CHAPTER – IV

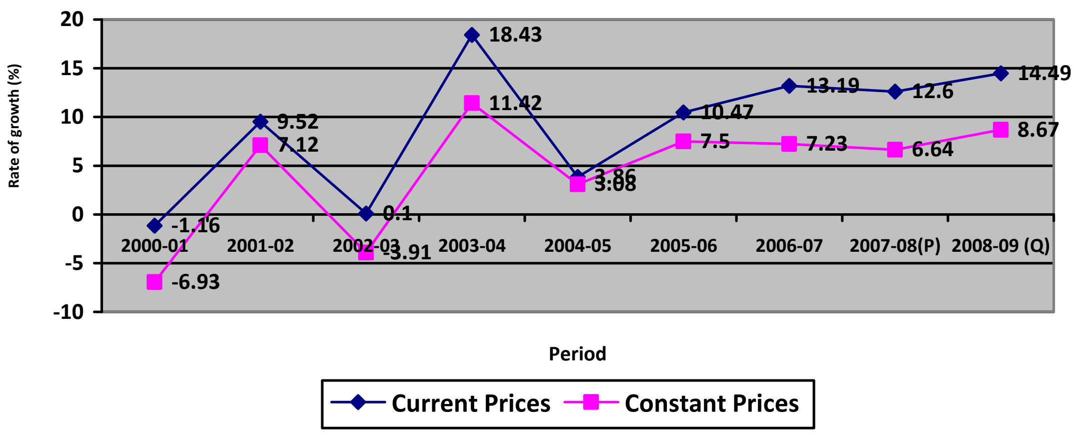
Economic and Financial Status and Resource Mobilization

State of Economy and Growth in Gross/ Net Domestic Product:
The overall economy of the state has registered a moderate improvement during last four years but still it is lower than expected. Latest estimates of Gross State Domestic Product shows that annual growth rate of 7.50 %, 7.23 %, 6.64 % and 8.67 % has been achieved in State's economy during 2005-06, 2006-07, 2007-08 and 2008-09 at constant (1999-00 prices) respectively.

The Gross State Domestic Product (GSDP) of the state, at current prices, has increased from Rs. 117564.67 crore of 2005-06 to Rs. 171547.30 crore in the year 2008-09 thus registering an increase of 45.92 percent while at constant prices this increase is 24.26 percent.

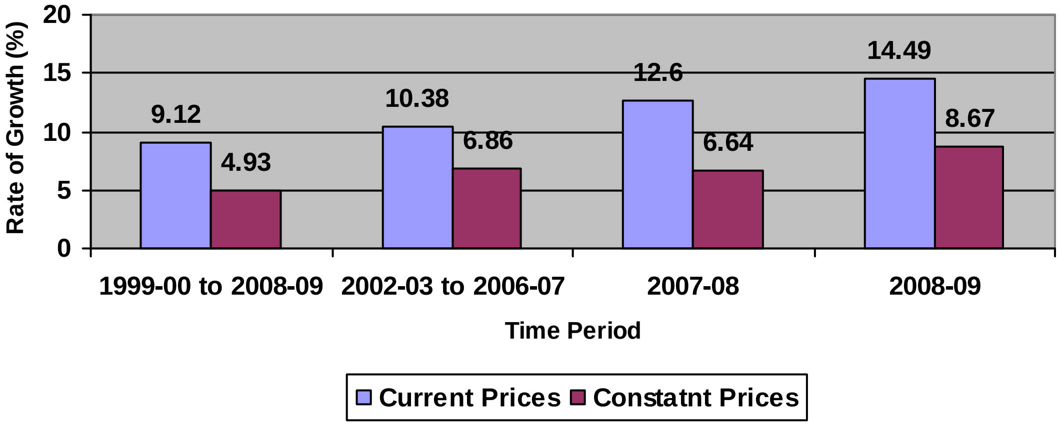
The rate of growth in GSDP from 1999-00 to 2008-09 is depicted in Figure 1. This figure reveals that during years 2000-01, 2002-03 and 2004-05 state economy had considerable fall, which is mainly due to drought condition prevailing in the state.

Figure 1: Growth Rate of GSDP



The state economy has grown at the rate of 4.93% per annum during 1999-2000 to 2008-09 at constant prices while at current price the growth rate is 9.12 % per annum. During Tenth plan period growth rate of economy was 6.86 % and 10.38 % at constant and current prices respectively. However during first year of eleventh plan period growth rate at constant prices have declined marginally while in second year of current plan, growth rate has witnessed significant increase over previous year. At current prices, GSDP has registered significant growth of 12.6 and 14.49 % during 2007-08 and 2008-09, which may be mainly due to increase in inflation/ price rise (Figure 2). The pace of growth rate observed during last two years is close to the target of 7.9 % planned during eleventh plan period. To achieve, the target growth of 7.9 % during eleventh plan period, the pace of growth is to be maintained and special attention is needed in agriculture sector.

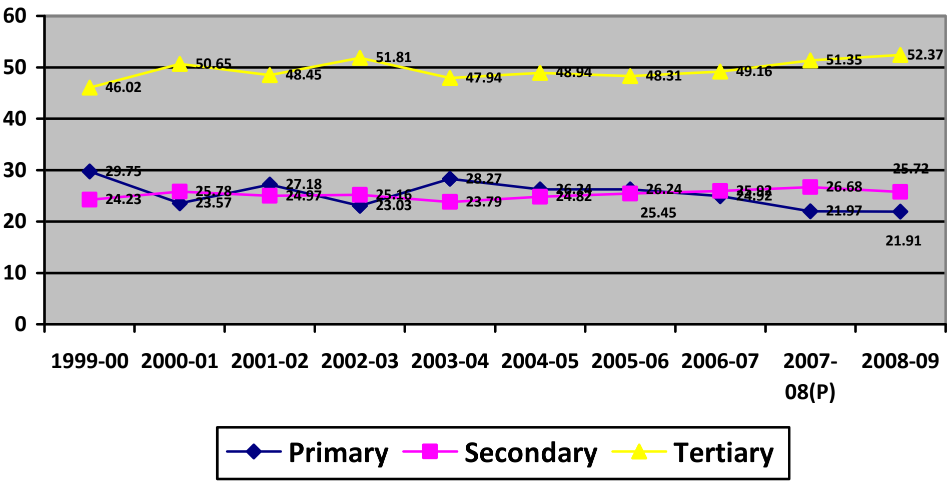
Figure 2: Growth rate in GSDP during different Periods: Madhya Pradesh



Thus to achieve the stipulated growth rate of 7.9 % during XI plan period, state has promised accelerate its efforts in implementation of various projects in time bound manner and adoption of progressive reforms.

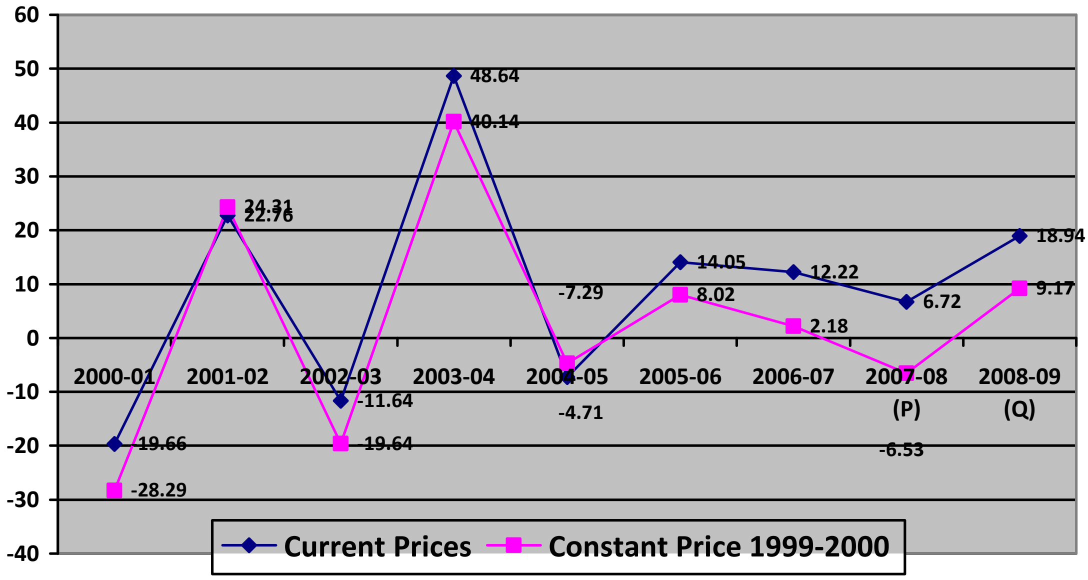
The trend of Sectoral composition of Gross State Domestic Product of Madhya Pradesh as shown in Figure3 shows that marginal significant change has taken place between 1999-2000 and 2007-08 comparing beginning and terminal years. The changes which have been observed in 2000-01 and 2002-03 could not maintained in long run. The trends during 2004-05 to 2007-08 as shown are seems to be range bound. Based on provisional estimate for 2007-08 and quick estimates for 2008-09 shows shift in trend which is similar to what has been observed in 2000-01 and 2002-03. This sectroral composition should be maintained or change in favour of Secondary and Tertiary sectors. It is necessary because, Primary sector which is mainly agriculture, depend upon monsoon and Madhya Pradesh have each alternate year as bad year with respect to monsoon. Agriculture sector cannot be ignored as large size of population is dependent on this sector. An inclusive growth has to be planned and boosting of all sectors with special attention to Secondary and Tertiary sectors which require more investment.

Figure-3: Percentage share in GSDP by Sectors at Constant (1999-00) Prices



Agriculture sector, on which rural population depends, has not been performing in consistent manner due to dependence on monsoon. The figure depicting growth rate in agriculture (including animal husbandry) clearly reveals that alternate year since 2000-01 used to be bad year for the sector. Growth in GDSP from agriculture sector in real terms was 2.95 % per annum during 1999-00 to 2008-09 though at current price the sector grew at the rate of 9.19 % per annum during same period.

Figure 4: Growth Rate in Agriculture (Including animal husbandry)



Primary sector which is dominated by agriculture sector, on which rural population depends, gross product from sector has registered growth of 2.82 % in real terms though at current prices the sector grew at the rate of 9.03 % per annum during 1999-00 to 2008-09 and grew at 7.76 % during 2002-03 to 2006-07 at constant prices and 12.23% at current price, this growth is higher because of 2002-03 was a bad year for agriculture as evident from data shown in table 1.5. Primary sector registered negative growth in 2007-08 and revived thereafter. The low growth rate in primary sector is mainly due to more dependence on monsoon, low level of irrigation facilities and no breakthrough in high yielding variety of seed of main crops of the state.

Gross product of both Secondary and Tertiary sector have grown at the rate of 5.76 % and 5.67 % at constant prices during 1999-00 to 2008-09 respectively. During 2002-03 to 2006-07, both the sectors have registered the higher growth rate of 8.22% and 7.96% respectively, which are higher as compared to 1999-00 to 2008-09 at constant prices. In years 2007-08 and 2008-09 tertiary sectors has performed better in real terms. Sector wise growth of net state domestic product is shown in table 4.1 and year wise details in table 4.2.

Table 1.4: Sector Wise Growth of Net State Domestic Product: Madhya Pradesh

Sector	1999-00 to 2008-09	2002-03 to 2006-07	2007-08	2008-09
At Current Prices				
Primary	8.85	12.19	6.30	19.04
Secondary	9.91	12.58	22.23	10.24
Tertiary	8.05	7.64	12.60	15.01
At constant (1999-2000) Prices				
Primary	2.55	7.83	-6.91	8.46
Secondary	4.84	7.91	11.41	3.89
Tertiary	5.63	5.90	11.56	11.04

TABLE 1.5: Sector Wise Annual Growth of Net State Domestic Product – M.P.

Sector	Growth Rate of Net State Domestic Product Sector wise								
	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08 (P)	08-09 (Q)
At Current Prices									
Primary	-18.96	22.78	-12.28	47.70	-7.71	13.79	11.81	6.30	19.04
Secondary	3.81	2.94	-1.50	10.47	15.74	10.86	12.65	22.23	10.24
Tertiary	6.14	4.99	5.74	7.36	5.08	6.84	13.15	12.60	15.01
At Constant Prices									
Primary	-27.63	24.46	-20.02	38.80	-4.90	7.59	1.49	-6.92	8.46
Secondary	-2.60	0.15	-3.19	1.02	10.21	10.88	7.21	11.41	3.89
Tertiary	2.41	2.01	2.47	2.90	5.51	6.22	9.11	11.56	11.04

The consumption of fixed capital (CFC), which is current replacement cost of fixed capital assets used up during a financial year as a result of normal wear and tear, and foreseen obsolescence. Thus CFC is the difference between GSDP and NSDP. On analysis of data for GSDP and NSDP for manufacturing sector at current prices, it is observed that ratio of CFC to GSDP has increased from 26.62 % in 1999-2000 to 46.35 % in 2008-09 with highest at 48.37 % in 2006-07 for registered units. In case of un-registered manufacturing unit this ratio has increased from 14.14 % in 1999-2000 to 27.16 % in 2008-09. The data shows that at constant prices, ratio of CFC to GSDP has increased more sharply than that at current prices in case of manufacturing units. In case of un-registered manufacturing unit this ratio has increased at slower pace as compare to that of current prices. See Table 4.3.This reveals that increasing consumption of fixed capital in manufacturing units adversely affects NSDP. Thus what measure need to be taken to reduce consumption of fixed capital is to be identified and implemented?

Table 4.3: Gross State Domestic Product of Manufacturing Sector in Madhya Pradesh

(Rs. Crore)

Manufact-uring Sector	Varia-bles	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008 (P)	2008-2009 (Q)
	At current Prices										
Manufacturing Registerd	GSDP	6850	7065	7009	6359	6553	7407	8216	9276	10372	11291
	NSDP	5026	4993	4690	3854	3783	4181	4420	4789	5526	6058
	CFC	1823	2072	2319	2504	2770	3226	3796	4487	4846	5233
	CFC GSDP ratio	26.62	29.33	33.09	39.38	42.28	43.55	46.21	48.37	46.72	46.35
Manufacturing Un-registerd	GSDP	2996	2891	2941	2998	3399	3990	4213	4727	5301	5795
	NSDP	2573	2411	2411	2415	2719	3162	3242	3555	3928	4221
	CFC	424	481	530	584	680	827	971	1172	1373	1574
	CFC GSDP ratio	14.14	16.62	18.01	19.47	20.00	20.74	23.04	24.79	25.90	27.16
	At constant Prices										
Manufacturing Registerd	GSDP	6850	6674	6456	5690	5655	6138	6581	7004	7370	7511
	NSDP	5026	4709	4357	3456	3253	3518	3653	3686	3872	3805
	CFC	1823	1965	2099	2234	2402	2620	2928	3318	3499	3706
	CFC GSDP ratio	26.62	29.44	32.51	39.26	42.48	42.68	44.49	47.38	47.47	49.34
Manufacturing Un-registerd	GSDP	2996	2843	2865	2827	3050	3437	3472	3682	3923	3976
	NSDP	2573	2384	2388	2314	2486	2811	2787	2888	3053	3032
	CFC	424	460	478	513	565	626	686	795	870	945
	CFC GSDP ratio	14.14	16.16	16.68	18.15	18.51	18.22	19.74	21.58	22.17	23.76

Per Capita Income:

The per capita income of the state at constant prices has increased from Rs. 12384 in 1999-2000 to Rs. 14918 in the year 2008-09, while at the national level, it increased from Rs. 15839 to Rs. 25661 during the same period. Per capita income of the state has increased at the rate of 2.68 % per annum as compared to the national average of 5.83 % per annum during 1999-2000 to 2008-09.

Per capita income at current prices has grown at the rate of 6.66% and 10.40 % per annum for Madhya Pradesh and All India level respectively during 1999-2000 to 2008-09. In 1999-00, per capita income in MP was 78 % National per capita income which has come down to 58.13 % in 2008-09. Thus gap is widening every year. All India per capita income has increased by Rs 9821 while MP's per capita income increased by Rs. 2534 during 1999-00 to 2008-09 at constant prices, which is around one fourth of all India increase. Per capita income at Constant and current prices are shown in Table 4.4.

Figure5:Comparative Trends in Per Capita Income on Constant Price

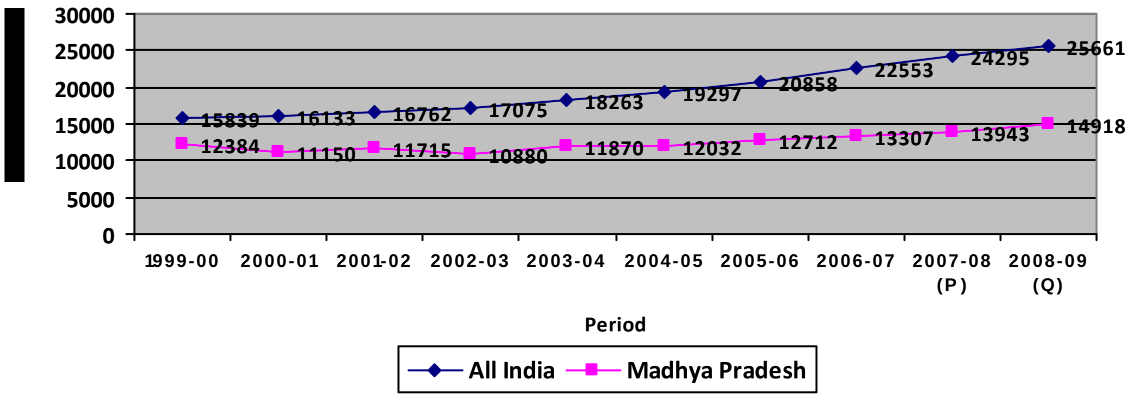


TABLE 4.4: Per Capita Income at Constant (1999-00 Prices)

Region	Per Capita Income (Rs.)									
At current prices										
Year	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 (P)	2008-09 (Q)
All India	15839	16648	17800	18899	20936	22946	25956	29524	33283	38084
MP	12384	11862	12697	12303	14306	14471	15596	17257	19149	21648
At constant prices										
All India	15839	16133	16762	17075	18263	19297	20858	22553	24295	25661
MP	12384	11150	11715	10880	11870	12032	12712	13307	13943	14918

This reflects the growing disparities between the backward regions and the more developed regions, which ought to be a matter of grave concern for the national planners and needs to be addressed urgently.

Growth Targets for 11th Plan:

The Government has targeted an overall growth rate of 7.9 percent in the 11th plan with agriculture, industry and service sector expected to grow at 5, 10 and 8 percent respectively.

Overview of State Finances:

The revenue surplus for 2008-09, as per the accounts, stood at Rs. 4063.33 crore as compared to the revised estimate of Rs. 3170.06 crore. Similarly, as per accounts, the fiscal deficit was Rs. 4433.60 crore against the revised estimate of Rs. 5371.16 crore. The revenue surplus is estimated to increase from Rs.1698.91 crore (BE) to Rs. 5307.55 crore (RE) for year 2009-10. The Revised Estimate of fiscal deficit is Rs. 6593.53 crore against the budget estimate of Rs. 6436.41 crore for year 2009-10 which is within the prescribed limits (4 percent of GSDP) under The Madhya Pradesh Rajkoshiya Uttardayitva Evam Budget Prabandhan Adhiniyam, 2005 for the year 2009-10.

As per accounts for the year 2008-09, the revenue receipts are Rs. 33577.21 crore, which is less than the revised estimates of Rs. 34949.00 crore. The revised estimates of revenue receipts for the year 2009-10 are Rs.43284.39 crore which is 8.32 percent higher than the budget estimate of Rs. 39961.03 crore.

The actual receipt of non tax revenue for 2008-09 was Rs. 3342.86 crores which is 6.28 percent more than the revised estimates of Rs. 3145.31 crores.

Prospects:
The growth rate in register manufacturing has been positive since 2004-05 (except 2005-06) which gives as optimistic indication. The manufacturing sector has attracted new investments and as result there is an expectation of further improvement in the growth of this sector.

Increased investment in public irrigation systems and adequate power supply for irrigation pumps has resulted availability of agriculture based resources. It has improved the prospects of economic growth of the State.

The fiscal deficit as percentage of GSDP has been limited to only 2.73 percent during the year 2008-09 resulting controlled loan burden on the state. As per revised Fiscal Responsibility and Budget Management Act-2009, the fiscal deficit as percentage of GSDP, has been accepted to be 4.0 percent for the year 2009-10. As per revised estimates for year 2009-10 fiscal deficit is estimated to be 3.65 percent of GSDP. In year 2010-11 this is estimated to be 4.00 percent. The fiscal indicators and rolling targets are as follow:

Table 4.4: Fiscal Indicators and Targets

S. No.	Fiscal Indicators	Account 2008-09	Revised Estimates 2009-10	Budget Estimates 2010-11	Targets for 3 years		
					2011-12	2012-13	2013-14
1	**Revenue Surplus as percentage of GSDP**	**2.50**	**2.94**	**0.79**	**1.51**	**1.41**	**1.32**
2	**Fiscal Deficit as percentage of GSDP**	**2.73**	**3.65**	**4.00**	**3.45**	**3.55**	**3.65**
3	**Total Outstanding Liabilities as percentage of GSDP**	**39.47**	**38.78**	**38.78**	**38.39**	**38.13**	**38.01**

The balance between receipts and expenditure in general and revenue receipts and revenue expenditure in particular:

In order to achieve the revenue deficit and fiscal deficit targets envisaged in the Act, it is necessary for the receipts to grow at a faster rate than the total expenditure in general and revenue expenditure in particular. As per the budget estimate of year 2009-10, the tax revenue to GSDP ratio is 15.73 percent and is expected to be 14.84 percent by the year 2010-11. Own tax-GSDP ratio is 9.32 percent which would remain same in year 2010-11. The State's share in Central tax devolutions as a proportion of GSDP for the current year is 6.41 percent and would be 5.52 percent in the year 2010-11. In order to increase the non-tax revenues, user charges would be reviewed from time to time with a view to making them sustainable.

The interest burden as a proportion of total revenue receipts in the budget estimates for 2009-10 was 12.43 percent. The interest burden will reduce to 11.63 percent in budget estimates for 2010-11. This is significantly less than the limit of 15 percent targeted from the sustainability point of view.

The total outstanding liabilities of the state, at the end of 2008-09 are Rs. 64156.28 crore and expected to reach the level of Rs. 69958.06 crore and Rs. 77649.44 crore in March 2010 and 2011 respectively.

As per the revised estimate for 2009-10 the ratio of total liability to GSDP is estimated at 38.78 percent. This ratio is expected to be at the same level in 2010-11 and likely to reduce to 38.01 percent by the year 2013-14.

Use of capital receipts including market borrowings for creating productive assets:
The State has already achieved revenue surplus in the year 2004-05. All capital receipts are being used for capital formation in irrigation, power, roads and bridges as per the priorities of the Government from 2004-05.

The estimated yearly pension liabilities worked out for the next ten years:
On the basis of trend growth rates (i.e. average rate of growth of actual pension payments during the last five years for which data are available) pension liabilities have been estimated till 2019-20. This exercise will help in thr better management of resources.

Fiscal Policy:

Fiscal Policy: Overview

The fiscal policy of the State is aimed at increasing capital expenditure so as to ensure investment in social and physical infrastructure. Thus expanding the productive base of the State's economy and which in turn help to attract more private investments.

Apart from this, revenue expenditure in social sector is also required to be increased to achieve inclusive growth. In order to achieve this objective, it is necessary to increase revenue receipts and decrease of Non-Plan Revenue Expenditure (NPRE).

The revenue receipts of the state are to grow at the rate of 8.72 percent in 2010-11in comparison with the budget estimates of 2009-10. State own tax revenues (SOTR) are estimated to grow at 16.14 percent during the year 2010-11 (BE) as compared to the year 2009-10(BE). While NPRE is expected to grow at 27.47 percent in the year 2009-10(RE) as compared to the year 2008-09, NPRE for the year 2010-11 is estimated to grow at 7.85 percent over 2009-10(BE).The main reason for the increase in the NPRE in 2009-10 is the implementation of 6Th Pay Commission recommendations and additional installment of DA given to the state government employee.

The state revenue surplus is estimated to be Rs. 5307.55 crore in year 2009-10 as compared to the budget estimate of Rs. 1698.91 crore for the year. This is mainly due to adjustment made by showing recovery of outstanding liabilities of power electricity companies as revenue receipts and provisioning of this amount as loan/ equity to these companies. The fiscal deficit is expected to be Rs. 8000.03 crore in the year 2010-11. All fiscal indicators are expected to be within the limits fixed under the Fiscal Responsibility and Budget Management Act-2005 for 2009-10 and 2010-11.

Fiscal policy for the ensuing year:
The present fiscal policy is showing good and positive results. The Government would continue to pursue the same policy in the coming financial years.

Tax Policy:
The Government endeavours to increase the revenue receipts continuously. It is the Government's intention to undertake positive tax initiatives to expand the tax base, to increase tax compliance and make tax administration more efficient. The State Government would be further strengthening information technology initiative in tax collecting departments.

Expenditure Policy:
Outcomes are the measure of success or failure of government expenditures. These can be evaluated on the basis of performance in identified quantifiable deliverables.

Other Important Initiatives:

ECS Initiative:
A new initiative of directly transferring salary of around 2000 employees directly to their bank accounts using electronic clearing system(ECS) has been undertaken. It is proposed that by next financial year all the government payments would be through ECS.

Outcome Budget:
The Outcome Budget has been prepared and presented before the Vidhan Sabha in the year 2006-07. In continuation the Outcome Budget is being presented for the year 2010-11. This will enable assessment of outcomes on the basis of achievements in various quantifiable deliverables.

Gender Budget:
The Government's commitment for enabling women in realizing their full potential is evident by preparation and presentation of gender budget. Through gender budgeting some major schemes that benefit women have been identified. This will help in the better targeting of under these schemes. For the first time, gender budget for 2007-08 was presented for 13 departments. In 2008-09, 21 departments were within this purview and at present 24 departments are within this purview of Gender budget for 2010-11.

Off Budget Estimates:
Transparency in sources of funds, to some extent, ensures fruitful expenditure. To make the system transparent , state government had decided to publish finds released to various state government institutions, directly by Central Government (off budget), This process will continue in the year 2010-11and years to come.

Strategic Priorities for Future:
It has been decided to adopt information technology to attain maximum growth in revenue earnings. The process of computerization will be further extended for stamp and registration, commercial taxes, state exercise and transport department.

There will be an effort to complete infrastructure development projects on priority basis. Apart from this, priority will be given to education, health and food security for improvement in indicators relating to health and productivity of human resources.

The medium term expenditure framework is being prepared for six government departments under DFID supported "Strengthening Performance Management in Government departments" programme. The Medium Term Fiscal Framework is also being developed for the state so that the expenditure of government departments can be better aligned with their priorities and resources can be utilized more effectively. This will also assist in more accurate assessment of the state's fiscal position and thereby formulating the fiscal policies in accordance with state fiscal targets.

The complementary nature of revenue expenditure in social sector is recognized. The education and health sectors require deployment of more teachers, doctors and Para-medical staff. Food security is crucial due to the hogh incidence of poverty and malnutrition in the state. As a result, revenue expenditure may go up.

While finalizing the borrowing programme of the Government, trend in money market would be kept in mind. The basic objective of the borrowing policy is to bring down the average cost of borrowing and to increase its efficiency.

In order to increase the agricultural production, there is need to decrease the cost of agricultural inputs and ensure availability.

Financial Resources for XI Plan and Annual Plan 2010-11

Projections of state resources available to finance XI Five Year Plan and corresponding annual plans assuming 12 % growth in state domestic product during the plan period at 2006-07 prices are presented in Table 4.5. The State finance department has projected its financial resources available for XI plan and corresponding annual plans on the basis of major guidelines given by Planning Commission Government of India.

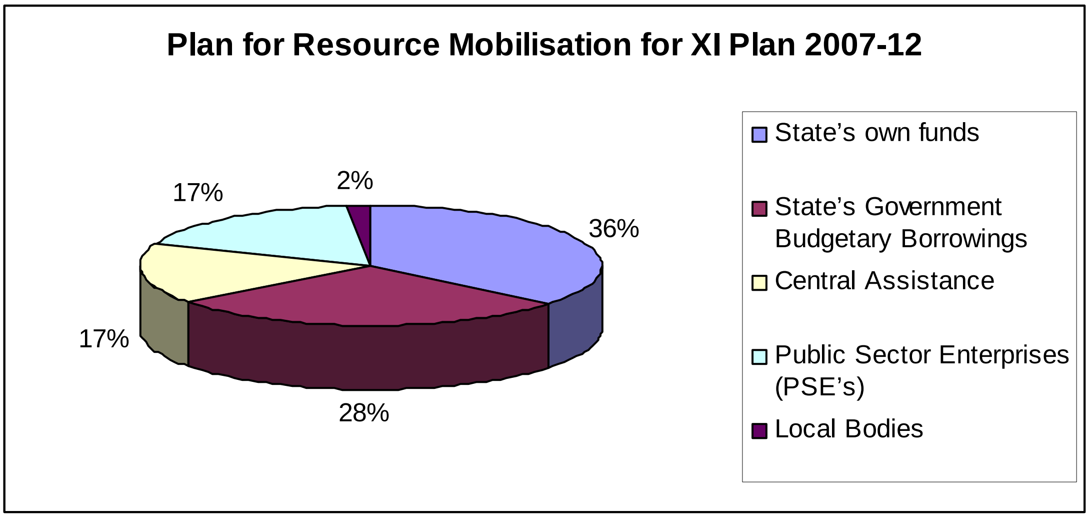
It may be observed during XI plan period state own funds accounts for 36.10 % and State's government budgetary borrowing 28.22 %. Thus state's own resources accounts for 64.32 % of total resources. It is expected that Public Sector enterprises and local bodies will contribute 18.80 % of total resources. Central assistance will constitute 16.88 % of total resources.

Table 4.5: Projection of Resource Mobilization for the XI Five Year Plan 2007-12: (at 2006-07 prices)

S. No		Item	XI Plan 2007-12 (Rs. In Crores)	Percentage share
A		State Government		
	1.	State's own funds	30592.13	36.10
	2.	State's Government Budgetary Borrowings	23916.17	28.22
	3.	State's Own Resources (1+2)	54508.30	64.32
	4.	Central Assistance	14308.24	16.88
		Total State Government Resources (1+2+3)	68816.54	81.20
B		Public Sector Enterprises (PSE's)	14503.00	17.11
C		Local Bodies	1433.49	1.69
D		Aggregate Plan Resources	84753.03	100.00
E		State Plan Outlay	68816.54	81.20

Thus state's XI five year plan outlay is 82.20 % of total aggregate plan resources. Resources to be mobilized by different sources are depicted in Figure 3.

Figure 6: Plan for Resource Mobilization for XI Plan 2007-12



Annual Plan 2010-11

The projections of states resources for the year 2010-11 is estimated at Rs. 18077.94 crores based on assumption that the state economy will grow at rate of 11 % at current prices. For the present plan for 2010-11, Rs. 18014.66 crore has been earmarked.

It shows that state own resources accounts for 29.47 % and State's government budgetary borrowing 41.27(41.42) % of total resources required for Plan outlay 2010-11. Thus state's own resources accounts for 70.89 %. Resources, which will come in form of central assistance accounts 29.11 % of total plan outlay. No contribution to resources by Public Sector enterprises and local bodies is expected during the year. Against projected resources, the size of present proposed annual plan outlay is Rs. 18014.66 crores. Resources to be mobilized by different sources for annual plan 2010-2011 are depicted in Table 4.6 and Figure 4.

Figure 7: Plan for Resource Mobilization for Annual Plan 2010-11

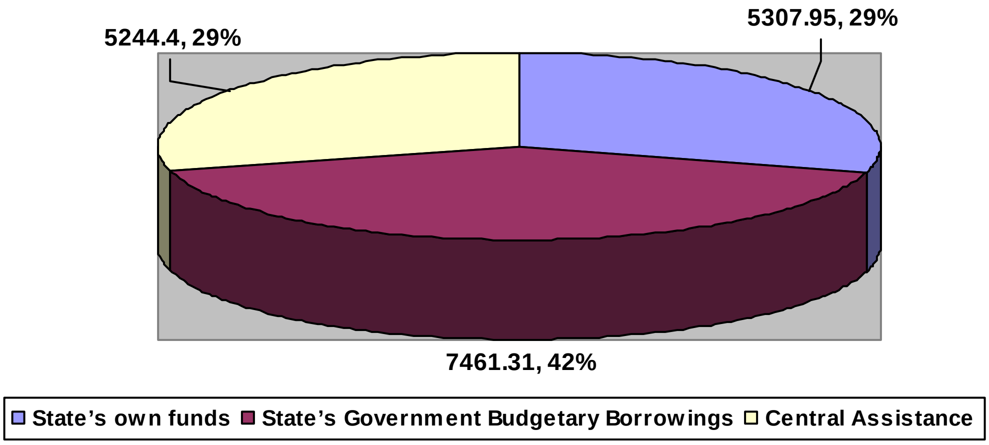


Table 3.3: Projection of Resource Mobilization for Annual Plan 2010-11:

S.No		Item	Annual Plan 2010-11 (Rs. Crores)
1	2	3	4
A		State Government	
	1.	State's own funds	5372.23
		BCR	5081.82
		MCR	290.41
		State Plan Grant (TFC)	0.00
	2.	State's Government Budgetary Borrowings	7461.31
	3.	State's Own Resources (1+2)	12833.54
	4.	Central Assistance	5244.40
		Total State Government Resources (1+2+3)	18077.94
B		Public Sector Enterprises (PSE's)	0.00
C		Local Bodies	0.00
D		Aggregate Plan Resources	18077.94
E		State Plan Outlay	18014.66
		Deterioration/improvement in resources	63.28
		Adjustment of opening Balance	(-)191.02
		Closing Balance	(-)127.74