per cent, while their contribution to inflation was 25.1 (26.4) per cent. During 2005-06, contribution of these commodities was 12.5 (7.5) per cent.

Within cereals, wheat prices increased sharply. The vulnerability of wheat prices arose from a 3 to 4 million tonnes shortfall, relative to 2003-04 (72.1 million tonnes), of output in two consecutive years of 2004-05 and 2005-06. After a mild deceleration in



the immediate post-harvest period, prices gained strength, particularly from August 2006. Price in Delhi, for example, went up from around Rs.900 to Rs.993 on August 19, 2006 in the preceding three weeks. Government initiated a slew of measures to contain the price rise of primary commodities. These included:

- State Trading Corporation tendering overseas for 55 lakh tonnes of wheat to supplement domestic availability.
- Permission to private trade to import wheat first at 5 per cent duty from June 27, 2006, and then at zero duty from September 9, 2006 as against the normal applicable duty of 50 per cent.
- Import of pulses permitted at zero duty from June 8, 2006, and a ban on export of pulses with effect from June 27, 2006.
- Permission to import sugar at zero duty and a ban on its exports till the end of the current financial year with effect from June 22, 2006.
- Close monitoring of prices of each and every essential item on a weekly basis.
- Strengthened regulatory measures by the Forward Markets Commission (FMC) to contain volatility in the future prices of wheat, sugar and pulses
- Reduction in duty on palm group of oils by 10 percentage points in August 2006. Further, tariff values of these oils were frozen.

**Table-8: Annual WPI inflation rate (per cent) as on November 18, 2006**

Year	Annual point-to-point inflation rate (per cent)					52-week Average (All items)
	Essential Comm.	Primary Articles	Fuel and Power	Manufactured Products	All comm.	
<b>Weights (per cent)</b>	<b>17.6</b>	<b>22.0</b>	<b>14.2</b>	<b>63.8</b>	<b>100.0</b>	<b>100.0</b>
2000-01	0.7	1.5	15.1	4.0	5.5	7.2
2001-02	4.5	3.9	3.9	0.0	1.6	3.6
2002-03	-0.8	6.1	10.8	5.1	6.5	3.4
2003-04	5.7	1.6	2.5	6.7	4.6	5.5
2004-05	3.3	1.3	10.5	4.6	5.1	6.5
2005-06	6.2	5.4	8.9	1.7	4.1	4.4
<b>2006-07 (first half)</b>	<b>7.9</b>	<b>7.9</b>	<b>5.1</b>	<b>4.1</b>	<b>5.2</b>	<b>4.5</b>
<b>2006-07 on 18-11-06</b>	<b>6.29</b>	<b>7.07</b>	<b>5.51</b>	<b>4.76</b>	<b>5.45</b>	<b>4.66</b>
2005-06 on 19-11-05	5.34	4.45	7.77	2.87	4.27	4.97
<b>Contribution to annual inflation (per cent)</b>						
<b>2006-07 on 18-11-06</b>	<b>19.83</b>	<b>28.76</b>	<b>22.66</b>	<b>48.40</b>	<b>100.00</b>	<b>100.00</b>
2005-06 on 19-11-05	21.33	23.11	39.52	37.78	100.00	100.00

Even duty-free imports have had a limited success in restraining the price increase in some primary products because of a hardening of global prices. For example, wheat prices in the world market hardened with a weak crop outlook from adverse agro-climatic conditions in the US and Australian wheat growing areas. International price (per tonne) of US hard wheat (USHRW) increased from US\$142.0 in April-June 2005, to US\$173.8 in January-March 2006, to US\$193.2 in May 2006, and over US\$216.0 in August 2006 and further to US \$ 227 as on December 1, 2006.

The fuel-subgroup having 14.23 per cent weight in WPI contributed 22.7 (22.0) per cent to the inflation on November 18 (September 30), 2006 which is significantly lower than 39.5 (52.2) per cent last year. Domestic prices of diesel and petrol were revised upwards on June 6, 2006. Fuel-group WPI inflation, which had peaked at 9.9 per cent on June 10 and 17, 2006, saw some respite with a softening of oil prices in the world markets. While significant under-recoveries by public sector oil companies continue to adversely affect their financial positions, Government, partly as an anti-inflationary measure, decided to reduce the retail prices of petrol and diesel per litre by Rs.2 and Re. 1 respectively from mid night of November 29, 2006. The impact of this measure will be reflected in the WPI movements in the coming weeks. Some adjustments in electricity tariffs also contributed to the inflation in the fuel sub-group.

Petroleum products (mineral oils) with total weight of 6.99 per cent in the WPI registered an annual point-to-point inflation of 6.1 (5.7) per cent on November 18 (September 30), 2006 which is lower than 11.3 (18.0) per cent a year ago and contributed 14.7 (14.6) per cent to overall WPI inflation on November 18 2006 compared to 32.5 (45.7) per cent a year ago (Table 9). In this group, petrol has the highest inflation rate at 9.3 (9.3) per cent followed by high-speed diesel oil with annual inflation rate of 6.8 (6.8) per cent. Prices of LPG and kerosene remained unchanged at the same level prevailing a year ago. Crude oil is not included in the basket of WPI.

**Table 9: Contribution of POL prices to inflation as on November 18, 2006**

Items	Weight (%)	Annual inflation(%)		Contribution to inflation (%)	
		2006-07	2005-06	2006-07	2005-06
<b>Mineral Oils</b>	<b>6.99</b>	<b>6.10</b>	<b>11.28</b>	<b>14.69</b>	<b>32.53</b>
Liquefied petroleum gas	1.84	0.00	0.00	0.00	0.00
Kerosene	0.69	0.00	-0.03	0.00	-0.01
Petrol	0.89	9.31	14.56	1.85	3.37
High speed diesel oil	2.02	6.75	16.05	5.69	15.54

Direct impact of a rise in the prices of petroleum products depends on the average rise in such prices and their weight in WPI (6.99 per cent). There is also a lagged indirect impact on the prices of essential items due to the increase in transportation costs caused

by higher petrol and diesel prices. However, of late, the Indian Railways has not been raising freight charges following the rise in diesel price, and absorbing the higher fuel burden by increased efficiency in operations.

Except during July and August, inflation in manufactured product prices was under mild upward pressure through the first thirty-four weeks up to November 18, 2006. Manufactured products as a group with a weight of 63.8 per cent in WPI contributed 48.5 (44.4) per cent to overall inflation as on November 18, 2006 (September 30, 2006). The contribution of this group a year ago was 37.8 (33.7) per cent.

**Table 10: Items with high inflation and their contribution to inflation (in per cent)  
As on November 18, 2006**

Items	Weight (%)	Annual inflation(%) (Point-to-point)		Contribution to inflation (%)	
		Nov 18, 2006	Nov 19, 2005	Nov 18, 2006	Nov 19, 2005
<b>All commodities</b>	<b>100</b>	<b>5.29</b>	<b>4.09</b>	<b>100</b>	<b>100</b>
<b>Primary article</b>	<b>13.43</b>			<b>29.78</b>	<b>13.04</b>
Cereals	4.41	9.85	4.12	7.51	4.03
Pulses	0.60	33.01	14.66	3.75	1.94
Potatoes	0.26	23.97	33.28	1.37	1.90
Fruits	1.46	9.19	1.36	3.15	0.61
Milk	4.37	7.10	0.44	5.30	0.43
Condiments & Spices	0.66	36.01	-2.48	3.99	-0.38
Tea	0.16	26.09	-16.40	0.43	-0.44
Groundnut seed	1.03	6.56	1.85	1.13	0.42
Minerals	0.48	19.71	26.95	3.15	4.53
<b>Fuel power light &amp; lubricants</b>	<b>8.39</b>			<b>15.51</b>	<b>25.41</b>
Petrol	0.89	9.31	14.56	1.85	3.37
Diesel	2.02	6.75	16.05	5.69	15.54
Electricity	5.48	6.00	3.81	7.97	6.50
<b>Manufactured products</b>	<b>9.70</b>			<b>22.19</b>	<b>8.44</b>
Groundnut oil	0.17	13.49	-7.56	0.37	-0.30
Oil Cakes	1.42	12.01	-7.77	2.86	-2.67
Beverages Tobacco & Tobacco Pdts.	1.34	5.39	5.94	1.54	2.13
Paper & Paper Products	2.04	8.79	0.97	2.93	0.43
Rubber & Plastic Products	2.39	7.79	6.17	2.43	2.42
Cement	1.73	20.73	11.94	5.48	3.76
Other Non-Ferrous Metals	0.61	64.78	24.58	6.58	2.67
<b>Grand total of 3 groups</b>	<b>31.52</b>			<b>67.48</b>	<b>46.89</b>

Major items having high inflation included cereals (9.9 per cent), pulses (33.0 per cent), potatoes (24.0 per cent), fruits (9.2 per cent), milk (7.1 per cent), condiments and spices (36 per cent), tea (26.1 per cent), ground nut seed (6.6 per cent), and minerals (19.7 per cent) in primary group; among fuel group petrol (9.3 per cent), diesel (6.8 per cent) and electricity (6 per cent) were the main contributors to inflation; while in the manufactured products' group groundnut oil (13.5 per cent), oil cakes (12 .0 per cent), beverages, tobacco and tobacco products (5.4 per cent), paper and paper products (8.8 per cent) rubber and plastic products (7.8 per cent), cement (20.7 per cent) and other non ferrous metals (64.8 per cent) were some of the important products (Table 10).

The primary articles sub-group mentioned above with 13.43 per cent weight in the WPI contributed 29.8 per cent to the current inflation on November 18 compared to 13.0 per cent a year ago; those in fuel-subgroups having 8.39 per cent weight in WPI contributed 15.5 per cent to the current inflation which is significantly lower than 25.4 per cent last year. Manufacturing items with total weight of 9.7 per cent in the WPI contributed 22.2 per cent to the current inflation, compared to 8.4 per cent a year ago. Total of three groups having 31.52 per cent weight in the basket of WPI, contributed 67.5 per cent to over all current inflation as compared to 46.9 per cent recorded a year ago.

#### *Prices of essential commodities and Consumer Price Index (CPI)*

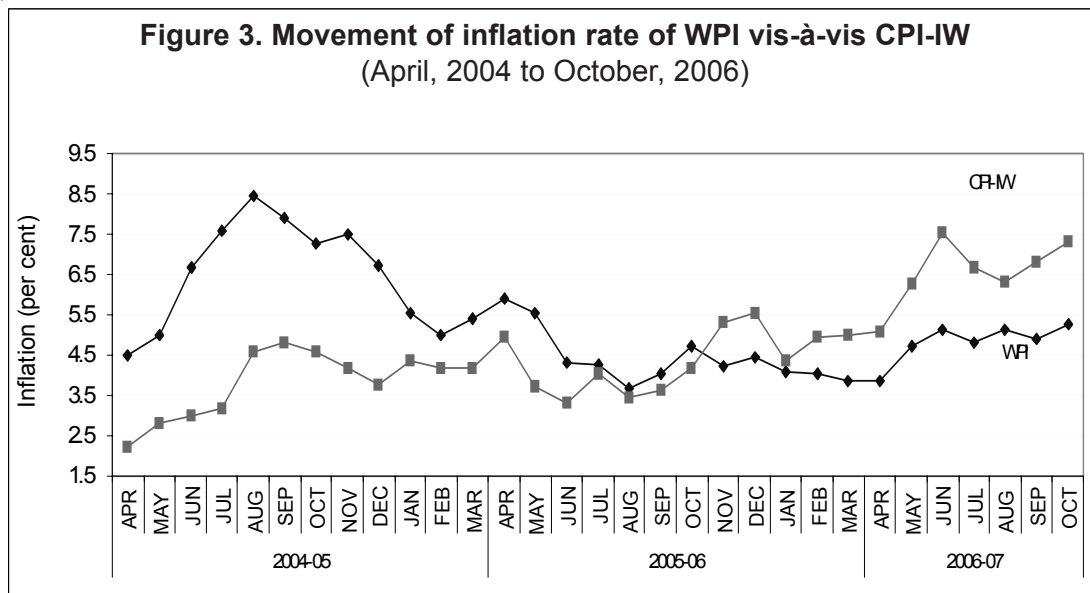
Thirty 'essential' commodities identified as being the common commodities in WPI and CPI (IW) with weight of 17.6 per cent in WPI registered annual inflation of 6.3 (7.9) per cent on November 18 (September 30), 2006, compared to 5.3 (3.5) per cent on the same date a year ago, and contributed 19.8 (25.9) per cent to overall inflation in the current year compared to 21.3 (13.0) per cent a year ago. Out of 30 items, 8 items have witnessed decline and no change in absolute prices over the last year, and 8 items recorded positive annual inflation rate up to five per cent (Table 11).

**Table-11: Grouping of essential items according to price rise  
(as on November 18, 2006)**

1. Decline of absolute prices over last year or no increase	Onions, sugar, salt, masur, fish, gur, coking coal, and kerosene
2. Positive inflation: up to 5 per cent	Rice, arhar, mustard oil, coconut oil, long cloth and dhoties-sarees & voils
3. Positive inflation: 5 per cent to 10 per cent	Vanaspati, jowar, bajra, milk, mutton and safety-matches
4. Positive inflation: above 10 per cent	Wheat (20.8%), gram (44.5%), potatoes (24%), tea (26.1%), groundnut oil (13.5%), moong (39.1%), Urad (48.4%), chillies (74.0%), atta (22 %), and laundry soap (10.3 %).

The primary commodity-specific nature of the inflation problem was reflected in an excess of inflation measured in terms of the Consumer Price Index for Industrial Workers (CPI-IW) over that measured by WPI. CPI-IW inflation, on an annual average basis, was 4.38 per cent in 2005-06. It jumped sharply from 5.1 per cent in April 2006 to 6.3 per cent in May 2006, and further to 7.6 per cent in June 2006, the highest recorded in the last seven years. Government's anti-inflationary measures contained the inflation in CPI-IW to below 7.0 per cent in each of the three months of the second quarter, and the average based CPI-IW inflation in the first half of the current year was 6.5 per cent. Inflation measured in terms of WPI in first six months averaged 4.8 per cent. October 2006 saw renewed pressure on the CPI-IW inflation, with the rate increasing to 7.3 per cent.

With the food group having a higher weight in the CPI-IW (46.2 per cent) basket than in the WPI (26.9 per cent), CPI-based inflation has been higher than WPI-based inflation since November 2005 (Figure 3 and Table 12). WPI-based monthly average inflation rate in September (October) 2006 at 4.9 (5.3) per cent was lower than 6.8 (7.3) per cent CPI-based inflation in the same month. From January 2006, a new series of CPI-IW with base 2001 has been introduced to replace the old series with 1982 base. The conversion factor given by the Labour Bureau to convert the new series to the old base is 4.63.



**Table 12: Inflation rates based on the CPI-IW vis-à-vis WPI**

Month	CPI based Monthly Inflation (%)			WPI based Monthly Inflation (%)		
	2004-05	2005-06	2006-07	2004-05	2005-06	2006-07
April	2.2	5.0	<b>5.1</b>	4.5	5.9	<b>3.9</b>
May	2.8	3.7	<b>6.3</b>	5.0	5.5	<b>4.7</b>
June	3.0	3.3	<b>7.6</b>	6.7	4.3	<b>5.1</b>
July	3.2	4.1	<b>6.7</b>	7.6	4.3	<b>4.8</b>
August	4.6	3.4	<b>6.3</b>	8.5	3.7	<b>5.1</b>
September	4.8	3.6	<b>6.8</b>	7.9	4.1	<b>4.9</b>
October	4.6	4.2	<b>7.3</b>	7.3	4.7	<b>5.3</b>
November	4.2	<b>5.3</b>		7.5	<b>4.2</b>	
December	3.8	<b>5.6</b>		6.7	<b>4.4</b>	
January	4.4	<b>4.4</b>		5.5	<b>4.1</b>	
February	4.2	<b>5.0</b>		5.0	<b>4.0</b>	
March	4.2	<b>5.0</b>		5.4	<b>3.9</b>	

### iii. External sector

#### *Export and import*

Imports, in US dollar terms and on customs basis, in the first seven (six) months of the current financial year, i.e. April-October 2006 (April-September 2006) at US\$99.8 (US\$ 83.9) billion were up 33.0 (32.1) per cent on provisional-to-provisional basis (all comparisons are provisional to provisional basis, unless stated otherwise). While volume of crude oil imports grew by 12.0 per cent, the value of POL imports grew by 38.5 per cent to US\$29 billion in the first half, mainly because of high international crude oil prices. The average headline price of the Indian basket of crude oil per barrel increased by 19.4 per cent from US\$54.32 in April-November 2005 to US\$64.87 in April-November 2006. There was some softening of crude oil prices with the price of the Indian basket declining to US\$57.80 in November 2006. Deceleration in the growth in non-POL imports (provisional over revised) at 13.5 (11.0) per cent during April-October (April-September) of the current financial year, compared to a growth of over 40 per cent in the corresponding period of the previous year was mainly because of a slow growth in the import of gold and silver. Growth of non-oil, non-gold- and silver imports was also down in the current year. However, disaggregated commodity wise data of imports for April-August 2006, indicate higher growth for fertilizers, machinery, chemical products, electronic goods, cement and non-ferrous metals.

Buoyed by the high growth in manufacturing and sustained demand from the major trading partners, especially the fast-growing Asian economies, merchandise exports, in US dollar terms and on customs basis, in the first seven (six) months of the current financial year, i.e. April-October (April-September) at US\$69.5 (US\$ 59.3) billion were up by 34.96 (37.3) per cent. Trade deficit decelerated from 65.8 (71.0) per cent to 28.6 (21.0) per cent.

Commodity-composition and destination of exports, as per the latest DGCI&S data available for April-August 2006, was broad-based cutting across diverse sectors and countries. Major drivers of exports during this period included petroleum products (117.2 per cent), processed minerals (36.6 per cent), other ores & minerals (34.9 per cent), machinery and instruments (45.1 per cent), basic chemicals, pharmaceuticals and cosmetics (26.0 per cent), ready-made garments (12.0 per cent), transport equipments (16.1 per cent) and other engineering items (55.5 per cent).

By sustaining the high growth of 38.8 per cent over and above the high growth in the corresponding period of the previous year and reaching US\$10.5 billion in the first five months of 2006-07, engineering goods emerged as the largest contributor to India's total merchandise exports ahead of petroleum products, chemicals, gems & jewellery and textiles. This growth reflected the ability of Indian manufacturers to meet international standards in terms of quality at competitive prices in the growing world market for engineering goods. Within the broad group of engineering goods, while non-ferrous metals, iron & steel, machinery & instruments recorded robust growth, the export of transport equipments decelerated with reduced demand from the major markets of Singapore, France, UAE and Italy. By more than doubling (117 per cent) from the corresponding period of the previous year, exports of petroleum products increased its share in total exports from 9.7 per cent in April-August 2005 to 16.5 per cent in April-August 2006. This reflected India's enhanced refining capacity and the high international POL prices. India's textile exports growth at 12.4 per cent during April-August 2006 was considerably less than China's textile exports growth of 27.8 per cent in April-October 2006.

Exports of gems & jewellery declined by 3 per cent in April-August 2006. The increase in prices of precious metals, particularly gold (US\$621.5 per troy ounce in July-September 2006 compared to US\$439.5 in the corresponding period of previous year) and silver (71 per cent the first quarter 2006-07 over corresponding period of previous year), may have been a contributory factor.

USA, UAE, Singapore, China and UK were the top five countries accounting for 42 per cent of total exports. While the exports to UAE (74.1 per cent) continued to grow higher than overall growth of 35 per cent, growth in exports to other three countries-Singapore (33.7 per cent) USA (17.1 per cent), China (16.9 per cent) and UK (11.8 per cent) was lower. Destination of Indian exports registering significant growth region wise were East Asia (91.8 per cent), Africa (65.2 per cent), Asia & ASEAN countries (34.7 per cent), and Latin America (23.5 per cent). Exports to Indonesia and Pakistan exhibited sharp increases during the first five months of the current year, while there was some

deceleration in growth of exports to China. Source-wise, China continued to be the largest source of India's imports followed by Saudi Arabia, USA, UAE and Iran.

#### *Invisibles and current account*

Inflows under invisibles (net) in the first quarter of the current year was US\$12.4 billion, up from US\$10.0 billion in the corresponding period of the previous year. However, this surplus on the invisibles account was not enough to neutralize the trade deficit of US\$18.5 billion and the outcome was a current account deficit of US\$6.1 billion in the first quarter of the current year (Appendix Table II). The change in the current account from a surplus in the previous three years to a deficit in 2004-05 appears to be continuing. A moderate current account deficit is considered desirable in a capital-scarce developing economy to supplement domestic savings and support investment. While it is difficult to be definitive about the sustainable level of the current deficit, it seems unlikely that the current level of such deficit would be a cause for any alarm.

In India, in the wake of the 1991 balance of payments crisis, the issue of a sustainable current account deficit assumed crucial significance from an operational point of view. The High Level Committee on Balance of Payments (Chairman: Dr. C. Rangarajan) recommended a current account deficit to GDP ratio of 1.6 per cent. The Committee on Fuller Capital Account Convertibility (2006) indicated that a current account deficit to GDP ratio of 3 per cent could be comfortably financed and need for policy action would arise if the ratio rises substantially above 3 per cent. Planning Commission, in the Draft Approach Paper to Eleventh Five Year Plan, based on alternate growth scenario of 7 per cent to 9 per cent have visualized current account deficit (CAD) of 2.0 to 2.8 per cent of GDP. In fact, the Commission indicates, "higher levels of CAD can be tolerated for some time if financed exclusively by higher FDI but in general we should aim at keeping the CAD below 3 per cent".

#### *Capital account*

Total net capital inflows in April-June 2006 at US\$ 12.5 billion were US\$ 7.7 billion higher than April-June 2005. The acceleration was primarily on account of net inflows under external commercial borrowings, FDI and banking capital. The increase in banking capital was on account of higher inflows under NRI deposits and draw down of foreign assets of commercial banks.

Foreign exchange reserves which were at US\$ 151.6 billion as at end March 2006 reached a level of US\$ 165.3 billion by end September 2006. As of November 30, 2006 (at 8 months of the current fiscal) the country's forex reserves were US\$ 174.6 billion, which is roughly equivalent to an import cover of 11 months.

India's external debt stock amounted to US\$ 132.1 billion at end-June 2006; of which long-term debt was US\$ 122.9 billion, while short-term debt at US\$9.2 billion accounted for 7 per cent of total debt. US dollar continued to be the major constituent currency, accounting for 46.1 per cent of total external debt stock. Proportion of short-term debt to foreign exchange reserves was 5.9 per cent and the foreign exchange reserves provided a cover of 123 per cent to total debt at end-June 2006.



To comply with the Special Data Dissemination Standards of IMF, the member countries disseminate data on external debt on a quarterly basis. However, different formats were being used by the Member countries to publish external debt data, which rendered international comparisons difficult. Therefore, World Bank and IMF developed jointly a centralized database called 'Quarterly External Debt Database (QEDS)' prescribing certain standard formats of debt data reporting. India formally joined QEDS in November 2006 by supplying external debt data for the quarter ending June 2006 to World Bank in the prescribed format.

#### *Special Economic Zones (SEZs)*

As a major thrust to export promotion and employment generation, the SEZ Rules were notified in February 2006 to give necessary transparency and stability to the policy. The incentives for developers of SEZ includes permissibility of bringing in 100 per cent foreign direct investment (FDI) under the automatic route, income tax benefit, duty free import/ domestic procurement of goods for development, exemption from service tax/ Central Sales Tax (CST), full freedom in allocation of space and built-up area to approved SEZ units on commercial basis. While SEZs are intended to provide an internationally competitive and hassle free environment for exports, the major obligation of the units under the SEZ is that they must achieve positive net foreign exchange. The Board of Approvals has given final approval to 181 proposals. It is expected that US\$700 million FDI and employment of 80,000 would be achieved in these zones by the end of the year.

#### *Free Trade Agreements (FTAs)*

India views Preferential Trading Agreements (PTAs) and Regional Trading Agreements (RTAs) as 'building blocks' towards the overall objective of trade liberalization, which should complement the multilateral trading system. Recent initiatives taken in this regard include: implementation of agreement on South Asia Free Trade Area (SAFTA) with effect from July 1, 2006, implementation of an expanded list of preferential goods under the Bangkok Agreement with effect from September 1, 2006; initiation of the process of working out a Comprehensive Partnership Agreement (CEPA) with Korea; Joint Study Groups (JSG) with China and Japan; India-ASEAN FTA; and India-EU Trade and Investment Agreement. Most of the recent initiatives relate to not only trade in goods, but also building plausible institutional framework for trade promotion, including trade in services, trade facilitation and liberalization of investment flows.

### **iv. Money and capital markets**

#### *Reserve money*

Buoyant foreign inflows continued to drive liquidity growth in the economy in the first half of the current year. In the current financial year so far, net foreign assets (NFA) of the Reserve Bank of India (RBI) contributed 24.4 (26.8) percentage points of the 17.5 (22.0) per cent year-on-year growth of reserve money ( $M_0$ ) on November 24 (September 29), 2006. NFA of the RBI during the current financial year up to November 24 (September 29), 2006 grew (over end-March 2006) by 14.8 (12.4) per cent compared with 5.2 (1.7)

per cent during the same period last year. The corresponding year-on-year growth was even higher at 19.8 (21.4) per cent on November 24 (September 29), 2006 compared to 14.0 (15.0) per cent registered on the corresponding date of the previous year.

Year-on-year, net domestic credit (NDC) of the RBI, growing by Rs.11,049 (46,186) crore on November 24 (September 29), contributed 2.1 (9.3) percentage points to the  $M_0$  growth of 17.5(22.0) per cent. On November 24, 2006, while the RBI loans to Central Government were nil and such loans to State Governments only Rs.196 crore, the deposits of Central and State Governments with the RBI were Rs.11,405 crore and Rs.41 crore, respectively, and the deposits under the Market Stabilization Scheme were Rs.37,917 crore. The year-on-year expansion of net RBI credit to Government of Rs.11,298 crore on November 24 was mainly on account of credit to Central Government.

While a moderation of growth in NFA resulted in a slowing down of year-on-year  $M_0$  growth from 22.0 per cent on September 29 to 17.5 per cent on November 24, 2006, the NFA coverage of  $M_0$ , after increasing from 117.4 per cent at end-March 2006 to 126.6 per cent on end-June 2006, decelerated to 124.6 per cent on September 29, 2006 before increasing again to 125.6 per cent on November 24, 2006.

#### *Money supply*

During the period up to November 24 (September 29), 2006 in the current financial year, broad money supply ( $M_3$ ) grew at 19.4 (18.5) per cent, well above the projected growth of 15.0 per cent envisaged in the annual policy statement for 2006-07, and above the 17.3 (17.4) per cent observed on the corresponding date of the previous year (Appendix Table III). The money-multiplier, measuring the ratio of  $M_3$  to  $M_0$ , which had increased from 4.60 at end-March 2005 to 4.76 at end-March 2006 continued to rise through the current year to 4.73 at end-June, 4.85 at end-September and further to 4.86 on November 24, 2006.

Rapid expansion of commercial bank credit contributed 15.4 (15.6) percentage points of the year-on-year growth of 19.4 (18.5) per cent in  $M_3$  on November 24 (September 29), 2006. In the current year, growth in non-food credit of scheduled commercial banks, after a slow start during the first quarter, gathered steam in the second quarter. Such credit expanded by Rs.1,39,406 crore during July-September 2006, and by 31.1 (30.1) per cent year-on-year on September 29 (November 24). While this rate of expansion was lower than 31.1 per cent achieved on the corresponding date a year ago, it continued to exceed the 20 per cent expansion in non-food credit envisaged in RBI's annual policy for 2006-07.

Data (provisional) on sectoral deployment of non-food credit available for the first quarter of 2006-07 suggest a widespread outreach of such credit across the different sectors. On June 23, 2006, the year-on-year increase in credit to agriculture and allied activities was Rs.42,619 crore or 36.8 per cent, and to industry – small, medium and large – Rs.94,133 crore or 26.6 per cent. A comparison of the growth rates in the corresponding period of the previous year – 38.2 per cent to agriculture and allied activities and 18.1 per cent to industry – reflected the industrial resurgence observed in

the current year. Real estate loans and personal loans expanded at a fast clip by posting year-on-year growth rates of 102.4 per cent and 47.2 per cent, respectively, on June 23, 2006. Furthermore, housing loans increased by 54.3 per cent.

The rapid growth in non-food credit during the current financial year has not been matched by a corresponding growth in deposits, resulting in the credit-deposit ratio rising to 71.9 per cent on September 29, 2006 from 64.8 per cent a year ago, and further to 72.2 on November 24, 2006. This has also reflected on the liquidity situation in the system; though investment in “approved” securities by scheduled commercial banks during the current financial year increased by Rs.47,906 (35,309) crore up to November 24 (September 29), 2006 reflecting higher aggregate deposits during the same period, faster growth in credit than in deposits led banks to look for alternative sources of funding such as certificate of deposits (CDs) and commercial papers (CPs) along with reducing their over-exposure to approved securities beyond the statutory liquidity ratio (SLR) to fund the credit growth.

#### *Interest rates*

RBI had to contend with the twin challenges of maintaining the growth momentum of the economy while containing the inflationary pressures stemming from volatile petroleum and primary commodity prices. RBI’s carefully calibrated policy response, particularly in the face of a higher than projected growth of  $M_3$  during the current financial year, entailed a gradual increase in the short-term policy rates, namely the reverse repo rate (the rate at which banks can park their surplus funds for 1 to 3 days with the RBI) and the repo rate (the rate at which banks can borrow funds for 1 to 3 days from the RBI) under the Liquidity Adjustment Facility (LAF). The reverse-repo (repo) rate was raised from 5.50 (6.50) per cent to 5.75 (6.75) per cent on June 9, 2006, and to 6.00 (7.00) per cent on July 25, 2006. On October 31, 2006, to send a signal for careful liquidity management to banks, the repo rate was raised further to 7.25 per cent. The CRR is being raised by 25 basis points effective from December 23, 2006 and by another 25 basis points from January 6, 2007.

In the event, there was a tightening of liquidity as reflected in the amount absorbed under LAF coming down from a peak of Rs.72,300 crore on June 6, 2006 to Rs.3,625 crore on September 18, 2006. The outstanding amount under LAF was Rs.15,995 crore on November 24, 2006. Correspondingly, the amounts under MSS and Central Government deposits with the RBI — after increasing from Rs.33,295 crore and Rs.101 crore, respectively on June 30, 2006 to Rs.42,064 crore and Rs.14,921 crore, respectively on September 29, 2006 declined to Rs.37,917 crore and Rs.11,405 crore, respectively on November 24, 2006.

The liquidity tightening with buoyant credit off-take and tightening of policy rates resulted in a hardening of not only the weighted call money rates but also the rates across the maturity spectrum. The weighted call money rate rose from 5.59 per cent on April 30, 2006 to 6.07 per cent on July 31, 2006, and further to 7.07 per cent on September 30, 2006. It declined to 6.13 per cent on December 8, 2006. Between April 5 and

December 8, 2006, the cut-off yields on 91-days treasury bills (TBs) and 182 day TBs rose from 5.78 per cent and 6.14 per cent, respectively to 6.65 per cent and 6.89 per cent, respectively.

The yield on 10-year G-sec, after peaking at 8.41 per cent on July 11, 2006 softened by 102 basis points to 7.39 per cent on December 8, 2006. There was a flattening of the yield curve, partly as a result of the rise in the reverse repo rate, with a sharp rise in yields at the short-end of the curve and yields at the middle- and long-end moving in the narrow range. On December 8, 2006 the spread between 1 year and higher maturity G-secs yields was in the range of 11 to 86 basis points (19-year bond) and that for 10-year and other longer duration G-secs spread was in the range of 0 to 40 basis points.

### *Capital markets*

The buoyancy in the capital market continued in the first half of 2006-07 too. In the *primary market*, aggregate resource mobilization through Initial Public Offerings (IPOs) and private placements increased during April-September 2006. As per the information collected and compiled by RBI, there were 367 capital issues (consisting of prospectus and right issues and private placements) with a total value of Rs.37,807 crore during April-September 2006-07, which marked a considerable increase of 29 per cent over the corresponding period of 2005-06. The amount raised through Euro Issues (American Depository Receipts, Global Depository Receipts and Foreign Currency Convertible Bonds) accounted for Rs.7,917 crore during April-September 2006

Net mobilization of resources by mutual funds increased by 63.1 per cent to Rs.60,048 crore during April-September 2006 from Rs.36,823 crore during the corresponding period of the previous year. The sharp rise in mutual funds' mobilisation reflected net inflows in both income/debt oriented schemes and growth/equity oriented schemes.

In the *secondary market*, both BSE and NIFTY indices peaked at 12,612 and 3,754 respectively on May 10, 2006. While both the indices posted losses by the end of the first quarter, such losses were more than made up during July-September 2006 with higher FII inflows and larger investor participation. For example, the BSE Sensex, which was 11,280 at end-March 2006, plummeted to 8,929 on June 14, 2006 and closed at 10,609 on June 30, 2006. Thereafter, it continued to climb reaching 12,454 at end-September 2006. Continued buoyancy resulted in the Sensex crossing 14,000 mark in an intra-day trading and closing at 13,972 on December 7, 2006. There has been a correction since then With the Sensex closing at 12,995 on December 12, 2006.

Buoyant conditions have been due to fresh buying by FIIs, robust corporate results, normal monsoon, comfortable macro-economic environment, upward trend in the international equity markets and decline in global crude oil prices in the recent weeks. Net FII investment turned around from a net sales of Rs.6,352 crore during April-June 2006 to a net purchase of Rs.11,212 crore during July-September 2006 and further to Rs.15,722 crore during October 1 to December 11, 2006. As a result, FII investment in 2006-07 (April to December 11, 2006) was a net purchase of Rs.20,582 crore. During the corresponding period of the previous year, FII net investment had amounted to Rs.30,208 crore.

As compared to other emerging markets of Asia (Korea 41 per cent, Malaysia 6 per cent and Thailand 8 per cent), Indian stock markets registered the highest increase of 67 (Nifty) per cent and 74 (BSE) per cent in 2005-06. During the current year, on a point-to-point basis, Sensex and Nifty rose by 15.2 per cent and 9.2 per cent, respectively from April 1 to December 12, 2006.

Acting upon the recommendations of the R.H.Patil Committee on Corporate Bonds and Securitisation, SEBI and RBI have set up an internal Working Group to implement the 2006-07 budget announcement of creating a single, unified, exchange-traded market for corporate bonds. The 2006-07 budget announcement also includes setting up an Investor Protection Fund under the aegis of SEBI, funded by fines and penalties recovered by the SEBI. This entails amendments to Securities Laws. The matter is under consideration.

#### **v. Infrastructure**

The overall index of six core industries, having a direct bearing on infrastructure and accounting for 27 per cent weight in the IIP, in April-September, 2006 registered a growth of 7.3 per cent, which was higher than the 6.1 per cent registered during April-September, 2005 (Appendix Table IV). But, the growth in these six core industries continued to lag substantially behind the overall growth in the economy as well as overall growth in IIP. While refinery throughput, crude oil and electricity sectors improved their growth performances over the corresponding period of the previous year, the deteriorating performance in sectors of cement and steel, and particularly that of coal, was disappointing.

On the transport and communications front, with revenue earning freight traffic at 344 million tonne-kilometers, railways maintained its nearly double-digit growth in the first half of the current year. Improved resource management, inter alia, through increased wagon load, faster turnaround time and a more rational pricing policy has led to an improvement in the performance of the railways during the last three years. While there was a growth deceleration in cargo handled at major maritime ports (both exports and imports) and airports (exports), there was acceleration in passengers handled at airport terminals underscoring the need for improving their passenger handling facilities.

Government has initiated modernization of Delhi and Mumbai Airports with an objective to build world-class airports with state-of-the-art technology. On May 3, 2006, the Delhi and Mumbai Airports were handed over to Joint Venture Companies with 74 per cent equity participation by the private consortium and 26 per cent by Airports Authority of India. These projects involve overall capital investment of more than Rs.25,000 crore.

Progress under telecommunications continued at a rapid clip. The number of telephones (both mobiles and land line phones) increased by 20 per cent from 142 million at end-March 2006 to 170 million at end-September 2006. On an average, 4.5 million telephones were added every month this year so far. The tele-density in the country increased from 12.7 per cent in March 2006 to 15.1 per cent in September 2006. However, there was a wide gap between rural (2 per cent) and urban (45)

tele-density. The contours of an alternative communication network for defence services have been finalized. Additional spectrum of 45 MHz currently being used by the defence services will be made available for the mobile services in the beginning of the year 2007.

At end-September, 2006, 6,699 km. of roads under National Highway Development Programme (NHDP) — with the bulk (5431 km) lying on the Golden Quadrilateral (GQ) — were completed; another 7,593 km. were under construction; and the cumulative expenditure was Rs.35,302 crore. The award of contracts of the entire Phase-II, except for stretches in Jammu and Kashmir and West Bengal, where there are difficulties of terrain, alignment and environmental clearance, is at an advanced stage. Contracts for a length of 5,379 km have already been awarded. It is expected that GQ would be substantially (95 per cent) completed by December 2006, and the North-South and East-West corridors would be completed by December 2008. Thirty Build-Operate-and-Transfer contracts covering 1,090 km under Phase-IIIA have been awarded. Phase-IIIA is targeted to be completed by December 2009.

Model Concession Agreements (MCAs) for investing in public-private-partnerships (PPPs) have been developed for the national highways, state highways, operation and maintenance of highways, ports and airports. In the future, to the extent possible, PPP projects would be awarded on the basis of transparent competitive bidding with a standard concession agreement. The India Infrastructure Finance Company Ltd. (IIFCL) set up by the Government as a Special Purpose Vehicle (SPV) for long-term debt financing of infrastructure projects and incorporated in January 2006, started lending in October 2006.

#### *Status of Development of Gas Discoveries*

The country's increasing import dependence for hydrocarbons with declining domestic production of crude oil and the hardening and volatility of crude prices in the international market have been sources of vulnerability. The news of gas discoveries in the Krishna Godavari (KG) basin under New Exploration and Licensing Policy (NELP) in recent months was an encouraging development in this context. The NELP stipulates Production Sharing Contracts (PSC) between the licensee and the Government, which provide for a time frame for various activities required to be completed after making a gas (or oil) discovery. The normal process after a discovery involve appraisal of the discovery, decision on commerciality and preparation, and submission and approval of development plan of the commercial discovery. The commercialisation of discovery is monitored by Director General of Hydrocarbons (DGH) and the Ministry of Petroleum and Natural Gas (MOPN&G) with respect to the time frame stipulated in respective PSCs. Accordingly, all gas discoveries (as well as oil discoveries) made so far under the PSC regime are being monitored.

The exploration block KG-DWN-98/3 was awarded to the consortium of M/s Reliance Industries Ltd. and Niko Resources Ltd. during NELP I round. The first exploratory well D6-A-1 resulted in a major gas discovery in May 2002. The operator in this block has

reported 12 more discoveries. The initial development plan of Dhirubhai 1 and 3 discoveries has been approved by the Management Committee on November 5, 2004. The corresponding development area comprises 339 Sq. Kms., which represents 4.5 per cent of the block area. The DGH approved Original Gas in Place (OGIP) at 5.5 trillion cubic feet. Currently development of 34 wells (all sub-sea level) is progressing as per schedule. Gas should be available from June 2008. Envisaged plateau rate of production is 40 million metric standard cubic meters per day (MMSCMD).

Gujarat State Petroleum Corporation (GSPC) field is located offshore in KG shallow water. GSPC as the operator has 80 per cent interest. GSPC is yet to submit an appraisal programme for the discovery of gas encountered at high temperature and pressure environment. Hence, no reserve or production can be realistically estimated as yet.

ONGC is currently developing G-1 & G-15 discovery in KG basin. Gas production of about 1.5 MMSCMD is expected to commence from March 2007. The estimated gas production from the above two fields is about 2.1 MMSCMD for a period of 7 years.

#### **vi. Social sector**

The enhanced outlays of Rs.82,381 crore in 2006-07 (BE) – up from Rs.57,724 crore in 2004-05 (RE) to Rs.70,219 crore in 2005-06 (RE) and indicating the importance attached to the social sectors by the Government — continued to support the eight flagship social sector programmes and Bharat Nirman. The eight flagship programmes are Sarva Shiksha Abhiyan (SSA), Mid-day Meal Scheme, Rajiv Gandhi Drinking Water Mission, Total Sanitation Campaign, National Rural Health Mission, Integrated Child Development Services, National Rural Employment Guarantee Scheme and Jawaharlal Nehru National Urban Renewal Mission.

The funding for SSA is shared between the Centre and the States in the ratio 3:1. Out of an allocation of Rs.11,000 crore in the current year as central allocation, Rs 5,543 crore had been spent on the programme by end-September 2006. Of the 10.12 lakh posts of teachers sanctioned so far, 6.92 lakh teachers had been appointed by end-September.

Out of an allocation of Rs.5,348 crore in the current year for the Mid-day Meal programme, Rs.3,000 crore was spent by end-November 2006, covering, on a cumulative basis, 12 crore children spread over 9.5 lakh schools and other learning centres.

Launched on 12<sup>th</sup> April 2005, the National Rural Health Mission has an outlay of Rs.9,065 crore during the current year. As on November 30, 2006, actual expenditure incurred under this programme was Rs.3,680 crore. All State and District Health Missions have already been constituted under this initiative.

Out of an allocation of Rs.11,300 crore for the National Rural Employment Guarantee Scheme, Rs.5,881 crore was released up to October 2006. Actual expenditure incurred was Rs.3,490 crore. 3.19 crore job cards have been issued and employment has been provided to about 1.50 crore individuals.

## II. CENTRAL GOVERNMENT FINANCES

### i. Overview of fiscal trends during April-September 2006

The data on finances of the Central Government during April-September 2006 (Appendix Tables V-XI) are un-audited and subject to post-audit revision. Receipts and recoveries, wherever directly linked to expenditure, have been netted against expenditure.

According to the provisional data for the first six months of the current year released by the Controller General of Accounts, both revenues as well as expenditure as proportions of the budgeted amount for the entire year were higher than in the previous year. Thus, non-debt receipts (Rs.1,65,483 crore) and total expenditure (Rs.2,51,944 crore) of the Central Government at 39.8 per cent and 44.7 per cent, respectively, of budget estimate (BE) 2006-07 were higher than the corresponding shares of 35.0 per cent and 41.0 per cent, respectively, of the BE achieved in the same period of the previous year. Non-debt receipts in April-September 2006 were marginally lower than the target of 40 per cent of BE at the end of the second quarter of the financial year as envisaged in the FRBM Rules. However, in 2005-06 also such receipts fell short of the required 40 per cent while remaining on the budgeted track at the end of the year. Furthermore, the accelerated pace of expenditure, reflected in part in the front-loading of expenditure by some Ministries/Departments, particularly in the first quarter, attempt to minimize the intra-year asymmetry in spending, historically manifested in bunching of expenditure and parking of funds during the last quarter of the year.

In the first half of the current year, both the revenue (81.8 per cent) and fiscal (58.2 per cent) deficit, as proportions of the corresponding BE, breached the targets prescribed under the FRBM Rules at the end of the second quarter. In part it indicated the effect of the acceleration in non-plan expenditure, in the second quarter.

### ii. Receipts

#### (a) Tax revenues

In the first half of the current year, net tax revenues of the Centre at Rs.1,29,986 crore was 39.7 per cent of BE, higher than 35.2 per cent registered during the corresponding period of the previous year (Appendix Table VI). Year-on-year growth of gross and net tax revenues at 30.5 per cent and 35.1 per cent, respectively in the first half of the current year were higher than the figures of 21.9 per cent and 23.6 per cent, respectively in the corresponding period of the previous year. Growth of both gross and net tax revenues in the first half also surpassed the growth rates of 19.5 per cent and 19.4 per cent, respectively assumed in the Budget for the current year (BE 2006-07 over RE 2005-06).



Salient features of the revenue performance under direct taxes in the first half of the current year were:

- Corporation tax grew by 49.2 per cent. Taxes on income other than that on corporations also grew by 24.3 per cent.
- Collections of Rs.1,153 crore under the fringe benefit tax (introduced from 2005-06) displayed buoyant growth of 40.3 per cent.
- Revenues from securities transaction tax (Rs.2,132 crore) and banking cash transaction tax (Rs.234 crore) more than doubled between the first half of 2005-06 and that of 2006-07.

The important features of revenue performance in the indirect taxes in the first half of the current year were:

- With growth in rupee value of imports (on customs basis) of 44.5 per cent, customs duty collections grew by 32.7 per cent.
- Central excise duties collections grew by 7.4 per cent from Rs.40,416 crore in 2005-06 to Rs.43,396 crore in 2006-07.
- Service tax collections at Rs.13,368 crore was up 63.8 per cent from Rs.8,159 crore during the same period of the previous year, reflecting the buoyant growth of the sector and also an increase in the rate of duty.

In the first half of the year, of the total gross tax revenues, Rs.48,683 crore was transferred to the States on the basis of the Twelfth Finance Commission (TFC) award as their provisional share in Union taxes and duties, which is subject to adjustment at the end of the year. After transferring Rs.809 crore to the National Calamity Contingency Fund, the net tax revenue of the Central Government was Rs.1,29,986 crore (39.7 per cent of BE), up by Rs.33,737 crore from the corresponding period last year.

#### **(b) Non-tax revenues**

In the first half of the current year, non-tax revenue grew by 18.1 per cent year-on-year, and at Rs.31,420 crore was 41.2 per cent of BE, up from 34.2 per cent of BE mobilized during the first half of the previous year (Appendix Table VII). The debt-swap scheme implemented during 2002-03 to 2004-05 resulted in a reduced corpus of outstanding loans with lower interest receipts. Even as it benefited the State Governments, it was expected to affect the interest receipts of the Centre significantly and is reflected in the BE of Rs.19,263 crore for 2006-07 compared to Rs.21,245 crore in the revised estimate (RE) for 2005-06. In the event, as a proportion of BE, interest receipts went down from 36.7 per cent to 32.7 per cent in the first half of the year between 2005-06 and 2006-07. The decrease in interest receipts in the first half of the current year was, however, more than made up by increases in receipts on account of dividends & profits (by Rs.6,643 crore) and of 'other' non-tax revenue (by Rs.1,251 crore).

Revenue receipts of the Centre – comprising net tax and non-tax revenues — during April-September, 2006, grew by 31.4 per cent to Rs.1, 61,406 crore from Rs.1, 22,845 crore in the corresponding period of the previous year.

**(c) Non-debt capital receipts**

Non-debt capital receipts, comprising of recoveries of loans and advances and other receipts, during the first half of the current year declined marginally to Rs.4,077 crore from Rs.4,295 crore during the corresponding period of the previous year (Appendix Table VIII).

Thus, in the first half of the current year, non-debt receipts of the Centre (revenue receipts plus non-debt capital receipts) grew by 30.2 per cent year-on-year to Rs.1,65,483 crore.

**iii. Expenditure**

Total expenditure during April-September, 2006 at Rs.2,51,944 crore (44.7 per cent of BE) was up 19.4 per cent from Rs.2,10,983 crore (41.0 per cent of BE) during the corresponding period of the previous year. Year-on-year while revenue expenditure grew by 22.7 per cent to Rs.2,30,683 crore (47.3 per cent of BE) from Rs.1,87,942 crore (42.1 per cent of BE), capital expenditure declined by 7.7 per cent to Rs.21,261 crore (28.0 per cent of BE) from Rs.23,041 crore (34.0 per cent of BE). The developments in the first half were in contrast to the enhanced capital outlay of Rs.75,799 crore in BE for 2006-07 relative to such outlay of Rs.67,832 crore in BE 2005-06.

**(a) Plan expenditure**

Plan expenditure during April-September 2006 was Rs.68,879 crore (39.9 per cent of BE) compared to Rs.59,406 crore during April-September 2005 (41.4 per cent of BE). Year-on-year, within plan expenditure also, while revenue expenditure grew by 25.2 per cent to Rs.57,757 crore (40.2 per cent of BE) from Rs.46,123 crore (39.8 per cent of BE), capital expenditure declined by 16.3 per cent to Rs.11,122 crore (38.4 per cent of BE) from Rs.13,283 crore (48.3 per cent of BE). In the overall, plan expenditure in April-September 2006 compared with April-September 2005 shows an increase of Rs.9,473 crore. Higher spending was mainly by Department of Rural Development (Rs.12,750 crore) and Ministry of Human Resource Development (Rs.10,399 crore) and transfers to States/UT Governments (Rs.14,820 crore). (Appendix Table IX)

**(b) Non-plan expenditure**

Non-plan expenditure during the first half of the current year at Rs.1,83,065 crore (46.8 per cent of BE) was 20.8 per cent higher than Rs.1,51,577 crore (40.9 per cent of BE) during the corresponding period of the previous year.

**Table 13: Major variations under non-plan expenditure***(Rs. in crore)*

Item	BE	Apr-Sept	BE	Apr-Sept	Increase(+) Decrease(-)
	2006-07	2006	2005-06	2005	
Interest payments	1,39,823	64,003	1,33,945	53,940	10,063
Defence	89,000	32,097	83,000	28,863	3,234
Grants & loans to					
States/Uts	35,461	17,892	34,053	12,161	5,731
Major subsidies	44,533	28,861	46,098	21,809	7,052

Year-on-year, in the first half, grants and loans to States and Union Territories grew by 47.1 per cent reflecting the new arrangement for devolution to States under the TFC award. Major subsidies, particularly on account of food and imported fertilizer, grew by 32.3 per cent. Non-plan defence expenditure grew at only 11.2 per cent; however, interest payments because of hardening of interest rates went up by 18.7 per cent.

#### iv. Net resources transferred to States/Union Territories

Under net resources transferred to States/UTs, as compared to 41.2 per cent of BE in the first half of 2005-06, as much as 44.4 per cent of Rs.1,97,207 crore of BE 2006-07 was effected in the first half of the current year. (Appendix Table X)

#### v. Receipts and expenditure of Departmental Commercial Undertakings

The Central Government budget includes only the net difference in the receipts and expenditure of the Departmental Commercial Undertakings (DCUs) of the Government as they are expected to meet their expenditure requirements, to the extent possible, from their own receipts. However, intra-year, these undertakings sometimes face short-term mismatches in the flow of receipts and expenditure affecting the Central fiscal variables. In the first half of the current financial year, expenditure on DCUs exceeded receipts by Rs.1,696 crore, as against BE 2006-07 of Rs.639 crore for the entire year (Table 14), mainly because of a shortfall of receipts of Postal Services.

**Table 14: Receipts and expenditure of Departmental Commercial Undertakings***(Rs. crore)*

Item	2006-07			2005-06		
	BE 2006-07	Apr-Sept. 2006	As per cent of BE	BE 2005-06	Apr-Sept. 2005	As per cent of BE
Revenue expenditure	15,243	5,942	39	15,610	6,034	39
Receipts	14,604	4,245	29	15,248	4,562	30
Net	639	1,696	266	362	1,472	407

#### vi. Financing of deficit and position of liabilities

The fiscal deficit of Rs.86,461 crore on Consolidated Fund of India and deficit of Rs.1,755 crore on Public Account were financed mainly from internal debt Rs.61,310 crore, external assistance Rs.2,433 crore and cash draw down of Rs.24,473 crore (Table 15).

**Table 15: Financing of deficit**

	<i>(Rs. in crore)</i>	
	<b>Apr-Sept 2006</b>	<b>Apr-Sept 2005</b>
Fiscal deficit	86,461	83,843
Sources of financing		
Internal debt	61,310	90,483
Market loans & short term borrowings	64,664	64,370
Treasury bills	4,700	21,443
Compensation and other bonds	-4,123	4,890
Others -3,931	-220	
External assistance including revolving fund	2,433	1,515
Cash draw down Decrease(+)/Increase(-)	24,473	1,561
Investment of surplus cash (-) /WMA & disinvestment (+)		
Surplus (+)/Deficit (-) on Public Account*	-1,755	-9,716

\* Includes Suspense & Remittances.

The figures mentioned in the above table do not include market borrowings and issue of treasury bills under Market Stabilization Scheme (MSS). The borrowings under MSS are not utilized for financing fiscal deficit and are kept in a sequestered account with RBI and utilized only for the purpose of redemption of borrowings resorted to under MSS. During April-September, 2006 Government raised Rs.13,002 crore (net) through issue of dated securities and treasury bills of 364 days, 182 days and 91 days maturity for absorbing excess liquidity from the market under MSS.

The provision of FRBM Act 2003 prohibiting RBI's participation in the primary issuance of Central Government dated securities became effective from April 1, 2006.

Thus it is particularly significant that the market-borrowing programme of the Central Government through issue of dated securities was conducted smoothly and broadly in line with the indicative market-borrowing calendar. During the first half, as a proportion of BE, gross and net market borrowing at 58.2 per cent and 47.5 per cent, respectively, in the current year were at the same level as in the previous year. While the weighted average maturity declined marginally from 14.91 years in the first half of 2005-06 to 14.08 years in the first half of 2006-07, the weighted average cost of market borrowing, calculated at the cut-off yields at auctions, hardened from 7.29 per cent to 7.91 per cent.

There was a higher outgo in respect of compensation and other bonds during the current year because of the redemption on maturity in respect of old series of Relief Bonds. The position in respect of treasury bills (14 days intermediate) and changes in cash balances reflected the persistent surplus cash balances of State Governments and their temporary utilization by the Central Government.

Outstanding liabilities of the Central Government rose from 55.3 per cent of GDP in 1990-91 to 65.7 per cent of GDP in 2005-06 (RE). Outstanding liabilities are expected to be contained at the same level in BE 2006-07.

#### **vii. Cash management**

The cash balance position of the Central Government continued to be comfortable during the current year. The Central Government began the year with a surplus of Rs.48,928 crore – investment of Rs.20,000 crore and cash balance of Rs.28,928 crore – largely as a result of the investment of State Governments' surplus cash balance of Rs.38,983 crore. Keeping in view the persistence of surplus cash balances of State Governments, which was Rs.42,004 crore at end-September, 2006, the Centre utilized a part of this invested cash. As at the end of September 2006, the Central Government had a surplus of Rs.31,868 crore – investment of Rs.20,000 crore and cash balance of Rs.11,868 crore. In view of the comfortable cash position, recourse to Ways and Means Advances from the RBI was limited and there was no overdraft during the first half of the current year.

#### **viii. Assessment vis-à-vis mid year FRBM benchmarks**

Despite impressive performance on revenue collection front, all the three mid-year performance benchmarks prescribed by the FRBM Rules, namely non-debt receipts, fiscal and revenue deficits as proportions of BE, were short of the target, and in relation to fiscal deficit and revenue deficit mid-year benchmarks, inferior when compared to the corresponding period of the previous year (Table 16).

**Table 16: Outcome versus mid-year benchmarks under FRBM Rules**

Variable	Performance benchmarks under FRBM Rules	<i>(In per cent)</i>	
		April-September	
		2006	2005
<b>As a proportion of BE</b>			
Total non-debt receipts	Not less than 40 per cent	39.9	35.0
Fiscal deficit	Not more than 45 per cent	58.2	55.5
Revenue deficit	Not more than 45 per cent	81.8	68.3

An intra-year mismatch in the flow of receipts and expenditure during the first half of the year could, partially account for these outcomes, Government is confident that this mismatch will even out in the second half of the year, proceeding more or less on budgeted lines. After a similar breach of the mid-year benchmarks, the year 2005-06 ended with the key parameters in broad conformity with FRBM targets. Figures for October 2006 – for example, a revenue surplus in October – indicate an evening out is already on its way. Furthermore, buoyant economic growth can be expected to contribute towards augmentation of revenues and also help indirectly in meeting the fiscal and revenue deficit targets specified as a proportion of GDP.

### III. PROSPECTS AND POLICY ISSUES

The signs of acceleration in growth pointed out in the last Economic Survey became clearer through the first half of the year. After GDP growth in 2004-05 and 2005-06 of 7.5 per cent and 8.4 per cent, respectively, growth was 9.1 per cent in the first half of the current year. This improvement in the growth rate not only reflected sound and enabling policies but also demonstrated the growth potential that can be harnessed with further reforms and more effective implementation of plans and programmes.

Simultaneously with the acceleration in growth, however, there was also a pick up in WPI inflation (point-to-point) from 4.1 per cent at end-March, 2006 to 5.2 per cent on both July 1 and September 30, 2006. The agricultural commodity-specific nature of the inflation problem, which was reflected in the monthly inflation in CPI-terms going up from 5.1 per cent in March to 7.6 per cent in June and 6.8 per cent in September, underscored the need for productivity-enhancement in agriculture and careful supply management. The Government and RBI have taken resolute steps – including duty-free imports of wheat and pulses, and import of palm oil at reduced duty rates; and announcement of an increase in the cash reserve ratio (CRR) to 5.25 per cent from December 23, 2006 and 5.50 per cent from January 6, 2007 – to control inflation. Some price reduction to the consumers of petrol and diesel from end-November should also have a salutary impact on inflation in the coming weeks. Maintaining macroeconomic stability to enhance investment and sustain the growth momentum on an enduring basis is the critical challenge of the current conjuncture.

#### i. Investment

As of early-December 2006, while no national accounts data exist on domestic capital formation (that is investment) beyond 2004-05, growth of production and import of capital goods, and credit off-take point to the continuation of the investment upswing observed from late-2004. Similarly, after a yearly growth of 36 per cent in investment — announcements, proposed and under implementation – between October 2004 and October 2005, there was a further 57 per cent growth between October 2005 and October 2006. The greatest challenge is to enhance investment in the economy and lay a robust foundation for sustained growth at 9 per cent per year.

The welfare of farmers, agricultural labour, weavers, workers and weaker sections of society can be enhanced, and each family assured a safe and viable livelihood, only through rapid generation of employment. Sustained and viable employment can be rapidly generated only by boosting agriculture, accelerating improvements in infrastructure, and maintaining the growth momentum in industry and services. This broad-based progress is contingent on stepping up investment substantially. For

example, it was estimated earlier that solving the problem of shortage of power – an essential prerequisite for faster growth of income and employment – by itself will require an investment of Rs.9,00,000 crore between 2005-06 and 2011-12. Similarly, reversing the agricultural neglect, and diversifying and moving up the value chain in the rural areas will require substantial investments. Continued growth of agriculture, horticulture, aquaculture, floriculture, forestry, dairying and agro-processing that would significantly add to the creation of new jobs will not be possible without significant investment in these sub-sectors of the rural economy.

At a macro level, the Approach Paper to the Eleventh Plan (2007-08 to 2011-12) targets an increase in the annual average investment rate, as a proportion of GDP, from 27.8 per cent in the Tenth Plan (2002-03 to 2006-07) to 35.1 per cent. Assuming annual average 12 per cent growth of GDP at current prices would entail a more than doubling of annual investment between 2006-07 and 2011-12. Such an increase in investment of more than Rs.13 lakh crore in five years is a daunting challenge that must be met squarely.

The financial sector, comprising of the institutions and organizations that garner resources and allocate them among the different sectors, is critical in this context. There is an urgent need to have an integrated and globally competitive financial sector which is vibrant, market-oriented, efficient, fair, transparent, and supervised by an independent regulatory system of world class standards. Three major legislations in different stages of consideration, namely, the Pension Fund Regulatory and Development Authority Bill, the Banking Regulation (Amendment) Bill and a comprehensive law on insurance, are important in this context. Regulatory reform of pension and insurance will ensure sustainable, long-term infrastructure financing.

## **ii. Fiscal consolidation and reform**

The country needs investments, both public and private. But the anxiety to enhance public investment should not lead to the path of renewed fiscal profligacy. The three-years-in-a-row growth experience with macroeconomic stability has clearly demonstrated the benefits of fiscal prudence along the FRBM lines. As such, all possible efforts should be made to observe it in letter and spirit by maximizing revenues (both tax and non-tax) as well as non-debt capital receipts, and containing non-plan expenditure. This will also create enough fiscal space to finance the Plan in a sustainable manner.

Adhering to fiscal rectitude has not been easy in any country at any time. Like going up a hill, the adjustments become harder as the summit gets closer and closer. Like in 2005-06, in the current year, notwithstanding a mid-year transgression of the FRBM performance benchmarks, Government is confident to end the year in conformity with FRBM requirements through careful expenditure management and achievement of the budgeted tax collection targets. Achievement of the fiscal deficit



target this year and budgeting for a target of 3.4 per cent of GDP for 2007-08 will send a strong signal about India's commitment to the FRBM targets. Sticking to standard international conventions about classification of expenditure items into 'revenue' and 'capital' and resisting the temptation of creative accounting will reinforce the belief about the country's sincerity of purpose in fiscal consolidation.

Obtaining value for money in public expenditure is a critical part of fiscal reforms. There must be more emphasis on the outcome budget to ensure that every expenditure item yields the desired outcome without wastage or leakages. The proclivity of adding new schemes while continuing with the old ones received on a "hand-me-down" basis must be resisted. In public expenditure, execution and monitoring must improve in order to reach the cherished goal of sustaining high and equitable growth with price stability. It is in this context of value for money that delivery of services deserves special attention. Both in terms of quantity and quality, the intended benefits must reach the targeted beneficiaries. This is where success has been limited in the past. Primary education, health care, drinking water, sanitation and roads are the goods/services that must reach the people. Subsidies too often fail to reach the beneficiaries because of poor delivery. The issue of subsidies and how they are delivered should be revisited. International best practices such as food stamps and smart cards have been mooted in the past. Partnership between the Centre and one or more States in implementing some of these ideas on a pilot basis can lead to valuable lessons; and, if it succeeds, could be scaled up and implemented nation-wide.

There is also need for caution against having too ambitious programmes of grants and subventions in areas that are essentially within the domain of the States. It is critical that the States not only implement the programmes that belong to their domain, but also participate financially and assume ownership of these programmes. This is particularly important now, when the recent past has seen considerable improvement in State finances through implementation of the Twelfth Finance Commission's award, including debt restructuring and debt waiver, and their own robust efforts through a vigorous implementation of VAT.

Along with careful expenditure management, efforts at enhancing revenues must continue. Removing the plethora of tax exemptions and concessions is important in this context. Tax expenditure in 2006-07 is estimated at Rs 1,00,147 crore. Such exemptions and incentives distort resource allocation and stunt productivity. They also result in multiplicity of rates, legal complexities, classification disputes, litigation, higher cost of tax compliance and administration. Such exemptions have been justified in the past for promoting balanced regional growth; dispersal of industries; neutralization of disadvantages on account of scale of operation and location; and incentives to priority sectors including infrastructure. To avoid rent seeking, these should be subject to a sunset clause, as tax exemptions often create pressure groups for their perpetuation.

Based on a comprehensive review of the tax exemptions in customs, central excise and service tax, 8, 68 and 6 exemptions, respectively, were withdrawn in the Budget for the current year. On the direct tax side, tax benefits available to certain cooperative banks and for income from investment in infrastructure and certain other eligible businesses were also withdrawn. Further, the Department of Revenue has posted on its website select tax exemptions/incentives currently available for eliciting the views of the stakeholders and to generate an informed debate regarding their continuance.

### iii. Agriculture

Indian agriculture suffers from low yields and its confinement to the lower rungs in the ladder of the value-added chain. Yield levels in agriculture depend on soil conditions (which is exogenous), input-usage specific to the soil quality and husbandry practices. Considerable improvement in yield levels can be made, particularly in areas with comparatively lower yield levels, by improving husbandry practices. Similarly, use of soil-specific nutrients can increase the yield levels.

Lack of technological breakthroughs – including improved variety of seeds and diffusion of existing technology – has been a major problem in agriculture. For example, there has not been any progress on the pulses front, whose output in fact has declined in the last decade. Similarly, oilseeds production has also been volatile. Both these groups are generally cultivated under rain-fed conditions with poor yields, and have been a major source of inflationary pressure in the recent past.

Capital formation in agriculture has remained relatively stagnant during 2002-03 to 2004-05 (Table 17), the latest years for which data is available. Investments are needed for land development, seeds-related technology, watershed development, improved cultivation practices and extension support, among others. The decline in gross fixed capital formation by the private sector in agriculture in the triennium ending in 2004-05 calls for a revisit of the incentive structure in agriculture.

**Table 17. Capital formation in agriculture**

	<i>(In Rs. crore)</i>		
	2002-03	2003-04	2004-05
Gross capital formation	52,055	55,880	55,110
<b>Gross fixed capital formation (GFCF)</b>	49,392	52,850	51,249
<b>Private sector</b>	40,658	38,190	35,863
<b>Public sector</b>	8,734	14,660	15,386
<b>Combined capital expenditure of the Union &amp; States</b>	12,638	18,302	25,829*
Agriculture & allied services	1,842	2,379	5,137*
Major & medium irrigation	9,740	14,327	18,032*
Minor irrigation	1,056	1,596	2,660*

\* Revised estimates

National Commission on Farmers, set up to recommend policies, programmes and measures for accelerated and diversified agriculture development, has suggested among others, soil health enhancement, soil testing facilities and nutrient deficiency identification; water harvesting, water conservation including restoration of water bodies; access to affordable credit and crop and life insurance reforms; development and dissemination of appropriate technologies including for rain-fed areas; and infrastructure relating to marketing and the associated reforms.

Post-harvest value addition through food processing has remained only in the periphery so far. Processed food remains out of the reach of the common man while a lot of wastage takes place because of inadequate supply chain integration. It is imperative to promote a seamless integration of the producer at the farm gate to the consumer in her kitchen.

Since 2005-06, huge deviations have been observed between the advance estimates of production for important crops and the final estimates. While to some extent these may be due to the unorganized nature of the sector and inherent flaws in information flows, any significant under-estimation makes the management of prices and food security related issues rather difficult. This issue needs to be looked into and timely intervention undertaken to provide more reliable production estimates.

Prices are the single most important incentive for farmers. But the weighted average C2-cost-based, nation-wide, minimum support price (MSP) system has been both iniquitous and distortionary. The current price policy suffers from the problems associated with a multiplicity of objectives — subsidizing the poor consumers (including through price stability), ensuring remunerative prices to farmers, and reducing the scope for market abuse by traders — being attempted to be fulfilled with a limited number of instruments. While MSP, by definition, should be triggered only when the market price falls below the specified minimum, it has become the de facto procurement price putting open market trade in wheat and paddy under severe strain and rendering the discovery of 'the market price' for these cereals an impossible task. Furthermore, a contradiction has emerged, with the MSP, by its very nature, guaranteeing open-ended procurement, while the volume required for operating a subsidy regime for poor consumers is a specific amount. This leaves open the possibility of the actual procurement at the MSP either falling short of the amount required for distribution under PDS or being well above the required amount. There is a need for a clear separation of price support to farmers and procurement by the State on the one hand and subsidy to poor citizens on the other. There is a need to reduce the cost of procurement, storage and distribution.

While a strategy of absorbing increasing proportion of the working population in the fast-expanding industry and services sectors is essential for equitable and inclusive

growth, it is imperative to step up growth in agriculture to an annual 4 per cent targeted by the Approach Paper to the Eleventh Five-Year Plan (2007-2012). The enhanced growth of agriculture is essential not only for bridging the rural-urban divide but also to secure the foundation for reliable supplies of vibrant agro-based industries, including cotton textiles, sugar and other food-processing, and avoid supply-management problems, such as that of wheat and pulses, witnessed in the current year.

#### **iv. Industry**

Maintaining the industrial resurgence observed since 2004-05 continues to be one of the prime policy challenges. The slowdown in year-on-year IIP growth in October 2006 to 6.2 per cent from 11.4 per cent in September 2006 is no doubt disappointing. But there was a similar temporary dip in IIP growth from 7.2 per cent in September 2005 – albeit after an increase to 9.8 per cent in October 2005 – to 6.0 per cent and 5.7 per cent in November and December 2005 as well. The industrial sector has gained in strength in many ways over the past fifteen years as a consequence of liberalizing industrial controls and the gradual integration with the world economy. However, there are numerous constraints that limit industrial performance. The Approach Paper to the Eleventh Five Year Plan (2007-12) identifies the absence of world-class infrastructure and shortage of skilled manpower as most critical short-term barriers to the growth of the manufacturing sector. It is imperative to augment infrastructure facilities, particularly roads, ports and power, to provide the facilitating environment for industry to prosper.

The regulatory institutions, covering in broad terms the ‘rules of the game’ – formal rules, informal norms, and their enforcement characteristics – need to be improved to bring down cost of doing business. Regulatory reform of the mining sector continues to be on the unfinished agenda. It is ironic that in spite of significant reserves of coal – the third largest in the world, after the United States and China – the country continues to suffer from inadequate domestic supplies and problems of coal shortages. In year-on-year terms, growth of mining in IIP has significantly lagged behind overall IIP growth in every month since May 2004.

Inadequate employment growth in the organized manufacturing sector continues to be a source of disquiet. The data at the two-digit level show that the traditionally labour-intensive manufacturing sub-sectors like paper, food products and leather products have not kept pace with the strong overall performance of the manufacturing sector. Major growth has been concentrated in capital intensive sub-sectors only. This underscores the need for a review of the flexibility or lack thereof in the current labour legislations, and for a rigorous analysis and overhaul of the quality of training and skill development in the country.

## **v. Inflation and overheating**

Faced with some upward pressure on inflation, Government and the RBI have already initiated measures such as supply management, duty reduction and monetary tightening to bring inflation under control. Furthermore, the moderation of international prices of crude petroleum has also brought some relief on the expectations front. Nevertheless, the combination of high economic growth and a slow creeping up of inflation in manufactured products (from 1.9 per cent on April 1 to 3.5 per cent on July 1 and 4.1 per cent on September 30) has generated some concerns about overheating of the economy.

The issue of overheating relates to the fundamental question of whether the country is growing beyond its growth potential thereby straining its labour force and capital stock and hence engendering inflationary instabilities. The current Indian situation has been compared to that of China, where “overheating” has been a continuing concern in some quarters for a considerable period of time. Various indicators of overheating are: merchandise import growth as a measure of domestic demand; retail sales as a measure of consumption demand; industrial sales as a proxy for investment demand; money supply; loans from financial institutions as a proxy for the stage of the credit cycle; and income per capita as a measure of labour market conditions. While growth in recent times has been even higher in China than in India, the current account surplus in China compared to a current account deficit in India, and the lower inflation in China than in India have been adduced as reasons why India may be more prone to ‘overheating’ than China. It is important to note that despite routine expressions of concern about overheating in China, the Chinese economy continued to grow at annual average rate of 9.1 per cent between 1995 and 2004.

As far as India is concerned, the following points are important in the context of the ‘overheating’ debate. First, while it is difficult to be definitive about the sustainable level of the current deficit, it seems unlikely that the current level of such deficit is a cause for alarm. The Committee on Fuller Capital Account Convertibility (2006) indicated that a current account deficit to GDP ratio of 3 per cent could be comfortably financed and need for policy action would arise if the ratio rises substantially above 3 per cent. The Planning Commission, in the Approach Paper to Eleventh Five Year Plan, appears to confirm this diagnosis.

Second, is the changing composition of demand in recent times which indicates addition to production capacity to support a higher growth rate of the economy. Data on consumption and investment in the national accounts available until 2004-05 show that the 6.8 percentage point contribution of investment to 13.1 per cent growth in GDP at current market prices in 2004-05 exceeded the corresponding contribution of private final consumption expenditure at 6.1 percentage point for the first time in recent years.

Output (according to the IIP) and import of capital goods, an indicator of investment demand and business confidence in the economy, are doing well.

Third, overheating of some economies in the past has been associated with speculative debt flows through the balance of payments leading to excessive liquidity expansion and a sharp real appreciation of the exchange rate. While net foreign inflows have driven the growth of money supply in India in recent times, such flows have been of the non-debt creating variety and orderly conditions have prevailed in the exchange rate market of the rupee.

Fourth, the stock market has indeed been buoyant even relative to some other well-performing markets such as Korea, Malaysia and Thailand. While passing a judgement about appropriate valuation of the stock market is a hazardous venture, the increase in the price-earning ratio of the BSE Sensex from 20.92 at end-March 2006 to 21.34 at end-September 2006 suggests that a part of the increase in stock valuation may be because of higher corporate earnings and the higher growth expectations in the economy.

Fifth, there are several instances in recent history where economies have grown at 8-9 per cent or higher annual rates for years on end. Japan grew at an annual average of 10.4 per cent between 1960 and 1970. China has grown at above 8 per cent in 14 out of the 19 years since 1987, and at double digit rates in many recent years, for example at 12.7 per cent during 1992-95.

Indeed, there is need for continuous caution in maintaining macroeconomic stability to support the pick up in investment and growth on an enduring basis. This is particularly so in the current conjuncture with large global macroeconomic imbalances and uncertainty in currency markets. A large part of the current problem of inflation is induced by commodity-specific supply problems related to products such as wheat and pulses. A durable solution to the price rise problem has to be found in increasing yields and domestic output of such products. Simultaneously, macroeconomic policy response has to be prospective rather than retrospective. A tightening, for example, will have to be in response to an inflationary problem anticipated in the future, not an inflationary bout that has already taken place. If investment continues to be buoyant and efficiency improves, the problem of overheating may turn out to be less real and more imaginary.

#### **vi. Infrastructure**

Weak infrastructure continues to be the Achilles heel of the Indian economy. To realize the full potential of the growth impulses surging through the economy, it is essential to have footprints of quality and efficient infrastructure services throughout the country. An investment of Rs.14,50,000 crore or about US\$320 billion would be required in the infrastructure sector during the Eleventh Five Year Plan. These

investments are to be achieved through a combination of public investment, public-private-partnerships (PPPs) and exclusive private investments, wherever feasible. The Committee on Infrastructure, headed by the Prime Minister has estimated investment requirements by 2012 in some of the key sectors: Rs.2,20,000 crore for modernization and upgradation of highways; Rs.40,000 crore for civil aviation; Rs.50,000 crore for ports; and Rs.3,00,000 crore of which 40 per cent is expected to come from the private sector through PPP for the Railways.

Rapid improvements require simultaneous actions on three fronts. First, is the acceptance of the “user pays” principle as a rule rather than an exception. Problems of shortages and lack of reliable access continues in electricity and water supply; and the poor continue to pay for alternative sources of energy and water while reportedly the rich benefit relatively more from subsidised supplies from public utilities. The telecom revolution in the recent past clearly demonstrates the advantages of moving to the user pays principle. Second, fiscal space needs to be created by cutting down revenue expenditure including subsidies to enhance public investment in specified infrastructure where cost recovery is not possible, for example rural roads. Third, appropriate financial sector reforms need to be carried out to provide long-term funds to infrastructure projects involving long pay back periods. This includes, in particular, the development of a vibrant bond market and pension and insurance reforms. Although there are institutions like the Infrastructure Development Finance Corporation (IDFC) and the recently operationalised IIFCL to cater to the long-term debt needs and equity of infrastructure projects, the demand for funds is too large to be covered by such institutions alone. There is a need to deepen the debt market so that the risks can be diversified and more capital can be accessed. A single, unified exchange-traded market for corporate bonds would help create a mature debt market for financing infrastructure.

**Status of Implementation of Major Budget Announcements-2006-07**

A summary statement of the some of the major budget announcements 2006-07 and their implementation status till date is indicated below:

<b>Sl. No.</b>	<b>Para No.</b>	<b>Summary of Budget Announcement</b>	<b>Implementation Status</b>
1.	3	Drawing up of a programme for rebuilding the damaged infrastructure.	An Inter Ministerial Committee was constituted by the Government under the chairmanship of Vice Chairperson, National Disaster Management Authority to consider the requirements of the calamity affected States. States were requested to send their detailed requirements for long-term rehabilitation and reconstruction of damaged properties. These are being examined by Planning Commission and will be considered by the Inter Ministerial Committee.
2.	8	A sum of Rs.11,700 crore expected to be spent on rural employment under the National Rural Employment Guarantee (NREG) Scheme during the current year.	Rs.5603.15 crore have been released under NREG Act till date. Progress is being monitored.
3.	18	500,000 additional class rooms to be constructed and 150,000 more teachers to be appointed under the Sarva Siksha Abhiyan during 2006-07.	A total of 5 lakhs additional classrooms have been sanctioned for 2006-07 under Sarva Siksha Abhiyan. The Project Approval Board has also approved 1,96,828 posts of teachers during 2006-07.
4.	21	Government to provide non-recurring assistance of Rs.213 crore in 2006-07 for setting up district-level water testing laboratories and field-level water testing kits.	National Rural Drinking Water Quality Monitoring & Surveillance Programme was launched in February 2006 to institutionalize community participation for monitoring and surveillance of drinking water sources at the grass root level by using user friendly field test kits followed by testing the positive samples at the district and State level laboratories. For 2006-07, a sum of Rs.124 crore has been allocated for this purpose. As this is a demand driven programme, depending on fund utilization by the States, this amount will be increased, if required.
5.	23	More than 200,000 Associated Social Health Activists (ASHA) to be fully functional and over 1,000 block level community health centres to provide round the clock services under the National Rural Health Mission in 2006-07.	About 1.94 lakh Associated Social Health Activists (ASHA) were already in position as on March 31, 2006, and 73,467 ASHAs have been selected during 2006-07. As regards the community health centers, 3346 existing Community Health Centers are already operational on a 24x7 basis.



*(Annex continued)*

<b>Sl. No.</b>	<b>Para No.</b>	<b>Summary of Budget Announcement</b>	<b>Implementation Status</b>
6.	24	Elimination of polio from the country by December 2007.	Though there had been a temporary setback during the current year in UP and Bihar, various measures are being adopted to implement the pulse polio programme, including immunization through use of polio vaccination, to ensure that the target of eliminating polio by December 2007 is met.
7.	26	Since there is a legal guarantee of employment under the NREG Act, more funds to be provided according to need.	The NREG Act is demand driven. If more funds are required during the current financial year, Government will make provision for the same. In case funds remain unspent, the same will be carried forward to next financial year, as the funds allocated under NREGA are non-lapsable.
8.	27	The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) was launched on December 3, 2005. Against the estimated outlay of Rs.6,250 crore, a grant of Rs.4,595 crore to be provided during 2006-07.	Government has approved the Bangalore and Mumbai Metro Project. In case of Gujarat, the BRTS (Bus Rapid Transit System) is being funded under JNNURM. Detailed Project Reports for Bus Rapid Transport System have also been received from Ahmedabad, Jaipur, Pune and Indore for coverage under JNNURM.
9.	28	Government to actively promote the establishment of new towns.	Proposals for various new industrial townships have been received from West Bengal and Karnataka.
10.	29	Increase in the Old age pensions to destitute persons above the age of 65 years from Rs.75 per month to Rs.200 per month.	Government has approved the proposal of increasing the pension amount under the National Old Age Pension Scheme from Rs.75 to Rs.200 per month with effect from April 1, 2006.
11.	33	The equity contribution to the National SC Finance and Development Corporation and the National Safai Karamchari Finance and Development Corporation to be increased in 2006-07.	Budget provision in BE 2006-07 has been made accordingly.
12.	34	Doubling of the corpus fund of the Maulana Azad Educational Foundation to Rs.200 crore.	The proposal has been approved by the Cabinet and orders are being issued.
13.	35	The National Minorities Development and Finance Corporation to intensify its efforts to	Under the "Minority Artisans Composite Credit Scheme" 4 new clusters have been identified for adoption in the current year in

*(Annex continued)*

<b>Sl. No.</b>	<b>Para No.</b>	<b>Summary of Budget Announcement</b>	<b>Implementation Status</b>
		reach out to artisans and weavers especially in districts with concentration of minorities.	Andhra Pradesh, Karnataka, Tamilnadu and Uttar Pradesh.
14.	36	Increase in the allocation to the National Council for Promotion of Urdu Language (NCPUL ) from Rs.10 crore to Rs.13 crore.	Implemented
15.	37	Government to finance 20,000 Merit-cum-means based scholarships to students belonging to the minority communities to pursue higher studies.	A Merit-cum-Means based scholarship for students belonging to minority community is being finalized.
16.	38	1,000 new residential schools for girls from SC, ST, OBC and minority communities to be opened in 2006-07 under Kasturba Gandhi Balika Vidyalayas scheme. A sum of Rs.3,000 to be deposited in the name of the girl child who passes the VIII Standard Examination and enrolls in a secondary school, which she would be entitled to withdraw on reaching 18 years of age.	Proposals for sanction of 1000 more Kasturba Gandhi Balika Vidyalayas and provision of further incentive to the girl child are being finalized by the Government.
17.	39	To present a Performance Budget on the first Outcome Budget before the end of the Budget Session and place the Outcome Budget for 2006-07 before the House by March 17, 2006.	Implemented
18.	41	Government to provide equity support of Rs.16,901 crore and loans of Rs.2,789 crore to Central PSEs (including Railways).	Implemented
19.	42	Constitution of an expert body to look into the potential of gems and jewellery sector and the prevalent taxation practices in India and abroad, and make recommendations in this behalf.	An Expert Body that had been constituted in the Department of Revenue for making recommendations for taxation in the gem and jewellery sector has submitted its report which is being examined.
20.	45	Ministry of Water Resources to revamp the Command Area Development Programme to allow participatory irrigation management through water users' associations.	Ten States have initiated steps for providing necessary legal back up for implementation of Participatory Irrigation Management (PIM) Programme. So far, 61,022 Water Users' Associations have been formed in various states of the country. As far as implementation of Command Area Development and Water Management Programme is concerned, formation of Water Users' Associations under the Participatory Irrigation Management (PIM)

*(Annex continued)*

<b>Sl. No.</b>	<b>Para No.</b>	<b>Summary of Budget Announcement</b>	<b>Implementation Status</b>
			Act or the existing society's registration act is a must before taking up construction of field channels.
21.	46	The programme for repair, renovation and restoration of water bodies is being implemented through pilot projects in 23 districts in 13 States. The participating State Government to be requested to sign a memorandum of understanding and the water bodies in that State to be taken up for repair, renovation and restoration in 2006-07.	Planning Commission has given "in-principle" approval to the project "Restoration of Water Bodies with external assistance". The project is to be implemented in four States - Andhra Pradesh, Karnataka, Orissa and Tamil Nadu. Government has posed the project before the World Bank.
22.	47	Banks to increase the level of credit to Rs.1,75,000 crore in 2006-07 and also add another 50 lakh farmers to their portfolio.	NABARD has communicated the target of Rs.1,75,000 crore during 2006-07, to Commercial banks directing them to step up their agriculture disbursement during 2006-07 by 30% over the achievement during 2005-06 and also to bring another 50 lakh new farmers into the credit fold.
23.	48	An amount equal to two percentage points of the borrower's interest liability on the principal amount up to Rs.100,000, to be credited to his/her bank account before March 31, 2006.	Implemented
24.	49	Government to ensure that the farmer receives short-term credit at 7 per cent, with an upper limit of Rs.300,000 on the principal amount.	Implemented
25.	50	The corpus of RIDF XII to be increased to Rs.10,000 crore.	Implemented
26.	51	Allow specified projects under the Public Private Partnership (PPP) model to access RIDF funds.	In order to consider new partnerships under PPP model, discussions have been initiated with outside agencies and few state governments by NABARD.
27.	52	Open a separate window under RIDF XII for rural roads.	Government has approved the proposal to amend the Central Road Fund Act to set up a separate window under RIDF XII for rural roads with a corpus of Rs.4000 crore during 2006-07.

*(Annex continued)*

<b>Sl. No.</b>	<b>Para No.</b>	<b>Summary of Budget Announcement</b>	<b>Implementation Status</b>
28.	54	Set up a Special Purpose Tea Fund.	The proposal is being finalized.
29.	55	Introduce a Bill to provide a formal statutory framework for the promotion, development and regulation of the micro finance sector.	The draft Bill has been finalized in consultation with Ministry of Law.
30.	56	Banking sector to credit-link another 3,85,000 SHGs in 2006-07.	Implemented
31.	57	With a view to bringing more cultivator households within the banking fold, a Committee on Financial Inclusion to be appointed.	Implemented
32.	58	* The PPP model to be employed to set up model terminal markets in different parts of the country. * The National Fisheries Development Board to be constituted shortly.	* The Terminal Market Scheme is being finalized. * The National Fisheries Development Board (NFDB) registered under the Andhra Pradesh Societies Registration Act, 2001 was formally inaugurated by the Agriculture Minister at Hyderabad on 9-9-2006.
33.	60	Creation of 25 textile parks under the Scheme for Integrated Textiles Parks (SITP) launched in October 2005.	Project proposals for development of 26 Integrated textile Parks have been sanctioned. As per preliminary implementation schedule prepared by the Project Management Consultant, construction will be completed by January 2008.
34.	61	1. Government to launch the Jute Technology Mission in 2006-07 to harness the potential of the golden fibre. 2. A National Jute Board to be established.	1. The Jute Technology Mission (JTM) has been approved by the Government. 2. The National Jute Board Bill, 2006, was introduced in Parliament during the Budget Session and has been referred to the Department related Standing Committee on Labour for examination.
35.	62	1. The Cluster Development approach to continue. An additional 100 clusters at a cost of Rs.50 crore to be covered in 2006-07. 2. Yarn depots to be established in different parts of the country to ensure uninterrupted supply of yarn to weavers.	1. The guidelines of the scheme are being prepared and clusters are being identified. 2. The Scheme for establishment of Yarn Depots is under preparation.

*(Annex continued)*

<b>Sl. No.</b>	<b>Para No.</b>	<b>Summary of Budget Announcement</b>	<b>Implementation Status</b>
	3	Launch a 'handloom' mark.	3. The Handloom Mark/Logo was launched by the Hon'ble Prime Minister of India on June 28, 2006.
	4	A scheme similar to Technology Upgradation Fund Scheme to be introduced for the handloom sector to provide interest subsidy on term loans.	4. The scheme has been launched on July 28, 2006.
36.	63	Food processing to be treated as a priority sector for bank credit.	NABARD has been requested to inform all banks/financial institutions about refinance facility of Rs.1000 crore exclusively available for food processing industry.
37.	64	Task Force to facilitate the development of large Petroleum, Chemicals and Petrochemicals Investment Region (PCPIR) set up. 3 Investment Regions to be developed during 2006-07.	Draft PCPIR policy is being finalized.
38.	65	The time is ripe to make India a preferred destination for the manufacture of semi-conductors and other high technology IT products. To achieve this goal the Ministry of Information Technology to announce a policy shortly.	The matter is before the Cabinet.
39.	66	Ministry of Small Scale Industries to identify 180 items for dereservation.	Implemented
40.	67	Measures to give fresh impetus to lending by the Small Industries Development Bank of India (SIDBI).	<ul style="list-style-type: none"> <li>i. The Micro, Small and Medium Enterprises Development Bill 2006 has been passed by both the Houses of Parliament.</li> <li>ii. Raising the corpus of Credit Guarantee Trust for Small Industries CGTSI to Rs.2500 crore is one of the components of the 'Package for Promotion of Micro and Small Enterprises', which is under consideration of the Government.</li> <li>iii. CGTSI has reduced the one time guarantee fee from 2.5% to 1.5% for all loans.</li> <li>iv. CGTSI has made arrangements with LIC for providing insurance cover to borrowers, identified as chief promoters.</li> </ul>

*(Annex continued)*

<b>Sl. No.</b>	<b>Para No.</b>	<b>Summary of Budget Announcement</b>	<b>Implementation Status</b>
41.	68	The National Manufacturing Competitiveness Council (NMCC) has finalized a five-year National Manufacturing Competitiveness Programme. Ten schemes drawn up.	The ten schemes drawn up by the NMCC under its five-year 'National Manufacturing Competitiveness Programme' are being finalized.
42.	69	Prime Minister to constitute an Empowered Group of Ministers who will lay down the policy for cluster development and oversee the implementation.	Necessary action is being taken to constitute an Empowered Group of Ministers to lay down the policy for cluster development and to oversee its implementation.
43.	70	Ministry of Tourism to take up for development 15 tourist destinations and circuits following an integrated area development approach during 2006-07.	Department of Tourism proposes to develop different destinations in a phased manner. The pre-requisite for this is infrastructure of international standards. 16 circuits/destinations will be taken up for development during 2006-07. It is decided that Master Plans for all the destinations/circuits would be prepared by ITDC. All these projects would cost Rs.25-50 crore each.  Government has approved the revision of the guidelines for enhanced central financial assistance to States/UTs for development of world class infrastructure for Destinations and Circuits, to a maximum limit of Rs.25 crore and Rs.50 crore respectively.
44.	72	To reach 250 million telephone connections by December 2007.	The total number of fixed and mobile connections touched 164.05 million as on August 31, 2006.
45.	73	Introduce a Bill in the Budget session to amend the Indian Telegraph Act.	The Bill for amendment to the Indian Telegraph Act has been introduced in the Parliament on May 19,2006.
46.	74	More efforts needed to augment capacity in generation, transmission and distribution. 15,000 MW to come on stream by March 31, 2007.	17,493 MW of generation capacity has been added during the 10 <sup>th</sup> Plan.
47.	75	To award five ultra mega power projects of 4,000 MW each before December 31, 2006.	Preparation for tying up of inputs for the ultra mega power projects in Sasan(MP) and Mundra (Gujarat) are on fast track. Selection of final bidders in respect of Sasan and Mundra is likely to be completed within this year. DPRs of both the projects have been prepared and provided to the bidders. In

*(Annex continued)*

<b>Sl. No.</b>	<b>Para No.</b>	<b>Summary of Budget Announcement</b>	<b>Implementation Status</b>
			respect of Ultra Mega Power Project to be set up in Orissa, the decision of State Government for proposed site at Bedabahal, District Sundergarh or Jharsuguda District is awaited.
48.	76	Prime Minister to establish an Empowered Committee of Chief Ministers and Power Ministers to create an enabling and empowered framework to carry out reforms in transmission and distribution of power.	Note for setting up the Empowered Committee of Chief Ministers and State Power Ministers had been prepared for discussion in the Conference of the State Power Ministers. PMO has been requested to give a date.
49.	78	40,000 more villages to be electrified in 2006-07.	18,179 villages have been electrified till September 2006.
50.	79	De-blocking coal reserves of 20 billion tonnes for power projects.	81 blocks of about 20 billion tonnes reserves have been identified for allocation to Government companies/permissible end users.
51.	83	To develop 1,000 kms of access-controlled Expressways.	Request for proposal inviting consulting firms for carrying out consultancy services for preparation of feasibility report for Vadodara-Mumbai Expressway has been finalized and notice inviting proposal has been issued. The deadline for submission of proposals has been extended and wide publicity is being given.
52.	84	National Highway Authority of India (NHAI) to be restructured.	Report on Restructuring of NHAI is being finalized.
53.	86	i. To carry out a detailed study to identify a suitable location for a new deep draft port in West Bengal. ii. The existing National Institute of Port Management, Chennai, renamed as the National Maritime Academy, to be upgraded into a Central University under an Act of Parliament.	i. A feasibility study through reputed international consultants is being undertaken. ii. The modalities are being worked out.
54.	87	Several proposals have been received for viability gap funding for PPP projects. In-principle approval has been granted to three road projects in Gujarat and a final decision is likely to be taken before March 31, 2007.	In-principle approval has been granted to 17 projects in Gujarat, Maharashtra, M.P. and Rajasthan under the Viability Gap Funding for PPP projects.

*(Annex continued)*

<b>Sl. No.</b>	<b>Para No.</b>	<b>Summary of Budget Announcement</b>	<b>Implementation Status</b>
55.	88	To unwind the special securities through conversion of non-tradable special securities into tradable, SLR Government of India dated securities.	Government has approved the proposal of conversion of "Recapitalisation Bonds (Special Securities)" issued to Nationalised Banks into "Tradable, SLR Government of India dated Securities".
56.	89	To introduce a comprehensive Bill on insurance in 2006-07.	Draft Bill of the Insurance laws is before the Cabinet.
57.	90	Action on Important Bills to amend the banking laws and for setting up the Pension Fund Regulatory and Development Authority.	<ul style="list-style-type: none"> <li>· A proposal for official amendments to the Pension Fund Regulatory and Development Authority Bill, 2005 was approved by Cabinet, subject to any such changes as may be considered necessary by the Ministry of Finance as a result of follow up discussions. Pending completion of these discussions, a final decision is yet to be taken.</li> <li>· The RBI Amendment Bill has been passed by both the Houses of Parliament in May 2006.</li> <li>· Bill for Banking Regulations Amendment Bill will be taken up for consideration and passing in the Winter Session of Parliament, 2006.</li> <li>· The Banking Companies (Acquisition &amp; Transfer of Undertakings) and Financial Institution Laws Amendment Bill has been passed by both the Houses of Parliament in August 2006.</li> </ul>
58.	58	91 Measures to deepen, broaden and strengthen the capital market.	<p>Various measures for strengthening the capital market are being implemented.</p> <ul style="list-style-type: none"> <li>(i) FII investment limits in Government securities and corporate debt have been increased by SEBI on 5<sup>th</sup> April, 2006.</li> <li>(ii) Necessary circulars have been issued (i) to raise the ceiling on aggregate investment by mutual funds in overseas instruments and (ii) to allow a limited number of qualified Indian mutual funds to invest, cumulatively up to \$ 1 billion, in overseas exchange traded funds</li> </ul>
59.	92	To extend access of NDS-OM to qualified mutual funds, provident funds and pension funds.	Implemented



*(Annex continued)*

<b>Sl. No.</b>	<b>Para No.</b>	<b>Summary of Budget Announcement</b>	<b>Implementation Status</b>
60.	93	Steps to create a single, unified exchange-traded market for corporate bonds.	SEBI and the RBI have set up an internal Working Group to implement the recommendations of the R.H. Patil Report on Corporate Bonds and Securitisation.
61.	94	The National Agricultural Innovation Project for research at the frontiers of agricultural science to be launched in July, 2006.	Implemented
62.	95	Government to provide enabling concessions to the incubatee-entrepreneurs.	Consultations are being held for providing enabling concessions to the incubatee-entrepreneurs
63	96	To mark the beginning of their 150th year, a grant of Rs.50 crore to be given to Universities of Calcutta, Mumbai and Madras for a specified research department or a research programme in that University. On the conclusion of the year, another grant of Rs.50 crore to be provided to each of them.	The proposals sent by the Universities of Madras, Mumbai and Kolkata were sent to University Grants Commission for academic assessment. Planning Commission has also been requested to convey their 'in principle' approval to the proposal.
64.	97	Special grant of Rs.100 crore to the Punjab Agricultural University, Ludhiana, in acknowledgement of its pioneering contribution to the green revolution.	The proposal submitted by Punjab Agricultural University, Ludhiana for utilization of grant of Rs. 100 crore has been approved.
65.	98	To accord the status of an autonomous National Institute to the Rajiv Gandhi Centre for Biotechnology, Tiruvananthapuram, Kerala.	The Memorandum of Understanding between the Department of Biotechnology and the Government of Kerala has been finalized and has been sent to the State Government for getting it executed.
66.	99	(i) Government has taken up a programme to upgrade 500 ITIs over five years. 100 ITIs are now covered with the help of the private sector. Assistance sought from multilateral agencies to cover the remaining 400 ITIs. (ii) The Skills Development Initiative (SDI) announced last year has been taken up through a PPP scheme.	(i) World Bank has agreed in principle to provide retroactive financing for taking up 100 ITIs in the current FY 2006-07. (ii) A new strategic framework for skill development for the school dropouts and existing workers specially in the informal sector is being worked out by M/O Labour in consultation with industry, micro enterprises in the informal sector, State Governments and the academia.
67.	100	Establishment of a Backward Regions Grant Fund, under the administrative control of the Ministry of Panchayati Raj.	Implemented

(Annex continued)

Sl. No.	Para No.	Summary of Budget Announcement	Implementation Status
68.	101	<ul style="list-style-type: none"> <li>i. Government to continue to provide special assistance to Jammu and Kashmir.</li> <li>ii. Provision of Special central Plan assistance of Rs.1,300 crore to enable the State to undertake reforms in the power sector.</li> </ul>	<ul style="list-style-type: none"> <li>i. State Plan of Jammu &amp; Kashmir for 2006-07 has been fixed at Rs.3500 crore. A sum of Rs.847.67 crore has also been provided for the State Sector Schemes of the Prime Minister's Reconstruction Plan. The allocation for Reconstruction Plan includes Rs.230 crore for Baghliar Project.</li> <li>ii. A tripartite MOU has been signed between Government of J&amp;K, Ministry of Finance and Planning Commission to put in place a programme for dealing with the power sector deficit.</li> </ul>
69.	69	104 The National e-Governance Plan to be approved shortly.	Government has approved the approach and key components of the National E-Governance Plan (NeGP)
70.	70	105 Provision of Rs.10 crore for preparatory activities for the 150th anniversary of the First War of Indian Independence.	Implemented
71.	71	106 Provision of Rs.5 crore each to the corpus of two Gandhian institutions, the National Gandhi Museum, Rajghat and the Kasturba Gandhi National Memorial Fund, Indore in 2006-07.	Implemented
72.	107	An initial provision of Rs.5 crore in 2006-07 for the old art forms of Kuttiyattam, Vedic Chanting and Ramlila.	Implemented
73.	173	Use of technology to modernize tax administration.	<ul style="list-style-type: none"> <li>i. The Income Tax Department is likely to be fully computerized by July 2007.</li> <li>ii. The Central Board of Excise &amp; Customs has initiated a Business Process Re-engineering (BPR) exercise. Under this programme a thorough review of the existing processes and the current initiatives in process automation has been undertaken. Risk Management in Customs is one of the achievements of the BPR. The other important components under development of the department are Automation of Central Excise &amp; Service Tax and Integrated Customs Systems. The approach paper on the re-organisation of the department congruent with these initiatives is being developed.</li> </ul>

## KEY INDICATORS

Items	(absolute values)				Latest Position					
	2004-05	2005-06	percent change 2004-05	percent change 2005-06	2005-06	2006-07	Period	percent change 2005-06	percent change 2006-07	
1a GDP at factor cost at current prices- Rs.'000 crore	2844(Q)	3209(R)	11.8	12.9	1470	1673	Apr-Sept	HI	12.9	13.8
1b GDP at factor cost at 1999-2000 prices- Rs.'000 crore	2394(Q)	2595(R)	7.5	8.4	1195	1303	Apr-Sept	HI	8.5	9.1
2 Agriculture and allied sectors at 1999-2000 prices - Rs.'000 crore	497(Q)	517(R)	0.7	3.9	219	225	Apr-Sept	HI	3.7	2.6
3 Index of Industrial Production (IIP) 1993-94 = 100	205	222	7.0	8.2	212	235	Apr-Sept	HI	8.5	10.9
4 Electricity generated (in billion kwh)	587	617	5.0	5.1	305	325	Apr-Sept	HI	4.7	6.7
5 Wholesale price index (point-to-point) 1993-94 = 100	189.5	197.2	5.1	4.1	198	208.8	19-Nov		4.3	5.5
6 Consumer price Index(for industrial workers) 1982 = 100	525	551	4.2	5.0	548	588 <sup>s</sup>	Sept		4.2	7.3
7 Money Supply (M3) (Rs.'000 crore)	2332.7	2730	12.3	17.0	2505	2991	24-Nov		17.3	19.4
8 Imports at current prices (in Rs. Crore)	501065(R)	660408(P)	39.5	31.8	328813	457537	Apr-Oct	(P)	27.9 *	39.2 **
(in US \$ million)	111517(R)	149166(P)	42.7	33.8	75032	99756	Apr-Oct	(P)	33.1*	33.0**
9 Exports at current prices (in Rs. Crore)	375340(R)	456418(P)	27.9	21.6	225802	319009	Apr-Oct	(P)	17.4*	41.3**
(in US \$ million)	83536(R)	103090(P)	30.8	23.4	51517	69526	Apr-Oct	(P)	22.1*	35.0**
10 Foreign currency assets (in Rs. Crore)	593,121	647327	27.22	9.14	619299	723332	End Oct		17.82	16.8
(in US \$ million)	135,571	145108	26.17	7.03	137286	160669	End Oct		18.71	17.03
11 Exchange rate (Rs./US \$)	44.93	44.27	2.27	-1.49	43.82	45.86	Average April		3.99	-2.26
							Oct @			

Q: Quick estimate; Q1: April-June; R: Revised estimate; (P): Provisional Data " @ " (+) indicates appreciation and (-) indicates depreciation of the Rupee vis-à-vis the US Dollar. "\*\*\*" Growth rate on "Provisional over Final/Revised basis".

"\*\*" Growth rate on "Provisional over Provisional" basis.

\$ Worked out using a linking factor of 4.63.

**BALANCE OF PAYMENTS : SUMMARY**  
(Quarterly)

(in US\$ million)

	2005-06				2006-07
	Apr-Jun 2005 (PR)	Jul-Sep 2005 PR (PR)	Oct-Dec 2005 PR (PR)	Jan-Mar 2006 (P)	Apr-Jun 2006 (P)
1. Exports	24150	24060	26400	30170	28245
2. Imports	37754	38692	38237	41651	46729
<b>3. Trade balance</b>	<b>-13604</b>	<b>-14632</b>	<b>-11837</b>	<b>-11481</b>	<b>-18484</b>
4. Invisibles (net)	10048	9587	8011	13296	12385
Non-factor services	5372	6139	4432	6322	7575
Income	-827	-1542	-2857	-373	-925
Pvt. transfers	5491	4991	6385	7228	5758
Official Grants	12	-1	51	119	-23
5. Current Account Balance	-3556	-5045	-3826	1815	-6099
6. External assistance (net)	212	183	477	566	23
7. Commercial borrowing (net)	1091	1758	-4281	3023	3560
8. IMF (net)	0	0	0	0	0
9. NR deposits (net)	-108	341	881	1675	1231
10. Rupee debt service	-142	0	-285	-145	-67
11. Foreign investment (net)	2170	5522	4160	6370	1200
of which :					
(i) FDI (net)	1198	1086	1412	2037	1727
(ii) FII's	544	3985	1636	3762	-1787
(iii) Euro equities & others	428	451	1112	571	1260
12. Other flows (net)	1580	2497	-1798	-83	6530
<b>13. Capital account total (net)</b>	<b>4803</b>	<b>10301</b>	<b>-846</b>	<b>11406</b>	<b>12477</b>
<b>14. Reserve use (- increase)</b>	<b>-1247</b>	<b>-5256</b>	<b>4672</b>	<b>-13221</b>	<b>-6378</b>

*P : Preliminary**PR: Partially revised;***Source : RBI Mumbai**

## MONETARY SURVEY

Items	Outstanding balances( Rs. crore)				per cent variations			
	2004-05	2005-06	25-Nov.-2005	24-Nov.-2006	2004-05	2005-06	Year-on-year	
					Full Year	25-Nov. 2005	24-Nov. 2006	
I. Broad money (M3)	2251449	2729536	2504891	2990696	12.3	17.0	17.3	19.4
<b>Components of M3</b>								
1) Currency with public	355863	413143	387747	453090	13.0	16.4	13.3	16.9
2) Aggregate deposits with banks	1889108	2309514	2112314	2531854	12.1	17.1	18.1	19.9
3) Other deposits with Reserve Banks	6478	6879	4830	5752	26.5	8.9	9.7	19.1
<b>Sources of M3</b>								
II. Net bank credit to government (1+2)	756766	769092	773517	806222	1.9	2.7	2.5	4.2
1) RBI credit to government	-17975	8136	-7872	3426	-	-	-	-
2) Other bank credit to government	774741	760956	781389	802796	11.0	-2.0	6.1	2.7
III. Bank credit to commercial sector (1+2)	1280249	1690961	1490574	1876980	26.0	27.0	26.3	25.9
1) RBI credit to commercial sector	1390	1387	1387	1384	-32.6	-0.2	-26.6	-0.2
2) Other bank credit to commercial sector	1278859	1689574	1489187	1875596	26.1	27.0	26.4	25.9
IV. Net foreign exchange assets of the banking sector	649255	726194	681451	811872	23.3	12.1	12.9	19.1
V. Other items (net)	395201	456712	440651	504378	41.2	15.6	9.3	14.5
<b>Memorandum items</b>								
1. NDA	1684763	2003341	1823440	2178824	13.9	18.9	19.1	19.5
2. GDP at current market prices	3121414	3531451	-	-	13.1	13.1	-	-
3. Reserve money	489135	573066	523615	615129	12.1	17.2	14.9	17.5
4. Money multiplier	4.77	4.76	4.78	4.86	-	-	-	-
5. Velocity of money	1.47	1.43	-	-	-	-	-	-
6. Total flow of funds to commercial sector#	1205786	1545850	1344796	1726186	34.9	28.2	27.3	28.4

**Notes:**

# Includes scheduled commercial banks' non-food credit and investments in shares, debentures, bonds, commercial papers etc.

Financial year variation during 2006-07 so far is worked out from March 31, 2006, whereas the corresponding financial year variation during 2005-06 is worked out from April 1, 2005.

## TRENDS IN GROWTH RATES OF INFRASTRUCTURE SECTORS

(Per cent)

Industry	Weight	April-September					
		2002-03	2003-04	2004-05	2005-06	2005-06	2006-07
<b>I. Core infrastructure industries</b>							
I Electricity generation	10.2	3.2	5.1	5.2	5.1	4.7	6.7
ii Coal	3.2	4.6	5.1	6.4	6.4	6.0	5.3
iii Steel	5.1	7.3	9.8	8.4	8	13.7	7.2
iv Crude oil	4.2	3.4	0.7	1.8	-5.3	-5.0	4.1
v Refinery throughput	2	4.9	8.2	4.3	2.1	-0.7	12.3
vi Cement	2	8.8	6.1	6.6	12.3	11.4	10.0
<b>Average growth</b>		5	6.1	5.8	5.3	6.1	7.3
<b>II. Transport and Communications</b>							
1. Cargo handled at major ports		9.0	10.0	11.3	10.3	15.0	6.1
2. Railway revenue earning freight traffic		5.3	7.5	8.1	10.7	10.1	9.9
3. Civil Aviation							
a. Export cargo handled		13.3	1.0	12.4	7.3	17.2	-1.7
b. Import cargo handled		18.6	13.4	24.2	15.8	11.6	21.0
c. Passengers handled at International Terminals		4.8	6.5	14.0	12.8	12.7	12.5
d. Passengers handled at Domestic Terminals		9.6	13.1	23.6	27.1	21.7	40.2
4. Telecommunications							
a. Cellular Mobile Phones		-	115.0	10.4	89.4	32.8	121.5

**Source:** 1. Ministry of Commerce & Industry.  
2. Ministry of Statistics & Programme Implementation.

## ACCOUNTS AT A GLANCE

	Budget Estimates 2006-07	ACTUALS		Percentage to BE		
		Upto 09/2006	COPPY	Upto 09/2006	COPPY	5 Years Moving average
		Rs. in crore				
<b>1 Revenue Receipts</b>	<b>4,03,465</b>	<b>1,61,406</b>	<b>1,22,845</b>	<b>40.00%</b>	<b>35.00%</b>	<b>35.60%</b>
2 Tax Revenue (Net)	3,27,205	1,29,986	96,249	39.70%	35.20%	33.90%
3 Non-Tax Revenue	76,260	31,420	26,596	41.20%	34.20%	40.00%
<b>4 Capital Receipts (5+6+7)</b>	<b>1,60,526</b>	<b>90,538</b>	<b>88,138</b>	<b>56.40%</b>	<b>54.00%</b>	<b>52.40%</b>
<b>Non Debt Capital Receipts</b>	<b>11,840</b>	<b>4,077</b>	<b>4,295</b>	<b>34.40%</b>	<b>35.80%</b>	<b>72.20%</b>
5 Recovery of Loans	8,000	4,077	4,284	51.00%	35.70%	101.40%
6 Other Receipts	3,840	0	11	0.00%		7.70%
<b>7 Borrowings and other liabilities</b>	<b>1,48,686</b>	<b>86,461</b>	<b>83,843</b>	<b>58.20%</b>	<b>55.50%</b>	<b>47.70%</b>
<b>8 Total Receipts (1+4)</b>	<b>5,63,991</b>	<b>2,51,944</b>	<b>2,10,983</b>	<b>44.70%</b>	<b>41.00%</b>	<b>41.90%</b>
<b>9 Non-Plan Expenditure</b>	<b>3,91,263</b>	<b>1,83,065</b>	<b>1,51,577</b>	<b>46.80%</b>	<b>40.90%</b>	<b>43.30%</b>
10 On Revenue Account	3,44,430	1,72,926	1,41,819	50.20%	42.90%	42.90%
of which						
11 Interest Payments	1,39,823	64,003	53,940	45.80%	40.30%	41.10%
12 On Capital Account	46,833	10,139	9,758	21.60%	24.20%	49.90%
<b>13 Plan Expenditure</b>	<b>1,72,728</b>	<b>68,879</b>	<b>59,406</b>	<b>39.90%</b>	<b>41.40%</b>	<b>38.40%</b>
14 On Revenue Account	1,43,762	57,757	46,123	40.20%	39.80%	38.40%
15 On Capital Account	28,966	11,122	13,283	38.40%	48.30%	39.20%
<b>16 Total Expenditure (9+13)</b>	<b>5,63,991</b>	<b>2,51,944</b>	<b>2,10,983</b>	<b>44.70%</b>	<b>41.00%</b>	<b>41.90%</b>
17 Revenue Expenditure (10+14)	4,88,192	2,30,683	1,87,942	47.30%	42.10%	41.90%
<b>18 Capital Expenditure (12+15)</b>	<b>75,799</b>	<b>21,261</b>	<b>23,041</b>	<b>28.00%</b>	<b>34.00%</b>	<b>42.50%</b>
<b>19 Revenue Deficit (17-1)</b>	<b>84,727</b>	<b>69,277</b>	<b>65,097</b>	<b>81.80%</b>	<b>68.30%</b>	<b>62.10%</b>
<b>20 Fiscal Deficit {16 – (1+5+6)}</b>	<b>1,48,686</b>	<b>86,461</b>	<b>83,843</b>	<b>58.20%</b>	<b>55.50%</b>	<b>47.70%</b>
<b>21 Primary Deficit (20 – 11)</b>	<b>8,863</b>	<b>22,458</b>	<b>29,903</b>	<b>253.40%</b>	<b>173.90%</b>	<b>126.10%</b>

Notes: 1. The figures of Railways have been netted as in Budget.

2. COPPY - Corresponding Period of Previous Year

3. Borrowings and other liabilities (Item 7) do not include net inflow under Market Stabilization Scheme (Rs.13,001.69 crore) which is not utilized to finance the deficit.

## TAX REVENUES

(Rs. in crore or per cent)

Description	2006-07			2005-06		
	BE	Actuals upto 09/2006	%	BE	Actuals upto 09/2005	%
1 Corporation Tax	133010.00	50624.06	38%	110573.00	33925.71	31%
2 Taxes on Income	77409.00	28564.17	37%	66239.00	22203.47	34%
(a) Taxes on Income other than Corporation Tax	73409.00	26198.40	36%	66239.00	21083.47	32%
(b) Securities Transaction Tax	3500.00	2131.96	61%	0.00	1031.29	
(c) Banking Cash Transaction Tax	500.00	233.81	47%	0.00	88.71	
3 Wealth Tax	265.00	69.26	26%	265.00	98.56	37%
4 Customs	77066.00	41516.58	54%	53182.00	31276.33	59%
5 Union Excise Duties	119000.00	43395.87	36%	121533.00	40415.92	33%
6 Service Tax	34500.00	13367.78	39%	17500.00	8159.01	47%
7 Other taxes	903.00	1940.58	215%	732.52	1463.02	200%
(a) Fringe Benefit Tax		1152.91			822.37	
(b) Others	903.00	787.67	87%	732.52	640.65	87%
<b>GROSS TAX REVENUE</b>	<b>442153.00</b>	<b>179478.30</b>	<b>41%</b>	<b>370024.52</b>	<b>137542.02</b>	<b>37%</b>
<i>Of which netted against expenditure (Surcharge for financing National Calamity Contingency Fund)</i>	<i>1500.00</i>	<i>808.82</i>	<i>54%</i>	<i>1600.00</i>	<i>514.32</i>	<i>32%</i>
<b>Balance Gross Tax Revenue</b>	<b>440653.00</b>	<b>178669.48</b>	<b>41%</b>	<b>368424.52</b>	<b>137027.70</b>	<b>37%</b>
Less Assignment to States	113448.00	48683.26	43%	94959.00	40779.09	43%
<b>NET TAX REVENUE</b>	<b>327205.00</b>	<b>129986.22</b>	<b>40%</b>	<b>273465.52</b>	<b>96248.61</b>	<b>35%</b>



## NON-TAX REVENUE

(Rs. in crore or per cent)

Description	2006-07			2005-06		
	BE	Actuals upto 09/2006	%	BE	Actuals upto 09/2005	%
<b>A. Interest receipts</b>	25263.16	7686.57	30%	29000.37	14776.92	51%
<i>Less - Receipts incidental to Market Borrowing taken in reduction of cost of borrowing</i>	<i>6000.00</i>	<i>1389.93</i>	<i>23%</i>	<i>3500.00</i>	<i>5409.37</i>	<i>155%</i>
<b>Net Interest Receipts</b>	<b>19263.16</b>	<b>6296.64</b>	<b>33%</b>	<b>25500.37</b>	<b>9367.55</b>	<b>37%</b>
<b>B. Dividends and Profits</b>	<b>27500.00</b>	<b>14217.60</b>	<b>52%</b>	<b>23500.00</b>	<b>7574.42</b>	<b>32%</b>
<b>C. Non-Tax Revenue of U.T.s</b>	<b>809.68</b>	<b>323.27</b>	<b>40%</b>	<b>729.17</b>	<b>282.56</b>	<b>39%</b>
<b>D. Other Non-Tax Revenue</b>						
<i>Fiscal Services</i>	<i>151.50</i>	<i>40.69</i>	<i>27%</i>	<i>1347.43</i>	<i>1019.11</i>	<i>76%</i>
<i>Other General Services</i>	<i>11062.65</i>	<i>3897.36</i>	<i>35%</i>	<i>11232.61</i>	<i>3311.63</i>	<i>29%</i>
<i>(II) Other Receipts utilised to write-off loans/interest</i>	<i>0.01</i>	<i>0.00</i>		<i>107.78</i>	<i>0.00</i>	
<i>Net - Other General Services</i>	<i>11062.64</i>	<i>3897.36</i>	<i>35%</i>	<i>11124.83</i>	<i>3311.63</i>	<i>30%</i>
<i>Social Services</i>	<i>1025.12</i>	<i>261.75</i>	<i>26%</i>	<i>337.40</i>	<i>197.54</i>	<i>59%</i>
<i>Economic Services</i>	<i>28436.50</i>	<i>10100.80</i>	<i>36%</i>	<i>27325.33</i>	<i>8580.80</i>	<i>31%</i>
<i>Less - (I) Other Receipts utilised to write-off loans</i>				<i>100.00</i>		
<i>Net Economic Services</i>	<i>28436.50</i>	<i>10100.80</i>	<i>36%</i>	<i>27225.33</i>	<i>8580.80</i>	<i>32%</i>
<i>Grants-in-Aid and Contributions</i>	<i>2616.04</i>	<i>527.24</i>	<i>20%</i>	<i>3217.91</i>	<i>824.90</i>	<i>26%</i>
<b>Total Other Non-Tax Revenue</b>	<b>43291.80</b>	<b>14827.84</b>	<b>34%</b>	<b>43252.90</b>	<b>13933.98</b>	<b>32%</b>
<i>Less : Commercial Departments</i>	<i>14604.14</i>	<i>4245.27</i>	<i>29%</i>	<i>15248.44</i>	<i>4561.99</i>	<i>30%</i>
<b>Net Other Non-Tax Revenue</b>	<b>28687.66</b>	<b>10582.57</b>	<b>37%</b>	<b>28004.46</b>	<b>9371.99</b>	<b>33%</b>
<b>Net Non-Tax Revenue (A+B+C+D)</b>	<b>76260.50</b>	<b>31420.08</b>	<b>41%</b>	<b>77734.00</b>	<b>26596.52</b>	<b>34%</b>

## CAPITAL RECEIPTS

(Rs. in crore or per cent)

Description	2006-07			2005-06		
	BE	Actuals upto 09/2006	%	BE	Actuals upto 09/2005	%
1 (a) Market Loans including						
Short term borrowings	113667.64	64664.73	57%	110291.29	64370.30	58%
(b) Receipt under MSS (Net)	46000.00	13001.69	28%	15019.00	3116.41	21%
(c) Treasury Bills		4699.66			21442.68	
2 Securities against Small Savings	3010.00	-393.98	-13%	3010.00	-173.86	-6%
3 External Assistance Including Revolving Fund						
Gross Borrowings	16064.75	6394.07	40%	17184.48	4879.96	28%
Less Repayments	7740.83	3961.09	51%	7528.64	3364.62	45%
Net Borrowings	8323.92	2432.98	29%	9655.84	1515.34	16%
<b>Non-Debt Capital Receipts (4&amp;5)</b>						
4 Recoveries of Loans and Advances						
Gross Recoveries	9530.00	4342.74	46%	13525.00	4775.56	35%
Less Short Term Loans and Advances	1530.00	266.04	17%	1525.00	491.49	32%
Net Recoveries of Loans & Advances	8000.00	4076.70	51%	12000.00	4284.07	36%
5 Miscellaneous Capital Receipts						
(i) Disinvestment of Govt.'s Equity Holdings	3840.00	0.00			0.00	
(ii) Issue of Bonus Shares		0.00			0.00	
(iii) Other Misc. Receipts		0.00			10.95	
6 National Small Savings Fund	648.47	2380.66	367%	3722.77	-12169.95	-327%
(a) Small Savings, Public Provident Funds	90400.00	31730.67	35%	93800.00	43618.07	47%
(b) Investment in Securities	-86500.00	-36003.77	42%	-90000.00	-54091.89	60%
(c) Income & Expenditure of NSSF	-3251.53	6653.76	-205%	-77.23	-1696.13	2196%
7 Deposit Scheme for Retiring employees	-500.00	-220.47	44%	-600.00	-224.74	37%
8 State Provident Funds	6000.00	470.89	8%	5000.00	865.88	17%
9 Special Deposits of Non-Govt. Provident Funds, LIC, GIC, etc.	0.00	-228.25		0.00	28.80	
10 Other Capital Receipts	17535.60	-4115.37	-23%	16924.67	14536.44	86%
11 Suspense & Remittance		-7702.97			-7908.21	
12 Ways & Means Advances		0.00			0.00	
13 Investment of Surplus Cash		0.00			0.00	
14 Decrease in Cash Balance (Including difference between RBI & A/C)	0.00	24473.34		3139.51	1560.60	50%
15 Cash held under MSS	-46000.00	-13001.69	28%	-15019.00	-3116.41	21%
<b>TOTAL</b>	<b>160525.63</b>	<b>90537.92</b>	<b>56%</b>	<b>163144.08</b>	<b>88138.30</b>	<b>54%</b>

## PLAN EXPENDITURE

(Rs. in crore or per cent)

Grant No.	Ministry/Department	2006-07			2005-06		
		BE	Actuals upto 09/2006	%	BE	Actuals upto 09/2005	%
	<b>MINISTRY OF AGRICULTURE</b>	<b>6028.40</b>	<b>2708.52</b>	<b>45%</b>	<b>4170.00</b>	<b>2061.46</b>	<b>49%</b>
1	Department of Agriculture and Cooperation	4840.00	2520.55	52%	4209.32	1859.11	44%
2	Department of Agricultural Research and Education	1350.00	762.77	57%	1150.00	602.38	52%
3	Department of Animal Husbandry, Dairying and Fisheries	777.00	231.68	30%	669.08	247.03	37%
	<b>MINISTRY OF AGRO AND RURAL INDUSTRIES</b>	<b>967.00</b>	<b>436.44</b>	<b>45%</b>	<b>859.00</b>	<b>395.89</b>	<b>46%</b>
4	Ministry of Agro and Rural Industries	967.00	436.44	45%	859.00	395.89	46%
	<b>DEPARTMENT OF ATOMIC ENERGY</b>	<b>4124.12</b>	<b>991.31</b>	<b>24%</b>	<b>3931.39</b>	<b>1114.51</b>	<b>28%</b>
5	Atomic Energy	1621.02	553.02	34%	1487.43	459.54	31%
6	Nuclear Power Schemes	2503.10	438.29	18%	2443.96	654.97	27%
	<b>MINISTRY OF CHEMICALS AND FERTILISERS</b>	<b>229.81</b>	<b>275.00</b>	<b>120%</b>	<b>194.82</b>	<b>46.11</b>	<b>24%</b>
7	Department of Chemicals and Petro-Chemicals	131.00	274.75	210%	83.00	5.59	7%
8	Department of Fertilisers	98.81	0.25	0%	111.82	40.52	36%
	<b>MINISTRY OF CIVIL AVIATION</b>	<b>130.00</b>	<b>0.28</b>	<b>0%</b>	<b>370.85</b>	<b>1.01</b>	<b>0%</b>
9	Ministry of Civil Aviation	130.00	0.28	0%	370.85	1.01	0%
	<b>MINISTRY OF COAL</b>	<b>168.71</b>	<b>0.08</b>	<b>0%</b>	<b>152.05</b>	<b>30.72</b>	<b>20%</b>
10	Ministry of Coal	168.71	0.08	0%	152.05	30.72	20%
	<b>MINISTRY OF COMMERCE AND INDUSTRY</b>	<b>1923.29</b>	<b>649.21</b>	<b>34%</b>	<b>1900.00</b>	<b>776.65</b>	<b>41%</b>
11	Department of Commerce	1423.29	537.86	38%	1350.00	698.80	52%
12	Department of Industrial Policy & Promotion	500.00	111.35	22%	550.00	77.85	14%
	<b>MINISTRY OF COMMUNICATIONS AND INFORMATION TECHNOLOGY</b>	<b>1722.61</b>	<b>339.88</b>	<b>20%</b>	<b>1441.91</b>	<b>502.51</b>	<b>35%</b>
13	Department of Posts	419.00	50.70	12%	354.00	129.20	36%
14	Department of Telecommunications	213.61	52.54	25%	158.61	21.17	13%
15	Department of Information Technology	1090.00	236.64	22%	929.30	352.14	38%
	<b>MINISTRY OF CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION</b>	<b>258.80</b>	<b>38.31</b>	<b>15%</b>	<b>201.81</b>	<b>27.72</b>	<b>14%</b>
17	Department of Consumer Affairs	163.00	30.84	19%	107.94	22.14	21%
18	Department of Food and Public Distribution	95.80	7.47	8%	93.87	5.58	6%
	<b>MINISTRY OF CULTURE</b>	<b>470.00</b>	<b>120.05</b>	<b>26%</b>	<b>551.12</b>	<b>127.76</b>	<b>23%</b>
19	Ministry of Culture	470.00	120.05	26%	551.12	127.76	23%
	<b>MINISTRY OF DEVELOPMENT OF NORTH EASTERN REGION</b>	<b>1350.00</b>	<b>671.56</b>	<b>50%</b>	<b>1086.25</b>	<b>389.92</b>	<b>36%</b>
28	Ministry of Development of North Eastern Region	1350.00	671.56	50%	1086.25	389.92	36%

(Rs. crore)

Grant No.	Ministry/Department	2006-07			2005-06		
		BE	Actuals upto 09/2006	%	BE	Actuals upto 09/2005	%
	<b>MINISTRY OF ENVIRONMENT AND FORESTS</b>	<b>1338.93</b>	<b>404.65</b>	<b>30%</b>	<b>1234.91</b>	<b>388.26</b>	<b>31%</b>
29	Ministry of Environment and Forests	1338.93	404.65	30%	1234.91	388.26	31%
	<b>MINISTRY OF EXTERNAL AFFAIRS</b>	<b>222.30</b>	<b>0.00</b>	<b>0%</b>	<b>765.00</b>	<b>179.00</b>	<b>23%</b>
30	Ministry of External Affairs	222.30	0.00	0%	765.00	179.00	23%
	<b>MINISTRY OF FINANCE</b>	<b>30813.77</b>	<b>14826.94</b>	<b>48%</b>	<b>28742.45</b>	<b>10603.46</b>	<b>37%</b>
31	Department of Economic Affairs	1214.86	0.07	0%	2215.81	0.01	0%
33	Payments to Financial Institutions	36.00	0.00	0%	25.81	0.00	0%
35	Transfers to State and UT Governments	29562.28	14826.55	50%	26500.33	10603.18	40%
38	Department of Expenditure	0.63	0.32	51%	0.50	0.27	54%
	<b>MINISTRY OF FOOD PROCESSING INDUSTRIES</b>	<b>166.90</b>	<b>49.84</b>	<b>30%</b>	<b>180.00</b>	<b>42.55</b>	<b>24%</b>
45	Ministry of Food Processing Industries	166.90	49.84	30%	180.00	42.55	24%
	<b>MINISTRY OF HEALTH AND FAMILY WELFARE</b>	<b>11671.22</b>	<b>4091.33</b>	<b>35%</b>	<b>9650.77</b>	<b>3837.54</b>	<b>40%</b>
46	Department of Health and Family Welfare	11289.62	3967.83	35%	9305.77	3701.41	40%
47	Department of Ayurveda, Yoga & Naturopathy, Unani, Siddha and Homoeopathy (Ayush)	381.60	123.50	32%	345.00	136.13	39%
	<b>MINISTRY OF HEAVY INDUSTRIES AND PUBLIC ENTERPRISES</b>	<b>481.50</b>	<b>24.82</b>	<b>5%</b>	<b>436.00</b>	<b>128.68</b>	<b>30%</b>
48	Department of Heavy Industry	450.00	9.16	2%	406.00	118.01	29%
49	Department of Public Enterprises	31.50	15.66	50%	30.00	10.67	36%
	<b>MINISTRY OF HOME AFFAIRS</b>	<b>1122.22</b>	<b>166.62</b>	<b>15%</b>	<b>709.05</b>	<b>172.10</b>	<b>24%</b>
50	Ministry of Home Affairs	24.50	8.03	33%	21.00	6.67	32%
52	Police	312.82	100.96	32%	272.00	122.53	45%
53	Other Expenditure of the Ministry of Home Affairs	28.53	0.39	1%	7.00	1.51	22%
54	Transfers to UT Govts.	756.37	57.24	8%	409.05	41.39	10%
	<b>MINISTRY OF HUMAN RESOURCE DEVELOPMENT</b>	<b>25539.85</b>	<b>10399.44</b>	<b>41%</b>	<b>19117.55</b>	<b>7811.39</b>	<b>41%</b>
55	Department of Elementary Education and Literacy	17128	6563.69	38%	12531.76	5615.53	45%
56	Department of Secondary Education and Higher Education	3616.00	1565.41	43%	2710.50	1061.97	39%
57	Department of Women and Child Development	4795.85	2270.34	47%	3875.29	1133.89	29%
	<b>MINISTRY OF INFORMATION AND BROADCASTING</b>	<b>538.00</b>	<b>145.96</b>	<b>27%</b>	<b>528.00</b>	<b>182.99</b>	<b>35%</b>
58	Ministry of Information and Broadcasting	538.00	145.96	27%	528.00	182.99	35%
	<b>MINISTRY OF LABOUR AND EMPLOYMENT</b>	<b>311.36</b>	<b>107.53</b>	<b>35%</b>	<b>219.48</b>	<b>82.40</b>	<b>38%</b>
59	Ministry of Labour and Employment	311.36	107.53	35%	219.48	82.40	38%

(Rs. crore)

Grant No.	Ministry/Department	2006-07			2005-06		
		BE	Actuals upto 09/2006	%	BE	Actuals upto 09/2005	%
61	<b>MINISTRY OF LAW AND JUSTICE</b> Law and Justice	<b>203.95</b> 203.95	<b>0.00</b> 0.00	<b>0%</b> 0%	<b>220.00</b> 220.00	<b>0.08</b> 0.08	<b>0%</b> 0%
63	<b>MINISTRY OF MINES</b> Ministry of Mines	<b>241.00</b> 241.00	<b>72.25</b> 72.25	<b>30%</b> 30%	<b>220.88</b> 220.88	<b>62.35</b> 62.35	<b>28%</b> 28%
64	<b>MINISTRY OF NON-CONVENTIONAL ENERGY SOURCES</b> Ministry of Non-Conventional Energy Sources	<b>597.00</b> 597.00	<b>74.68</b> 74.68	<b>13%</b> 13%	<b>599.75</b> 599.75	<b>41.16</b> 41.16	<b>7%</b> 7%
66	<b>DEPARTMENT OF OCEAN DEVELOPMENT</b> Department of Ocean Development	<b>438.00</b> 438.00	<b>84.23</b> 84.23	<b>19%</b> 19%	<b>340.00</b> 340.00	<b>35.69</b> 35.69	<b>10%</b> 10%
67	<b>MINISTRY OF PANCHAYATI RAJ</b> Ministry of Panchayati Raj	<b>3825.00</b> 3825.00	<b>234.57</b> 234.57	<b>6%</b> 6%	<b>50.00</b> 50.00	<b>6.74</b> 6.74	<b>13%</b> 13%
69	<b>MINISTRY OF PERSONNEL, PUBLIC GRIEVANCES &amp; PENSIONS</b> Ministry of Personnel, Public Grievances and Pensions	<b>95.30</b> 95.30	<b>14.67</b> 14.67	<b>15%</b> 15%	<b>75.00</b> 75.00	<b>13.32</b> 13.32	<b>18%</b> 18%
71	<b>MINISTRY OF PLANNING</b> Ministry of Planning	<b>89.76</b> 89.76	<b>16.82</b> 16.82	<b>19%</b> 19%	<b>75.00</b> 75.00	<b>26.57</b> 26.57	<b>35%</b> 35%
72	<b>MINISTRY OF POWER</b> Ministry of Power	<b>5500.00</b> 5500.00	<b>1296.07</b> 1296.07	<b>24%</b> 24%	<b>3000.00</b> 3000.00	<b>636.40</b> 636.40	<b>21%</b> 21%
78	<b>MINISTRY OF RURAL DEVELOPMENT</b> Department of Rural Development	<b>31443.62</b> 24025.62	<b>15507.34</b> 12749.85	<b>49%</b> 53%	<b>24480.00</b> 18334.00	<b>8936.79</b> 6342.44	<b>37%</b> 35%
79	Department of Land Resources	1418.00	704.05	50%	1396.00	680.97	49%
80	Department of Drinking Water Supply	6000.00	2053.44	34%	4750.00	1913.38	40%
81	<b>MINISTRY OF SCIENCE AND TECHNOLOGY</b> Department of Science and Technology	<b>2836.00</b> 1340.00	<b>1182.57</b> 429.66	<b>42%</b> 32%	<b>2531.00</b> 1240.00	<b>1024.09</b> 473.85	<b>40%</b> 38%
82	Department of Scientific and Industrial Research	975.00	476.11	49%	846.00	395.86	47%
83	Department of Bio-Technology	521.00	276.80	53%	445.00	154.38	35%
84	<b>MINISTRY OF SHIPPING, ROAD TRANSPORT AND HIGHWAYS</b> Department of Shipping	<b>13916.16</b> 735.38	<b>4384.33</b> 161.85	<b>32%</b> 22%	<b>12655.36</b> 535.00	<b>10188.47</b> 90.43	<b>81%</b> 17%
85	Department of Road Transport and Highways	13180.78	4222.48	32%	12120.36	10098.04	83%
86	<b>MINISTRY OF SMALL SCALE INDUSTRIES</b> Ministry of Small Scale Industries	<b>466.33</b> 466.33	<b>202.02</b> 202.02	<b>43%</b> 43%	<b>408.91</b> 408.91	<b>130.66</b> 130.66	<b>32%</b> 32%

(Rs. crore)

Grant No.	Ministry/Department	2006-07			2005-06		
		BE	Actuals upto 09/2006	%	BE	Actuals upto 09/2005	%
	<b>MINISTRY OF SOCIAL JUSTICE &amp; EMPOWERMENT</b>	<b>1750.00</b>	<b>593.88</b>	<b>34%</b>	<b>1533.70</b>	<b>792.31</b>	<b>52%</b>
87	Ministry of Social Justice & Empowerment	1750.00	593.88	34%	1533.70	792.31	52%
	<b>DEPARTMENT OF SPACE</b>	<b>3220.00</b>	<b>750.83</b>	<b>23%</b>	<b>2800.00</b>	<b>528.78</b>	<b>19%</b>
88	Department of Space	3220.00	750.83	23%	2800.00	528.78	19%
	<b>MINISTRY OF STATISTICS AND PROGRAMME IMPLEMENTATION</b>	<b>1663.39</b>	<b>715.27</b>	<b>43%</b>	<b>1692.70</b>	<b>810.63</b>	<b>48%</b>
89	Ministry of Statistics and Programme Implementation	1663.39	715.27	43%	1692.70	810.63	48%
	<b>MINISTRY OF STEEL</b>	<b>45.00</b>	<b>7.00</b>	<b>16%</b>	<b>15.00</b>	<b>7.00</b>	<b>47%</b>
90	Ministry of Steel	45.00	7.00	16%	15.00	7.00	47%
	<b>MINISTRY OF TEXTILES</b>	<b>1349.50</b>	<b>571.52</b>	<b>42%</b>	<b>1150.00</b>	<b>587.72</b>	<b>51%</b>
91	Ministry of Textiles	1349.50	571.52	42%	1150.00	587.72	51%
	<b>MINISTRY OF TOURISM</b>	<b>830.00</b>	<b>147.80</b>	<b>18%</b>	<b>786.00</b>	<b>225.48</b>	<b>29%</b>
92	Ministry of Tourism	830.00	147.80	18%	786.00	225.48	29%
	<b>MINISTRY OF TRIBAL AFFAIRS</b>	<b>1656.90</b>	<b>953.62</b>	<b>58%</b>	<b>1498.82</b>	<b>573.70</b>	<b>38%</b>
93	Ministry of Tribal Affairs	1656.90	953.62	58%	1498.82	573.70	38%
	<b>U.T.s WITHOUT LEGISLATURE</b>	<b>1671.96</b>	<b>371.81</b>	<b>22%</b>	<b>903.53</b>	<b>203.41</b>	<b>23%</b>
94	Andaman & Nicobar Islands	1119.07	151.47	14%	498.31	111.12	22%
95	Chandigarh	216.66	112.74	52%	197.96	61.87	31%
96	Dadra & Nagar Haveli	70.42	26.14	37%	65.01	10.33	16%
97	Daman & Diu	64.12	23.48	37%	59.30	16.46	28%
98	Lakshadweep	201.69	57.98	29%	82.95	3.63	4%
	<b>MINISTRY OF URBAN DEVELOPMENT</b>	<b>1849.78</b>	<b>595.74</b>	<b>32%</b>	<b>2080.33</b>	<b>1346.87</b>	<b>65%</b>
99	Department of Urban Development	1716.56	560.81	33%	1976.00	1302.09	66%
100	Public Works	133.22	34.93	26%	104.33	44.78	43%
	<b>MINISTRY OR URBAN EMPLOYMENT AND POVERTY ALLEVIATION</b>	<b>421.67</b>	<b>117.42</b>	<b>28%</b>	<b>500.00</b>	<b>99.84</b>	<b>20%</b>
102	Department of Urban Employment and Poverty Alleviation	421.67	117.42	28%	500.00	99.84	20%
	<b>MINISTRY OF WATER RESOURCES</b>	<b>700.00</b>	<b>165.96</b>	<b>24%</b>	<b>621.00</b>	<b>157.11</b>	<b>25%</b>
103	Ministry of Water Resources	700.00	165.96	24%	621.00	157.11	25%
	<b>MINISTRY OF YOUTH AFFAIRS &amp; SPORTS</b>	<b>600.00</b>	<b>164.15</b>	<b>27%</b>	<b>438.99</b>	<b>161.45</b>	<b>37%</b>
104	Ministry of Youth Affairs and Sports	600.00	164.15	27%	438.99	161.45	37%
	<b>RAILWAYS</b>	<b>6800.14</b>	<b>3400.07</b>	<b>50%</b>	<b>6520.00</b>	<b>3260.00</b>	<b>50%</b>
	Ministry of Railways	6800.14	3400.07	50%	6520.00	3260.00	50%
	<b>GRAND TOTAL</b>	<b>172727.85</b>	<b>68878.87</b>	<b>40%</b>	<b>143496.78</b>	<b>59406.31</b>	<b>41%</b>

**RESOURCES TRANSFERRED TO  
STATE & UT GOVERNMENTS**

(Rs. in crore or per cent)

Description	2006-2007			2005-2006		
	BE	ACTUALS upto 09/2006	%	BE	ACTUALS upto 09/2005	%
<b>1 States' share of Taxes &amp; Duties</b>	<b>113448</b>	<b>48683</b>	<b>43%</b>	<b>94959</b>	<b>40779</b>	<b>43%</b>
<b>2 Non-plan Grants &amp; Loans</b>	<b>35461</b>	<b>17892</b>	<b>50%</b>	<b>34053</b>	<b>12161</b>	<b>36%</b>
Grants	35361	17853	50%	33953	11711	34%
Loans	100	39	39%	100	19	19%
Ways and Means Advances (Net)		0			431	
<b>3 Central Assistance for State &amp; UT Plans</b>	<b>37971</b>	<b>16253</b>	<b>43%</b>	<b>30454</b>	<b>11789</b>	<b>39%</b>
Grants	33971	14055	41%	30454	10654	35%
Loans	4000	2198	55%	0	1135	
<b>4 Assistance for Central &amp; Centrally sponsored Schemes</b>	<b>17089</b>	<b>7884</b>	<b>46%</b>	<b>15750</b>	<b>6939</b>	<b>44%</b>
Grants	16943	7795	46%	15599	6868	44%
Loans	146	89	61%	151	71	47%
<b>5 Total Grants &amp; Loans (2+3+4)</b>	<b>90521</b>	<b>42029</b>	<b>46%</b>	<b>80257</b>	<b>30889</b>	<b>38%</b>
Grants	86275	39703	46%	80006	29233	37%
Loans	4246	2326	55%	251	1656	660%
<b>6 Less : Recovery of Loans &amp; Advances</b>	<b>6762</b>	<b>3238</b>	<b>48%</b>	<b>10045</b>	<b>3630</b>	<b>36%</b>
<b>7 Net Resources transferred to State &amp; UT Governments (1+5-6)</b>	<b>197207</b>	<b>87474</b>	<b>44%</b>	<b>165171</b>	<b>68038</b>	<b>41%</b>
(i) Of Which State Govts.	195521	87218	45%	164025	67812	41%
(ii) Of Which UT. Govts.	1686	256	15%	1146	226	20%

## Outstanding Liabilities of the Central Government

(Rs. Crore)

Year	Internal liabilities (3+4)	Internal debt	Other Internal liabilities	External debt*	Total outstanding liabilities (2+5)	External debt adjusted@	Total outstanding liabilities adjusted@ (2+7)
1	2	3	4	5	6	7	8
1990-91	283033	154004	129029	31525	314558	66314	349347
1991-92	317714	172750	144964	36948	354662	109677	427391
1992-93	359654	199100	160554	42269	401923	120979	480633
1993-94	430623	245712	184911	47345	477968	127798	558421
1994-95	487682	266467	221215	50929	538611	142514	630196
1995-96	554984	307869	247115	51249	606233	148398	703382
1996-97	621438	344476	276962	54238	675676	149564	771002
1997-98	722962	388998	333964	55332	778294	161418	884380
1998-99	834551	459696	374855	57255	891806	177934	1012485
99-2000	962592	714254	248338	58437	1021029	186791	1149383
2000-01	1102596	803698	298898	65945	1168541	189990	1292586
2001-02	1294862	913061	381801	71546	1366408	199868	1494730
2002-03	1499589	1020688	478901	59612	1559201	196043	1695632
2003-04	1690554	1141706	548848	46124	1736678	184177	1874731
2004-05**	1933544	1275971	657573	60878	1994422	191182	2124726
2005-06(RE)**	2126995	1355943	771052	68392	2195387	n.a.	n.a.
2006-07(BE)**	2396846	1522030	874816	76716	2473562	n.a.	n.a.
(As per cent of GDP)							
1990-91	49.8	27.1	22.7	5.5	55.3	11.7	61.4
1991-92	48.6	26.5	22.2	5.7	54.3	16.8	65.4
1992-93	48.1	26.6	21.5	5.6	53.7	16.2	64.2
1993-94	50.1	28.6	21.5	5.5	55.6	14.9	65.0
1994-95	48.2	26.3	21.8	5.0	53.2	14.1	62.2
1995-96	46.7	25.9	20.8	4.3	51.0	12.5	59.2
1996-97	45.4	25.2	20.2	4.0	49.4	10.9	56.4
1997-98	47.5	25.5	21.9	3.6	51.1	10.6	58.1
1998-99	47.9	26.4	21.5	3.3	51.2	10.2	58.2
99-2000	49.1	36.5	12.7	3.0	52.1	9.5	58.7
2000-01	52.3	38.1	14.2	3.1	55.4	9.0	61.3
2001-02	56.8	40.0	16.7	3.1	59.9	8.8	65.5
2002-03	61.2	41.7	19.5	2.4	63.6	8.0	69.2
2003-04	61.2	41.4	19.9	1.7	62.9	6.7	67.9
2004-05**	61.9	40.9	21.1	2.0	63.9	6.1	68.1
2005-06(RE)**	60.2	38.4	21.8	1.9	62.2	n.a.	n.a.
2006-07(BE)**	60.6	38.5	22.1	1.9	62.6	n.a.	n.a.

\* At historical exchange rate .

\*\* Internal debt includes net borrowing of Rs 64,211 crore for 2004-05, Rs 27,230 crore for 2005-06(RE) and Rs.73,230 crore for 2006-07(BE) under Market Stabilisation Scheme.

@ Converted at year end exchange rates. For 1990-91, the rates prevailing at the end of March, 1991; For 1995-96, the rates prevailing at the end of March, 1996 and so on.