MEDIUM TERM FISCAL PLAN
FOR KARNATAKA
2006-10

Finance Department

2006

STATEMENT OF COMPLIANCE

- This 2006-10 Medium Term Fiscal Plan is tabled before the Legislature in compliance with Section 3 of the Karnataka Fiscal Responsibility Act (2002).

- Section 3 of the Act requires the MTFP to include the following elements, all of which can be found in the document below:

  (1) The medium term fiscal objectives of the Government (See Chapter 1)

  (2) An evaluation of the performance of the prescribed fiscal indicators in the previous years (See Chapter 1)

  (3) A statement of recent economic trends and prospects for growth and development (See Chapter 2 and Table 2.1)

  (4) The strategic priorities and key fiscal policies of the Government and an evaluation of their consistency (See Chapters 3 to 4)

  (5) Four-year rolling targets (See Chapters 5 and 6)

An assessment of sustainability relating to the revenue deficit and the use of capital receipts for productive purposes (See Chapter 3&4)

MEDIUM TERM FISCAL PLAN 2006-10

1 FISCAL REFORM PATH OF KARNATAKA

1.1 From Fiscal Imbalance to Fiscal Correction

In the Constitutional framework of India the States are entrusted with the responsibility of improving the living conditions of the citizens and fulfillment of this responsibility requires major expenditures by the state. Through a set of fiscal measures and planned approach States discharge their responsibilities. Prior to 1990s the State finances in India were fairly well managed in the sense that there were almost no revenue deficits. The 1990s, however, witnessed a transition in the Indian Economy. The economic liberalization process influenced the whole country, created new opportunities and caused economic growth. The state had to invest both in physical as well as social infrastructure development. Thus, expenditure pressures on the state increased from 1990s onwards.

The six years from 1997-98 to 2002-03 impaired the strength and vitality of finances of all Indian States. There were many causes. The first three years, put finances under pressure because of salary revision coupled with high interest rates. Following the recommendations of the Central Fifth Pay commission most of the States agreed to implement comparable salary scales for their employees. This decision compounded the problem and caused further stress of State finances. In addition, towards the later half of the nineties, some of the highest interest rates were witnessed. In the succeeding three years from 2000-01 to 2003-04 the Global recession and severe drought affecting the whole country crippled our economy. As the expenditure pressure mounted, the States, instead of taking steps to mobilize resources through tax and non-tax reform and to cut down unnecessary expenditure, resorted to borrowings. In addition to the above, in their enthusiasm to impart higher growth the States increased their plan size. Final result was fiscal stress leading to deceleration in economic growth and development.

By 1999, however, the States had identified the problem. Some had even resorted to corrective measures. The Eleventh Finance Commission (EFC) took initiatives to correct the fiscal imbalance. A monitorable fiscal reforms programme aimed at reduction of revenue deficit was formulated. The States were mandated to reduce RD/RR by 5% on a year to year basis during the EFC award period. As recommended by the Eleventh Finance Commission a fund called "Fiscal Reforms Facility" was created by the Central Government. This marks the beginning of State level fiscal reforms in India. The States entered into MOU with Central Government indicating the fiscal reforms path. Some States embarked on the fiscal reforms path and did reform. Karnataka is one of them.

1.2 Fiscal stress in Karnataka:

Karnataka also suffered from fiscal imbalance in 1990s. In 1980s the macroeconomic fundamentals of Karnataka state were indeed strong and the state had witnessed robust growth. But, in 1990s the fiscal health of the state deteriorated. There were many reasons for such a situation;

- The State's own tax revenue came down and the average buoyancy was 0.91 for the decade 1990. Various Tax & Non-tax concessions and exemptions offered to attract investments had not only dampened the revenue growth, but also enabled tax exempt substitutes to out-price and displace tax-paying commodities thereby reducing the tax base in many cases.
- Non Tax revenues in the form of user charges (Water rate, Royalty on minor minerals etc) were not revised for a long time. Recovery atmosphere was very bad. In the result Non-Tax revenues fell from 2.2% of GSDP to 1.7%.

- The devolution of Union Taxes fell as a percentage of GSDP from 2.8% to 2.2 %. The country as a whole was not doing well.
- While growth of resources stagnated, revenue expenditure increased on account of extension of new scales to the State Government employees. By 1999-2000 salary, pension and interest payment preempted 63% of the total revenue receipts of the State Government. Borrowings were used to fund revenue expenditures. Poorly targeted subsidies in conjunction with growing costs of a burgeoning establishment, sunk costs of imprudent investments and non-performing assets, transfer payments in the form of grants-in-aid to various interest groups and time-cost over runs of infrastructure projects created unsustainable deficits on current and capital account.

On account of some of the causes delineated above, the fiscal condition of the State deteriorated. From revenue surplus state of 0.3% of GSDP in 1995-96 the state posted a revenue deficit of 2.4% in 1999-2000. The fiscal deficit, which was 2.9% of GSDP in 1993-94, went up to 3.4% in 1999-2000. Tax-GSDP ratio which was 10% in 1990-91 went down to 7.66% in 1998-99. By 1999-01 the State thus went into a vicious cycle where low resource and high revenue expenditure crowded out development expenditure.

The State took cognizance of the deteriorating fiscal situation. As a first corrective step the Government presented a White Paper on the State's Finances in 2000, which led to resurrection of fiscal health of the state.

1.3 Fiscal Correction in Karnataka:

Concerned by the deteriorating fiscal situation the Government decided to bring out a White paper on State's finances in 2000. This document brought out the fiscal crisis the State was undergoing. Consensus emerged on taking measures to ensure fiscal correction. The State decided to put in place a multiyear – medium term reform framework dovetailed to budgetary practice to reduce revenue deficit and free resources for enhanced priority sector spending. In 2001-02 the fiscal reforms were emphasized and a "Medium Term Fiscal Plan" (MTFP) was presented covering the period 2001-02 to 2004-05.

The State desired to adopt a legislative path to ensure fiscal correction. In 2002 "Karnataka Fiscal responsibility Act (KFRA) was enacted. While the FRA legislations followed in other countries are usually debt centric, Karnataka went beyond a debt-centric view to emphasize fiscal responsibility as a developmental responsibility. The KFRA mandated that the state finances must be viewed from a medium term perspective. It expected ensuring transparency in fiscal operations. The debts and deficits were to be given a consolidated treatment. In order to meet the exceptional circumstances the Act provided certain exceptions. Apart from specifying general principles of financial responsibility, the KFRA laid certain time specific milestones. The most important among them are as follows;

- Revenue deficit to be eliminated by March 2006.
- Fiscal deficit to not more than three percent of the estimated gross state domestic product by 2005-06.

In order to achieve the above milestones, the KFRA expected the state to bring out a Medium Term Fiscal plan, which was to disclose the resources and allocations over a medium term in the context of the last two years expenditure. Provisions were included in the KFRA to enforce fiscal discipline through measures such as

- dovetailing the MTFP to the annual budget
- half-yearly review by the Finance Minister to be placed before legislature
- offsetting of the fiscal impact of new policy decisions or additional expenditures

- disclosure of expenditure information especially on items like salaries, pensions, interests, grant in aid etc.

In order to meet the expenses arising out of emergencies like national security or natural calamity "Emergency Provisions' were incorporated in the Act itself. So for the state has come out with 5 MTFP documents.

In order to reduce the mounting burden of debt and contingent liabilities, the Government had enacted Karnataka Ceiling of Government Guarantees Act 1999 (KCGG Act). This Act mandated that all kinds of guarantees extended by Government of Karnataka must be brought to the knowledge of the legislature annually and further stipulated that the total guarantee extended by government during any year should not exceed 80% the total revenue receipts of the state one year prior to the preceding year. A guarantee commission of 1% was to be levied on the institution seeking government guarantee to be credited to a "Guarantee redemption Fund". The accruals into the Guarantee redemption fund was expected to be used later to meet any contingent liability arising out of failure of an institution in meeting its debt servicing obligations. The KFRA Act stipulated that no government guarantee exceeding the limit stipulated under the KCGG Act was to be extended by the government.

1.4 Revenue and Expenditure reforms since 2002 :

The reforms measures under taken by the Government of Karnataka have been dealt in detail in the MTFP documents for the years 02-03 to 05-06. To state briefly, the state government constituted a "Tax Reforms Commission" which recommended a number of reform measures to simplify tax administration. Sale Tax exemptions were restrained and tax rates were rationalized. The state has switched over to VAT for most of the commodities from 1st of April 2005. This aspect will be dealt later. In State excise taxes, the problem of non duty paid and illicitly produced alcohol was addressed through canalization of Indian made foreign Liquor (IML) and rectified spirit. Manufacturing of arrack was liberalized and at the same time, to ensure quality third party quality check was introduced. In so for as the Stamp duty on registration of properties was concerned, the higher rate of registration was a disincentive for prompt registration of properties. Recognizing this defect in the system, the stamp duty was reduced. Further the leakage of revenue through use of fake stamp papers was blocked through abolition of use of "Stamp Papers" during registration.

As regards Non-tax revenue, reform measure was also under taken by the state. A Revenue Reform Commission (RRC) was constituted to go into the various non tax revenues, basis for their rate, fees, user charges etc. Based on the recommendations of the RRC the non tax revenue of some of the departments was revised suitably.

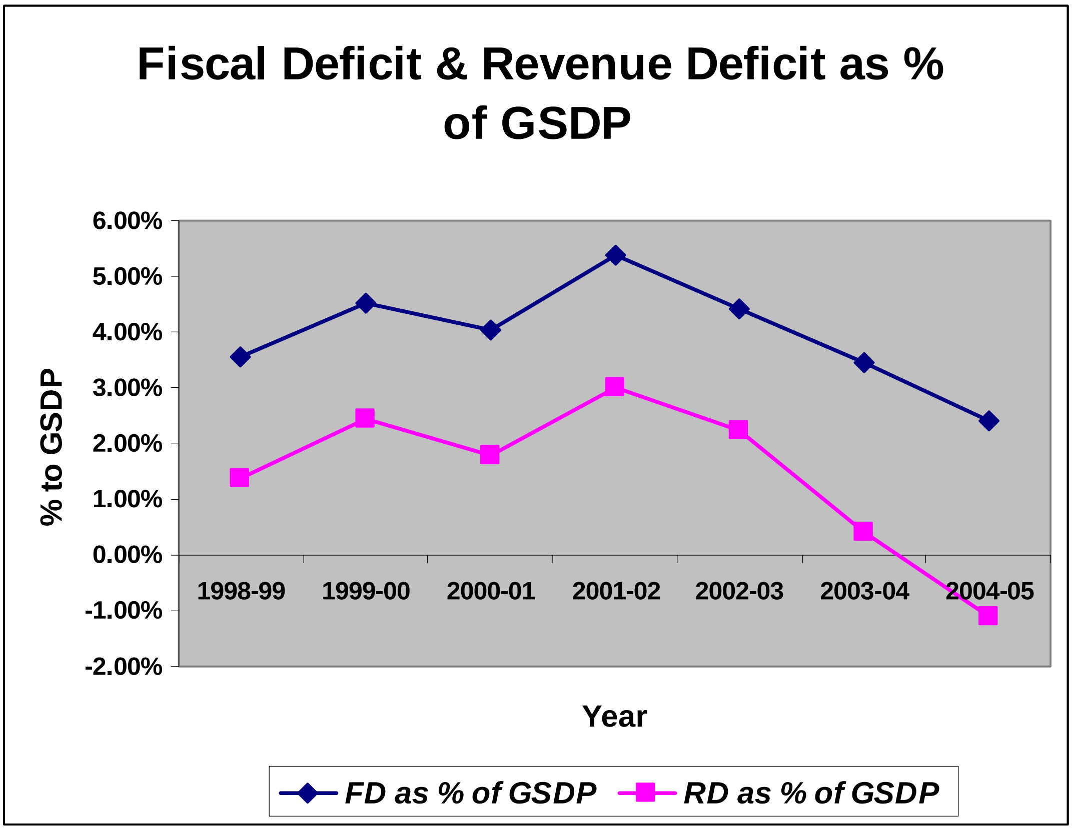
Expenditure reforms were targeted towards reducing the expenditure pressure on account of salary, pension and interest payments. As a first step the "Administrative Reforms Commission" was constituted to look into functioning of various departments. More than 7000 posts which were found redundant were abolished. Except for the sector of Education, Health and Internal security recruitment in other departments were controlled through economy orders. The on-going schemes were reviewed at the highest level and unnecessary and redundant schemes were dropped. In order to keep a control on the flow of funds, the whole treasury system was computerized. With the help of the World Bank a "Public Finance Management and Accountability (PFMA) study was organized and this study brought out various issues relating to budgetary controls on expenditure. The study brought out the measures to be taken for improving the transparency in government transactions and reporting mechanisms. In addition the state has constituted a "Fiscal Policy Analysis Cell" (FPAC) to facilitate the government in dealing with long term issues on resource generation as well expenditure control.

Interest payment was major expenditure pressure. The burden of interest payment was reduced through swapping of Rs 5643 crores of loans with low cost loans. This resulted in savings of more than Rs 2000 crores. In addition the stipulation in the KFRA Act that fiscal deficit was to be restricted to 3% of the GSDP helped containing the debt burden.

1.5 Fiscal Correction over the last 5 years:

As a result of the measures stated above Fiscal correction took place in Karnataka in 04-05, two years well ahead of what was stipulated in the KFRA Act. In 2004-05 revenue deficit was eliminated and a revenue surplus of Rs 1638 crores was registered. In addition fiscal deficit for 04-05 was well below the stipulated 3% of GSDP. The path of fiscal correction is shown in fig 1.

Figure-1



The same performance has been repeated in 05-06 also. The provisional figures available for 05-06 indicate that the Revenue surplus of Rs 1187crores has been achieved. The Fiscal deficit is estimated to be 2.85 % of GSDP. The falling Tax GSDP ratio of the state has been corrected over the last 5 years and it stands now at 10.3%. State's efforts in reduction of expenditure on Salaries, Pension and interests are in line with the fiscal correction path indicated by TFC which prescribed that Salary expenditures relative to revenue expenditure net of interest payments and pensions should not exceed 35%.

1.6 Fiscal correction and the Finance commissions:

The state has gained many benefits from the fiscal correction. It is able to fund its projects through its own resources. The per capita plan expenditure of Karnataka is the highest in the country at Rs 2429 The plan size of Karnataka for 2005-06 was the second highest in the country and was Rs 13555 crores. The support of own resources to plan (BCR) of Karnataka is the highest in the country. The state has not utilized the "Ways and Means facility" over the last two years. The total expenditure on salary, pension and interest in 2005-06 RE accounted for 41% of its resources. The improved financial position has enabled the state to reduce the burden of off-budget borrowings. It has possible for the state to invest on capital assets.

There have been other benefits too. The Eleventh finance Commission (EFC) promoted the States to adopt fiscal correction measures and had provided incentives. Under this scheme devised by EFC, RD/RR was identified as the monitorable parameter, and this was to be reduced by 5% annually during the award period. All Indian States were expected to enter into an MOU with the GOI which specified the fiscal correction path and the MOU also indicated the incentive to be given to the fiscally correcting state in case the target correction was achieved. An incentive fund was created by Government of India on the recommendation of EFC and the States were to get an incentive from out of this fund depending on their fiscal performance.

Karnataka was one of the few States which could reduce the RD/RR by 5 % annually and for this performance it received incentive amount of Rs 286.15 Cr from GOI. The strategy adopted by EFC although was beneficial to Karnataka it did not result in major fiscal correction in other Indian States. The Twelfth Finance Commission (TFC) again focused on fiscal imbalance in Indian States and the need to correct it. In order to promote the States to adopt fiscal correction measures, the TFC recommended two debt relief measures.

- As a first relief measure it recommended that the Central loans of the State would be consolidated and rescheduled in case the State enacted Fiscal Responsibility legislation as per the broad guidelines given by the TFC.
- The second relief measure was that in case the state reduced its revenue deficit and contained its fiscal deficit as per the fiscal reforms path contained in their respective Fiscal responsibility Act then the repayment due of the central loan for that particular year would be waived off.

These two recommendations have benefited Karnataka state. The State had enacted KFRA act as early as 2000. The revenue deficit had been eliminated and fiscal deficit had been contained to less than 3% in 04-05 itself. On account of this performance the State was given debt rescheduling benefit of Rs 304 crores in 05-06 and further the Central loans due to an extent of Rs 358.33 crores in 05-06 has been waived off.

2 MACROECONOMIC OUTLOOK

Karnataka economy is heavily dependent on agriculture. After two consecutive drought years of 2002 -04 in 2004-5 the state received good rains and the year saw a recovery of agricultural operations. During 05-06 the state was blessed with bountiful rainfall. Although some parts of the state suffered from floods, agricultural production in the state improved in comparison to 2002-04. The storage in the reservoirs improved.

Performance of the State's economy in 2004-05 and 2005-06 consecutively in terms of growth in Gross State Domestic Product (GSDP) has been far better than that of the previous two years, due to a strong agricultural recovery supplemented by improved power supply position. The quick estimates of 2004-05 have revealed a remarkable growth of 10.2% much higher than the all India Average of 7.5% during 2004-05. However for 2005-06 the estimated growth rate of the state is 8.7%. The reduction in the growth of GSDP in 2005- 06 is mainly attributed to the slow growth of the primary sector. The floods of July and September 2006 devastated the agricultural crops in Karnataka at least in parts. Despite these problems the projected total growth rate of GSDP in 05-06 is higher than the projected national average of 8.1% for 05-06. The advance estimate of GSDP growth in primary sector consisting of agriculture, forestry and logging, fishing, mining and quarrying is 6.4% during 2005-06. The secondary and tertiary sectors are expected to maintain their over all growth trends.

Table 2.1.

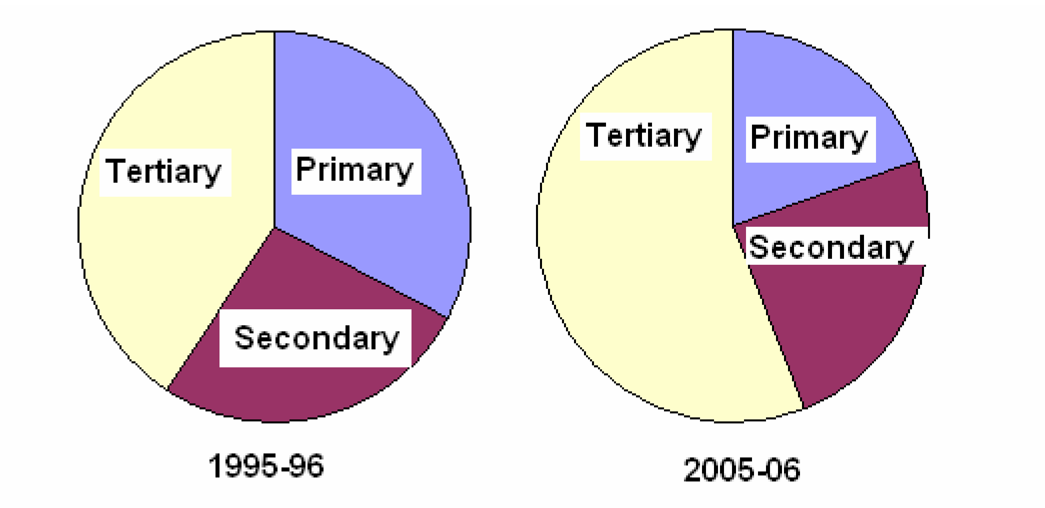
Sector wise GSDP growth (In %)

Sector	2002 - 03	2003 – 04	2004 - 05	2005 - 06
Primary	- 7.20	-13.60	14.60	6.40
Secondary	6.90	9.10	4.80	5.60
Tertiary	9.10	10.80	11.70	11.20
Total	4.30	4.80	10.20	8.70

2.1 Composition of the Economy:

The economy of Karnataka has undergone a steep transition in last one decade. Data presented in fig 1 indicates that the contribution of primary sector to GSDP has come down from 32.90% to 19.80%. Tertiary sector has grown exponentially over the primary and secondary sectors. This change is in line with what has happened with developed economies. But, it is worthwhile to examine the net impact of these changes on vulnerable sections of our population.

Figure-2



Decadal Change in the composition of Karnataka economy (in %)

About 18 % of State's income originates from the industrial sector. While this sector has shown consistent growth there are opportunities to accelerate the growth in the manufacturing sector.

The state has opportunities to promote major investments in the sectors like engineering, automobile, food processing, apparel and textiles, oil refining and petrochemicals, electronics, steel and cement, pharmaceuticals, IT & BT sectors. Due to the change in the industrial horizon the Government is contemplating formulation of "New Industrial Policy 2006". The State realize that provision of good infrastructure would promote investments.

Tertiary sector is making rapid strides in Karnataka, salubrious climate, skilled work force, metropolitan culture and good infrastructure has promoted exponential growth in the tertiary sector. The state capital is known as "Silicon Valley" of India. The state has been promoting growth of IT and BT industries through proactive IT & BT policy.

Providing world class infrastructure to promote investments has been the steadfast pursuit of the Government. The New Bangalore International Airport, Metro Rail Project, and the new IT parks being established throughout the state, the statewide road network being created under the World Bank aided KSHIP project and KRDCL will help in providing good infrastructure. The state has recognized that cost and quality of electrical power determines the establishment and profitable functioning of manufacturing industries and infrastructure projects. The state has therefore undertaken Power Sector reforms. The Financial Restructuring plan for the power sector has been implemented. But, many more structural changes are required to ensure technical and allocative efficiency and cost effectiveness in the power sector.

2.2 Concerns :

There are however, many other concerns in the developmental process. Although the workforce dependent on secondary and tertiary sector is increasing, the dependence on primary sector is very high. Work force dependent on the primary sector is 60.6% and is still very high in the state. Incidence of poverty is steadily declining in the state as per the Planning Commission's estimate. From a poverty level of 20% in 1999-00 (55th round of NSS data) the state seeks to reduce the poverty to 7.85 % by 2007. Agricultural labour households constitute the majority of poor households. In comparison with the base year 1993-94 real wages have increased by 42 % for men and 30% for women. This increase is indeed not very high. The profile of real wages across the districts varies from the State average. There are sharp differences in opportunities for wage earning classes in Karnataka. Thus the problem of poverty has regional dimensions in the State. Addressing problems arising out of such a situation requires multipronged approach. Investment in Primary sector must further improve. Capital formation in agriculture must be supported. Efforts must be made not only to improve investments in secondary and tertiary sector but efforts must be made for dispersal of opportunities through directed investments. Apart from efforts to reduce the incidence of poverty the state has to improve in terms of important demographic indicators such as infant mortality and maternal mortality, as they often coexist with poverty.

While the state is definitely on the path of growth, unfortunately the growth is not uniform through out the state. The regional developmental differentials were clearly brought out by a committee headed by Late Dr. Nanjundappa. Bangalore has seen great strides in the last decade. But other cities in the state have not developed equally. In order to redress the regional imbalance the state is promoting growth in other parts of the state. The state is supporting establishment of good rail network and minor airports through out the state. New roads are being created connecting the backward talukas with the main stream. Steps are being taken to direct the new investments in the area of development of human resources to the backward talukas of the state.

Thus macroeconomic fundamentals of Karnataka are strong and in the medium term. However, there are certain emerging concerns. The national inflation is on the rise as on June 2006. Interest rates are hardening and these developments may dampen the investments. The performance is expected to be good. The growth projections are therefore are to be tempered with caution. With these constraints it is expected that in 2006-07 a real growth rate of 7.0 % is possible.

2.3 Fiscal policy Implication:

Results of fiscal correction over the last 5 years indicate that budgets are being formulated in a realistic and objective manner with due regard to general economic outlook and revenue prospects. The ability of the economy to sustain high level of investments critically depends on its fiscal health. Fiscal policy of Karnataka is basically governed by the KFRA and therefore in the medium term, the state's fiscal policy continues to be focused towards limiting the revenue expenditure with in the revenue receipts. Also the Public Debt has to be kept under control by limiting the Fiscal deficit to less than 3 % of the GSDP. Reduction of revenue expenditure in subsequent years will lead to utilization of resources for asset creation through investments on capital formation. Further, limiting of fiscal deficit to less than 3% of GSDP will open up opportunities for investment by the private sector. These fiscal policy directives coupled with investment in infrastructure are expected to promote growth in all sectors of economy. In order to ensure proper growth of resources, the government will have to ensure to a reasonable degree of stability and predictability in the level of tax burden. With the introduction of Value Added Tax from April 2005, stability has been introduced in the level of commodity taxes. Lowering of Stamps and registration duties has been initiated and the trend must be continued to bring down the stamp duty to about 5%. The growth in Non Tax Revenues has not been in tune with the growth in the economy. Steps must be taken to improve the buoyancy of non-tax revenues also.

With the objective of maintaining quality in investments the Guarantees and contingent liabilities will have be managed as specified under the Karnataka Ceiling of Government Guarantees Act 1999. Borrowings should be used only for productive purposes and not for financing of current expenditure.

There is a need to reduce risk in agriculture and to support growth through capital formation. As a policy, investment in irrigation projects should continue to be a high priority area for some more time. There is also a need to insulate farmers from high cost of production by providing agricultural credit at cheaper rates, subsiding agricultural inputs. In order to protect the farmers from both price crash and production crash there is a need to continue strategic market interventions as well as Crop insurance mechanisms.

Health, education, Social welfare, water supply, power, irrigation and infrastructure development continue to be priority sectors and the government will have to direct its expenditures in these areas.

Some of these PSUs are still dependent on government support to a great extent and it has not been possible to minimize the fiscal risk associated with the running of public sector undertakings and utilities providing public goods and services. The public utilities like Bangalore Transport Corporation and Karnataka Road Transport Corporation are operating profitably. But, the performance of the NWKRTC and NEKRTC has not been satisfactory. Similarly, while the electrical utility BESCOM has shown good progress similar results are not observed with respect to other power distribution companies. Corrective action is required in this regard.

3 REVENUE REFORMS AND PROJECTIONS

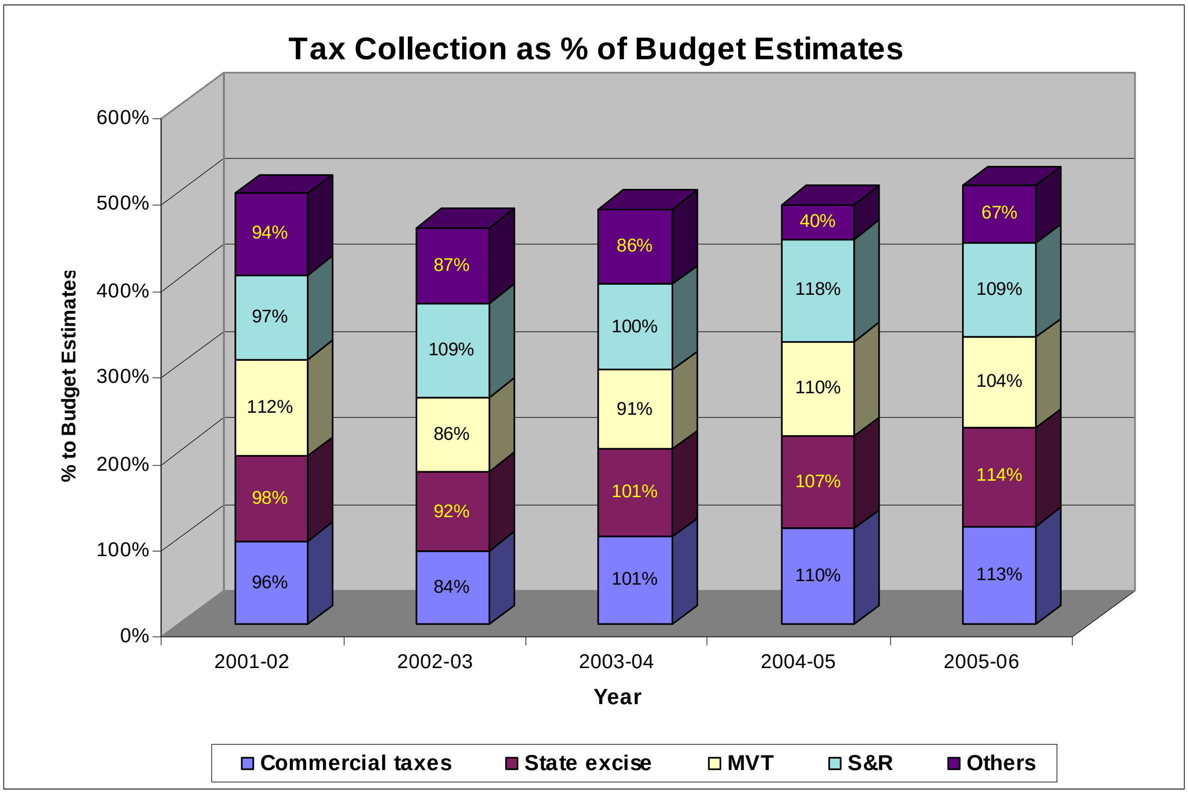
3.1 Composition of State's revenues and Tax resources:

Almost three-fourth of the State's revenues comes from its own sources. Similar to previous years of the State's Revenue Receipts, 66.36 % come form the tax resources, 11.63 % from the non-tax resources, 14.76 % from the State's share in Union taxes and the remaining 7.84 % as central grants. Since 2000-01, the own revenue receipts of the States have witnessed an high average growth rate of 18.45%. This growth can be attributed to various reform initiatives undertaken in past in addition to the general growth of the economy. Out of the tax-revenues, Commercial Taxes account for almost 63.56 % of the State's own tax revenues; State Excise contributes to 17.29 %, Motor Vehicle Tax 5.91 % and Stamps Duty and Registration Charges 12.02 %. Other taxes e.g. Land Revenue and Electricity Tax contribute only 1.21 % to the State's Own Tax Recourses.

Table 3.1 : Tax collection as % of budget estimates

	01-02	**02-03**	**03-04**	**04-05**	05-06
Commercial taxes	96%	84%	101%	110%	113%
State excise	98%	92%	101%	107%	114%
MVT	112%	86%	91%	110%	104%
S&R	97%	109%	100%	118%	109%
Othrs	94%	87%	86%	40%	67%
Average collection rate	**97%**	**88%**	**100%**	**109%**	**106%**

Figure-3



3.2 Value Added Tax and Sales Tax

The VAT has been introduced w.e.f. 01-04-2005 in place of Sales Tax on all commodities except petrol, ATF, diesel and sugar cane. The design of the VAT introduced in Karnataka is as per the uniform Value Added Tax system developed by the Empowered Committee (EC) of State Finance Ministers. Further VAT as a system has removed the problem of double taxation and cascading effect. All dealers with turnover more than Rs 2 lakh have been brought in the tax net. However, for the sake of simplicity, a composition scheme has been provided for dealers with turnover less than Rs. 15 lakh. In line with the uniform VAT design, exports are zero rated. With this, the exported products remain competitive. The State has not only changed the legal system of taxation but has also reorganised the tax administration to suit implementation of VAT. IT support infrastructure for verification of the claim of dealers for input tax rebate has been installed. However, a lot more needs to be done to streamline VAT administration to improve traders compliance to VAT laws.

On an all India basis the Empowered Committee of State Finance Ministers as well as Government of India had expected that in the initial years of VAT implementation, there could be loss of revenue for the State Governments In order to compensate the anticipated loss of revenue due to implementation of VAT, the Central government had announced that it would compensate the Sates 100% of the tax loss on account of introduction of VAT for 2005-06 and 75 % for 2006-07 and 50 % for 2007-08. It was expected that by 2007-08 the States would make efforts to enlarge the base of VAT so that there would not be any revenue loss. As a result of replacing sale tax with VAT in Karnataka the average tax rate on sale of goods has come down from 17.3% to 12.5% under VAT. Because of lowering the tax rate from to 12.5 under VAT regime it was expected that in 2005-06 the state would suffer a loss of Rs 2050 crores. The net VAT Collection up to end of March. 2006 is Rs.5502.27Cr (exclusive of compensation) as against the anticipated revenue of Rs.6776.46Cr. The VAT loss compensation received from Government of India upto for 2005-06 is Rs.1038.92Cr

In so for as the VAT rates on commodities, by and large, the state has adopted the rates as decided by the Empowered Committee of State Finance Ministers. The VAT has been exempted on *Seeds, avalakki, mandakki, pappad, branded bun & bread*. VAT on paddy and rice, wheat & pulses have been exempted for one year. The VAT on Tea has been reduced to 4% from 12.5%. The State has reduced the VAT rate from 12.5% to 4% on Coffee powder, Raisins (dry grapes), *Shikakai* and *Shikakai* powder w.e.f. 16-09-2005, and 4% to 0% on ice. Tax incentives & deferment of tax already given to certain industries under Sale Tax regime have been continued. Some rationalisation measures like providing for payment of interest on delay in refund of excess tax collected or wrongfully collected tax even during period of stay for recovery of such tax have been extended in 2005-06. The time limit for filing a revision petition before the High Court has been increased from 120 day to 180 days. The penal interest rate has been reduced from 24% to 15%.

In 2006-07 the anticipated VAT collections is Rs 6478.37 Crores. Even during current year VAT loss is expected to be about Rs 2050 crores. However, the State is making efforts to expand the tax base under VAT through extensive operations aimed at registration of new dealers. In order to ensure better compliance and reporting the VAT returns have been amended. The IT infrastructure is being upgraded to ensure quick and proper processing of returns. In order to plug loopholes, integrated and computerised check posts are being introduced in the state. FPAC will play an important role in this regard.

Thus, the reform process relating to VAT would be targeted towards consolidating its tax administration through detailed collection and analysis of the data, using it for audit, intelligence activities and strengthening the system.. The capacity of personnel involved in tax administration will be developed in this regard through appropriate training..

3.3 Karnataka Sales Tax:

With the introduction of VAT, Sales Tax on all commodities except petrol, ATF, diesel and sugar cane has been abolished. There is a need to collect the old arrears and to complete the pending assessments under the sale tax regime. Karasamadhana Scheme, a one time tax relief scheme, announced earlier was continued in 05-06 with certain modifications. Further the scheme of Deemed assessment has been introduced in May 2006 to finalize the pending assessments. With the completion of assessments under sale tax the staff would be free to focus more on VAT administration.

3.4 State Excise

State Excise has witnessed exemplary growth in last two primarily due to the change in the arrack policy and strong enforcement. The collections from state excise surpassed the budget estimates. Against a Budget estimate of Rs 2998 crores, in 2005-06 the actual excise collections (provisional) were Rs 3414 crores. The canalization of IML, the tracking of Rectified Spirit and stringent enforcement in 2005-06 were main reasons for such good buoyancy. However, with two years of high growth, it is expected that the growth would stabilize and for the projection period, buoyancy marginally above unity has been assumed.

On account of canalization of IML through KSBCL the role of Whole Sale traders in IML distribution has become redundant. Hence, from 2006 June the link of whole sale trader in the chain of liquor trade has been abolished and KSBCL is directly organizing distribution of liquor to the retail traders. By this measure it is expected that the 5% of whole seller’s margin amounting to Rs 125 crores per year would be conserved to government. Also this measure may lead to reduction in the flow of non duty paid liquor.

3.5 Stamps and Registration:

In the past few years reforms in the Stamps and Registration taxes were targeted towards correction of high tax rates to capture the undervalued tax base. The high rate of stamp duty was a disincentive for registration and realizing this, the state has persued a policy of reducing the stamp duty from year to year. This has resulted in better compliance. Secondly in order to prevent evasion of stamp duty through undervaluation, revision of market value of properties has been carried continuously over the last 5 years to bring the guidance values in line with the actual market rates. An exhaustive database of the properties is prepared during the process of revision. The details of the guidance values are already on the Internet and with the transparent process involved in fixing the guidance values, the registration system has become appropriate as well as citizen friendly.

Through "KAVERI", the computerised registration system, the registration process has been made transparent and efforts have been made to remove the human element. Collection of Stamps and registration duties in 2005-06 was Rs 2180 crores which was Rs 193 Crores higher than Budget estimates.

The recent decision of Government of India to allow investment of funds generated under "Mutual Funds" for investment in real estate markets is expected to add more buoyancy to the Stamps and registration taxes. In addition from 2006 collection of stamp duty and registration charges on leased properties is also being enforced. Thus, the resource flow from Stamps and Registration duties appear optimistic.

Another big step towards increasing efficiency would be enabling "anywhere registration" against the current system of registering the property in the defined jurisdiction. Such an effect would require a computerized and robust data sharing mechanism with a central repository and a legal framework. This proposed big step would be tried in Bangalore to begin with. Computerization of encumbrances is another reform initiative on the anvil for long that needs to be completed in a time bound manner. Thus reforms in the coming years will be directed towards further reduction of stamp duty to about 5% over the next few years, to introduce the scheme of " Any Where Registration' and "Dematerializing" of registration documents. Secondly, introduction of "Title Insurance" is being contemplated to protect the buyer of properties from fictitious documentation.

3.6 Motor Vehicle Tax

There is a steady growth in the collection of Motor Vehicle Taxes over the past several years. Against a Budget estimate of Rs1118 crores, the actual collection (provisional) of MV taxes in 2005-06 was Rs 1167 Crores. Reforms in MV taxes are targeted towards structural improvements in the transport sector and as a corollary improving the tax base.

The tax compliance on part of the State utilities has not been very satisfactory and taxes are not paid by the utilities on the pretext that they meet certain social objectives. Efforts are being made to correct the situation by delinking the tax compliance with meeting of social objectives. For the past two years improvement in tax compliance by these utilities has been observed with respect to current tax dues. Denationalisation of certain routes of operations and making an effort to bring the State owned Road Transport Utilities and private operators on a level playing field will remove distortions and improve the service delivery through better competition. Incidentally it may improve the tax base also. For projection of MV taxes proper compliance by utilities has been assumed.

Unlike Commercial tax department, the administrative machinery of MV tax is not only involved in tax collection but includes a number of other services. The main offices of the department are computerised. Data base on vehicles has been developed. Efforts are also being made to create testing tracks in all districts.

3.7 Non-Tax Revenue

The ratio of non-tax revenues to the GSDP has declined over time and this is a matter of great concern. While Non Tax resources accounted for 30.30% of state's resources in 1976, now after 30 years they account for only 11.63% of the resources of the state. One of the main reasons for the declining contribution of Non Tax revenues is non revision of user charges, levies, fees and royalties. The collection from several Non-tax sources is so low that even doubling of user charges or fees in one stroke may not lead to immediate generation of appreciable resources, but for the end user it might mean a sudden and high revision, causing a disincentive to comply. When the user charges are revised the fixation of rates is often on the basis of arbitrary criteria. A *de novo* review of most of these rates is necessary. A policy will be formulated to fix the user charges and other rates of non-tax revenues based on factors such as nature of the levy (i.e. whether it is regulatory or service charge etc.), cost of provisioning of services, cost of collection etc. A committee will be constituted to take a fresh look at the revision of user charges.

While the first problem relates to appropriateness of the rates of non-tax revenues, the second problem lies in their collection. There is at present, no proper practice in place at the level of field departments for review of recovery of user charges. Regular monitoring of recovery will have to be made part of regular departmental and State level reviews.

There are some important sectors and activities which offer scope for recovery of non tax revenues. User charges can be levied on road users and the revenues can be ploughed back for maintenance. Certain roads are specifically used very frequently by the mining companies; in the result these roads undergo higher wear and tear. Their maintenance costs are higher than other roads. In 06-07 it is proposed to introduce toll at least for some specific roads used by mining sector in Karnataka.

Return on Government investments and recovery of loans has been very low over the past several years. As at the end of 2004-05, the investments of Government stand at Rs. 10741.40 Crores and outstanding loans given by the government stand at Rs. 5769.98 Crores and the return in terms of dividend and interest recoveries has been of the order of Rs. 40.96 crores. Poor recovery of government dues from PSUs and Cooperative institutions and subsequent inaction has incentivised default. As defaults are tolerated, PSUs and Cooperative institutions repeatedly come back to government for financial support for funding of non viable and unappraised projects. There are several instances where defaulters have been repeatedly lent by the State. To reverse this vicious cycle, firstly, adequate evaluation mechanisms need to be put in place to ensure that non-viable projects are filtered out. Secondly, proper recovery mechanisms need to be developed. FPAC has been entrusted with the work of evaluating projects and investment proposals and Department of Small Savings has been assigned the work of ensuring recoveries.

4 EXPENDITURE MANAGEMENT AND PROJECTIONS

4.1 Expenditure Priorities:

While fiscal stress has been corrected in Karnataka there is still a large portion of our population, which is still to experience an improvement in the standard of their living.

- The first task before the Government is to ensure that the essential public services in the area of education and health are provided to the poor without loss of quality. Unless gaps in literacy and health are addressed at the earliest, fiscal correction may not mean anything to the poorer sections of the state. This is not only an issue related to allocation of resources but also a Governance issue.
- Agriculture is still pursued by more than 66% of the rural population. This sector has lost its dynamism. Capital formation in agriculture is on the decline. Increasing the rate of growth in agriculture is a major challenge.
- Manufacturing competitiveness depends on cost of raw materials and skills as well as the market for the product. The progress of the state has been limited by availability of quality power in sufficient quantity and at affordable cost. Dispersal of skill and raw materials has been hindered by poor infrastructure all over the state. The human skills are not of high order in all parts of the state. Steps must be taken to improve manufacturing competitiveness.
- Regional differentials in development are apparent in the State. Improving regional disparities through proper allocation of resources must be an expenditure priority.

To meet these priorities expenditure reforms have been undertaken in the state to meet the following objectives;

1. To ensure that expenditures are fiscal sustainable.
2. To contain non development expenditure on items like salary, pension, interest payment.
3. To ensure that additional resources are made available to high priority areas like education, health, infrastructure development, irrigation, power and social welfare.
4. To ensure quality in expenditure by targeting of subsidies and focusing on outcomes.

4.2 Ensuring that expenditures are fiscally sustainable:

To ensure fiscal sustainability expenditure of the State the expenditure must be limited to the resources available including the debt resources. The experience over the last 5 years has indicated that the concept of adopting a rolling "Medium Term Fiscal Plan" (MTFP) by the State Government every year has ensured fiscal sustainability as well prioritizing of the expenditures. The disaggregation of MTFP allocations into DMTFP has been attempted in the last three years. With this it is ensured that the departments will frame their budgets with in the ceilings indicated in the MTFP. Central schemes and externally aided projects are also being incorporated into the DMTFP envelope.

4.3 Containing of non development expenditure:

Salary & Office Expenditure: The first expenditure reforms measure initiated in the State as early as 2001 was abolition of vacant posts and freezing of recruitments in most of the government departments except Education, Health and Police. As a result of these reforms measures salary payments as a ratio of revenue expenditure has come down from 30.04 % in 1999-00 to 21.75 % in 2005-06. All vacant posts, including the newly created were filled in the education, health and Internal Security sectors. Functional review of selected departments was conducted to optimize the use of human resources. The other set of reforms which are currently in operation for keeping the salary expenditure at manageable levels are delineated below:

1. The state has undertaken the task of computerizing the service records and other crucial details of Government employees so that the Human resources can be optimally deployed at a later stage transgressing the departmental service rule barriers. This will help in better accountability of payments also.
2. Restructuring of Government departments is also under consideration.
3. Outsourcing of services has been a declared policy of the Government.
4. In the posts-reforms period the vacancies which have occurred in various departments are being filled after carefully examining the need for filling those posts on a case to case basis. In 05-06 15000 posts were agreed to be filled up through direct recruitments.
5. Office expenditure is being provided with a general increase of 5% to cover the inflationary costs only. But, capital investment in office infrastructure is being supported to improve the quality of services.
6. Large scale computerization has been undertaken in many departments. Computerization has helped to reduce work load of the staff and thereby has avoided creation of new posts.

4.4 Pension reforms:

Pension payment is actually an eventuality and therefore is difficult to apply reforms to the current pension liabilities. Expenditure reduction on current pension liability would require a longer period to feel the impact. However, prospectively contributory pension scheme has been introduced to cover employees recruited after 1St of April 2006.

4.5 Interest payment and Debt Management:

The debt stock of Karnataka has undergone perceptible changes. Planning Commission of India has indicated 6 parameters to determine the quality of debt stock of any state.

1. The Debt Stock should be below 30% of the GSDP
2. Debt should be below 300% of the Total Revenue Receipts (TRR)
3. The interest payment should be less than 18% as a ratio of TRR
4. The debt growth should not be more than 1.25 times the growth in revenues
5. The revenue component of the fiscal deficit should not be more than half
6. The fiscal deficit should not be more than 25% of the TRR. Karnataka was debt stressed in terms of all the criteria in earlier years.

On the above criteria, it is gratifying to note that by the end of 2005-06 Karnataka emerged out of debt stress.

Through prudent management of State Finances, Karnataka has successfully utilised the incentives provided by the 12th Finance Commission. As Karnataka state has already enacted Karnataka Fiscal Reforms Act, 2002 on the lines indicated by the TFC, the central loans have been reset and rescheduled. In the result, all outstanding central loans carry 7.5 % interest and are to be repaid over next 20 years. By this measure alone the state has gained Rs.292 crores in the nature of reduction in the interests to be paid in 05-06. This benefit apart, through sound financial management the state has successfully eliminated the revenue deficit in 04-05 and 05-06 also. In both these years the fiscal deficit has been contained to 3% of GSDP. On account of these achievements the state has gained the benefit of waiver of debt amounting to Rs 358 crores during 05-06 as per the recommendation of the TFC. Similar benefit will be available even for the achievements of the fiscal year 2006-07.

The steps proposed to be initiated for better management of Debt stock of the state in 06-07 are enumerated below.

1. Government borrowings in any year will be limited to 3 % of GSDP.
2. High cost loans will be swapped.
3. The option of utilising the opportunity of resetting of interest on contingent liabilities will be explored.
4. The guarantees will be operated with in the limits imposed under Ceiling of Government Guarantees Act 1999.
5. All contingent liabilities will be evaluated before government support is extended.

4.6 Ensuring additional Resource flows to priority sectors:

The MTFP approach has helped the state to determine the priority and size of expenditure in priority areas over a four-year framework. With fiscal correction it has been possible for the state to ensure that resources are committed to high priority development expenditures. Education, health, infrastructure development, irrigation, power and social welfare are the priority sectors for the government. As it can be seen from Figure 1 the allocation to Education, Health, Irrigation and Social Welfare sectors is provided.

The budgetary allocation to road sector has been substantially enhanced in the last two years. Use of scientific parameters in selection of roads fro improvement needs to be done. The available road survey information will need to be used in selection of roads so that the benefits are extended wherever required.

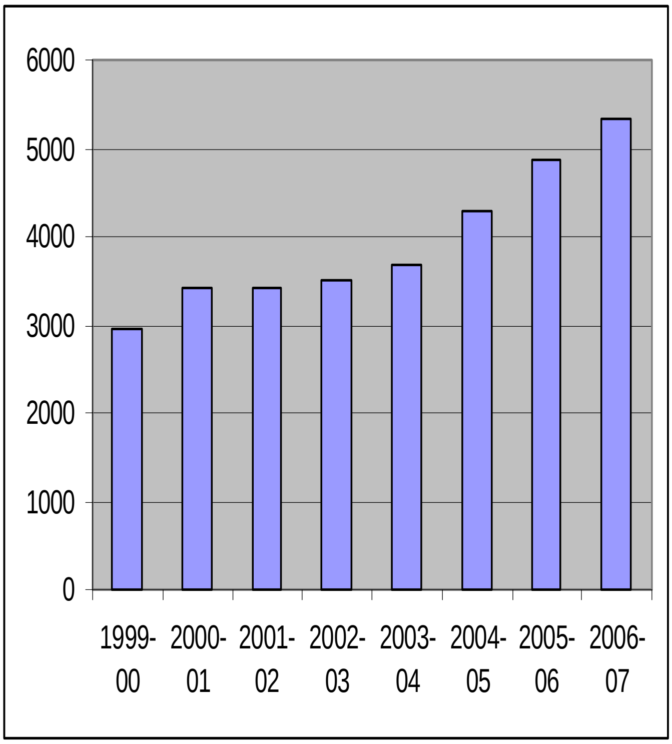
Higher allocation to Education and Health is necessary for rapid human capital formation and enhanced growth. Since 1999-00 higher allocation has been provided to these two sectors. Allocation to education sector has increased by 11.6% annually over the reforms period. Regarding improving the efficiency of expenditure on grant in aid to educational institutions there have been interdepartmental consultations to develop a model of providing grant in aid on the basis of output i.e. a student centric approach rather than the present teacher centric one. This concept will be further developed.

Similarly, in Irrigation sector allocations have increased by 21% over the last 4 years. In social welfares sector allocations have increased by 46% and this increase has been very substantial in 06-07. Social welfare expenditure on items like providing scholarships, fee concessions, and hostel expenses of students from socially weaker sections has been emphasized. Allocation for providing income generating assets to families of the socially weaker sections through schemes like Gnaga Kalyana, Land Purchase Scheme has also been increased. Infrastructure development has been a major concern for the state government. Allocations in health sector however have to be stepped up. From 2004-05 allocations to health sector has been stepped up. In the years to come health sector will attract more allocations.

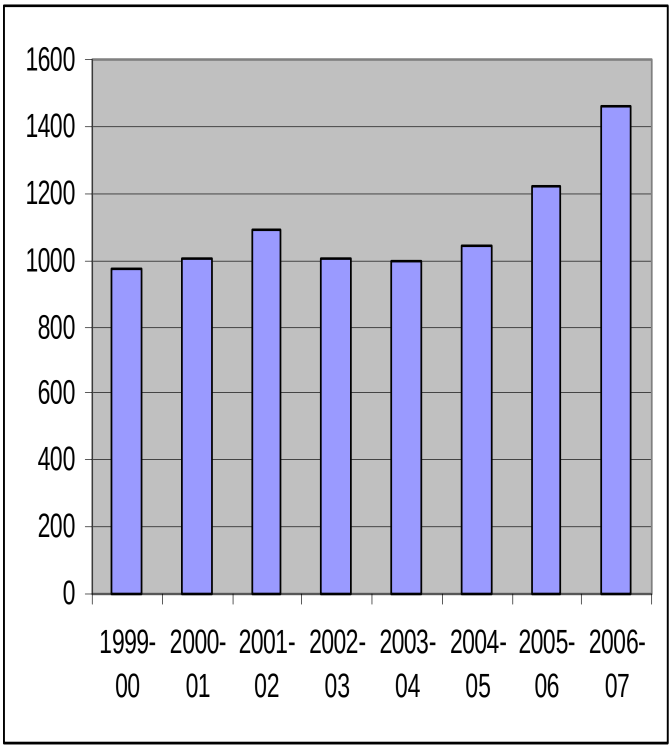
Consciously the state would like to support a mix of private and public investments. The public investment would be targeted towards development of infrastructure. The state capital, Bangalore, the fastest growing city of India, is undergoing rapid urbanization. The state has devised a two pronged strategy to meet this new problem. Firstly urban infrastructure at Bangalore is being improved. Construction of Bangalore International Airport, Bangalore Metro and installation of outer peripheral ring road are notable developments in this regard. Also, the state is providing good road and rail network through out the state so that new investments can be pushed to other parts of the state. It is planning to come out with a New Industrial policy to ensure establishment of industries in parts other than Bangalore. Allocations to KRDCL and KSHIP for road building activities have been preferentially enhanced. Minor air ports are being developed. Through contributions to Indian Railways, rail network is being extended through out the state. It is felt that Power sector has not been sufficiently funded so for. Probably the high level of Power Subsidy has crowded out government support to capital investment programmes in power sector. There is a need to allocate more resources to capital works in the power sector to improve generation and distribution capacity. For all these reasons there is a need to continue with the reforms process in the power sector.

Figure-4

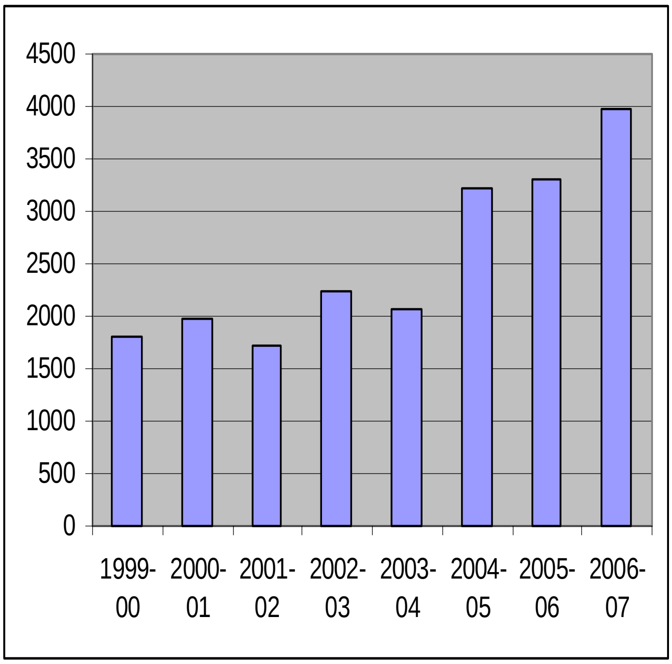
Allocations to priority sectors over the last 8 years (Fig in Rs Crores)



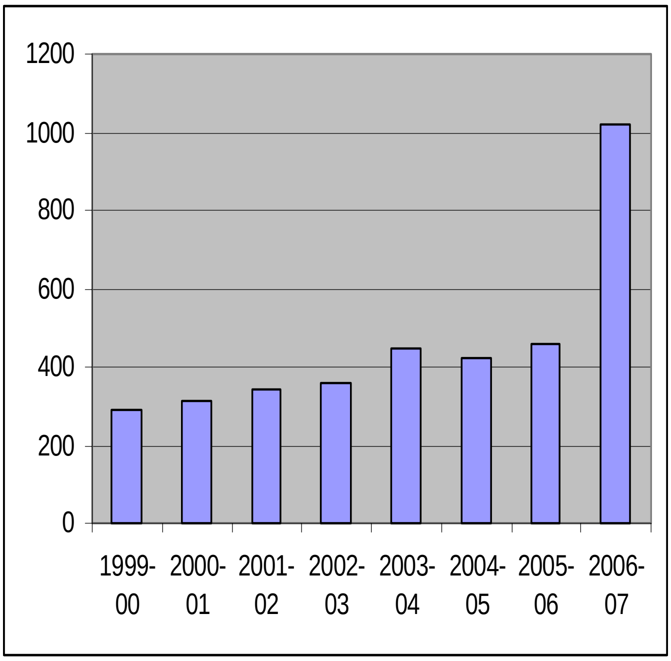
Education



Health



Irrigation



Social welfare

4.7 Ensuring quality in expenditure:

Government expenditure is planned through an institutionalized planning process. Notwithstanding this, it is always caught in the conundrum of high levels of direct employment and direct provisioning of low quality services. Achieving higher technical and allocative efficiencies and cost effectiveness in public services has been a matter of great concern. Linking outlays with outcomes has been attempted, but with little success. Ensuring quality in expenditure depends on what the government spends, why and how.

Linking outlays to outcomes is a very important budget reform process undertaken in Karnataka. The state has the practice of presenting “Performance budget” covering the progress achieved under plan programmes of major departments for the past two decades. Even now this practice has been continued. “Performance Budgets” limited themselves to plan allocations of the current year and previous years and could not provide sufficient information in a transparent manner. In addition the state was evaluating larger schism at the culmination of every 5 years. Linking outlays to outcomes is a major budgetary reform undertaken in Karnataka. A new concept of presenting “Programme Performance Budget (PPB)” by the departments is being formulated. These PPBs in addition to indicating the programme wise outlays on a 7 year time frame (two years in retrospect and four years prospectively along with current year) will provide information on linked outputs and outcomes. Presenting the departmental programmes in a PPB format will bring in the required transparency, and will help decision makers on deciding on outlays on the basis of evaluation. This measure is expected to ensure better quality in public expenditure. PPB for the Department of Health & Family Welfare has been finalized. Similar documents for Education and Home departments are being attempted. The new reporting formats will be submitted for the consideration of the legislature committee.

Decentralized planning and administration: Karnataka has nurtured a three tier decentralized administrative system for rural local bodies. It is the firm belief of the state that the local governments including the urban bodies are to be empowered and provided with sufficient funds to fulfill their constitutional obligations. Hence, a number of schemes rightly have been transferred to these local bodies for implementation. Apart from providing funds for specific schemes, the State has ensured increased flow of funds as devolution to both PRIs and ULBs. With this it is expected that the service delivery would improve. A Decentralization Analysis Cell has been set up in the Finance department to analysis the fiscal performance of the Gram Panchyaths and to evolve a policy formula for fiscal transfer to the Gram Panchyaths based on their fiscal and social performance. The Decentralization Analysis Cell will also assist the State Finance Commission in providing data.

Environmentally sustainable activities: Of late the impact of development on the environment is being increasingly recognized as an issue related to ensuring quality in expenditure. Government investments in the area of conservation of water resources, sanitation and drinking water have been stepped up. These apart regulatory measures are in place to ensure environmental sustainability of activities.

Procurement Reforms: What is spent must be well spent. In order to encourage competition and fairness in public procurements the government has already enacted “Karnataka Transparency in Public Procurement Act”. This act has introduced transparency and has eliminated arbitrariness in procurement decisions. In order to facilitate wider competition, greater transparency and smoothen the procurement process, the state is about to put in place an e-Procurement platform covering all procurement both by government as well as its subsidiaries. Standard formats, specifications and evaluation procedures are being adopted.

Targeting of subsidies: The state has been extending subsidies with the objective helping poorer sections of the society as well as to support new private investments. Subsidies, per se, are not bad but untargeted and poorly designed subsidies are bound to bleed the fiscal health of the state and put stress on the State finances, crowding out more desirable expenditure. There has been a conscious attempt by the State to target the subsidy to ensure that it reaches the intended poorer sections of the population.

Power Subsidy: Next to Rajasthan Karnataka has the highest area under arid lands. The economy of the state as well as of the farmers is dependent on rainfall. Ground water is extensively used for irrigation. The government has been providing subsidized power to the farmers. The problem starts here. Power used by the farmers is not properly accounted as most of pump set installations are not metered. Farmers are expected to pay a flat rate linked to the horse power of the pump used. But, recoveries are almost nil. In the absence of direct metering of pump sets, the Distribution utilities extrapolate and account that 49% of power consumed in Karnataka is attributable to IP sets. As IP sets in Karnataka are not metered, it is difficult to check whether these IP sets have indeed consumed 49% of power supplied by KPTCL. (There is scope for including illegal power thefts in notional consumption by IP sets. On an average, Government is providing Rs.1750 crores towards the cost of power used by agricultural pump sets apart from the farmers themselves paying the tariff fixed by the KERC. The subsidy incurred by Government per pump set is approximately Rs.12,500 per year. In 2006-07 an amount of Rs.1, 800 crores has been provided for power subsidy. Poorly targeted power sector subsidies have put stress on the State resources and have incapacitated the state PSUs in expanding the generation and transmission capacity, which is most essential for faster and equitable growth. The only way of preventing misuse of this subsidy is to first account for the power consumed by the farmers, which calls for 100% metering of all agricultural pump sets.

Social Pension: Government of Karnataka provides monthly financial assistance as a safety net to the destitute through Old Age Pension scheme (OAP), Destitute widow Pension scheme (DWP) and to Physically Handicapped persons pension scheme (PHP). These schemes are fairly well targeted. Recently the World bank assessed the social pension programmes of Karnataka. The Bank observed **that "The main finding of this assessment is that social pension schemes in Karnataka appear to be a model for other safety net programmes, with remarkably low leakages of public funds and pro poor targeting of benefits"**. In view of the high impact seen in this assistance, the state government has proposed to double the allocations to this activity.

Food Subsidy: With the new government coming to power in 2004-05 the new scheme of providing food grains at Rs 3 for families below the poverty line was introduced. Since then the cost of food subsidy has increased. But, this subsidy is fairly well targeted. Biometric verification has been introduced to ensure that entitlements reach the intended.

Figure-5

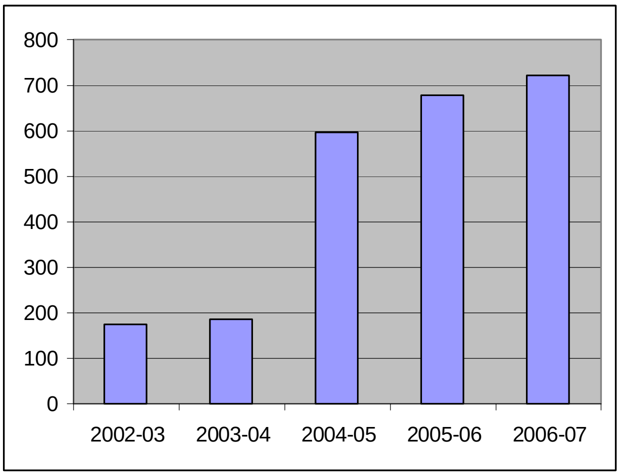


Fig 5. Food subsidy expenditure in Karnataka (Figs in Rs Crores)

Transport Subsidy: Transport subsidy is extended in the form of concessional bus passes to students and other weaker sections. As a reform measure from now onwards, the state will bear only 50% of the cost of the bus pas and 25% will have to be borne by the transport utility. The beneficiary will have to pay the remaining 25 % of the cost. In addition a mechanism has been evolved to compute the correct number and value of bus passes given by the public sector transport corporations. In addition the Bangalore Metropolitan Transport Corporation will be introducing a system for generating information on the actual use of bus passes so that a " Purchaser- Provider " relationship be established for management of bus pass subsidy. The subsidy arrears for the past 4 years has been paid in 05-06. In addition the compliance of the Transport utilities in crediting MV taxes to government has improved.

5

PFMA SYSTEM AND DEBT REFORMS

Good governance can lead to desired outcomes. A robust, effective and efficient Public Finance Management and Accountability system is bedrock for embarking on an all embracing fiscal reforms agenda. Karnataka Government being aware of its importance has during the last five years carried out wide ranging reforms in the area of budgeting and budgetary controls, fiscal transparency, reducing off-budget borrowings, treasury computerization and MIS. There is a necessity to consolidate on these initiatives for furtherance of fiscal reforms agenda.

5.1 LOC Phase Out

The existing LOC system of payments which is used by civil works department namely Public Works, Water resources, Minor irrigation, Forest and Rural Development and Panchayati Raj departments suffers from following weaknesses: -

1. Overcentralisation of releases leading to disjunction between work implementation and payment and attendant problems of bills pendency and avoidable delay.
2. Delay in reconciliation of accounts on account of rendering of separate accounts by each works division.
3. Multiple points for data pertaining to payments that hampers better cash management and reporting.
4. Lack of budgetary control, expenditure beyond financial year and problem of over appropriation.

Treasury computerization has stabilized and ensures not only budgetary integrity but also facilitates better reporting and accounting. It also helps in decentralization of releases and therefore merging of existing LOC system in Treasury system is desirable. Preliminary consultations with user departments have yielded positive results and it is expected to phase out LOC system in these departments in a short time.

5.2 Budgetary Screening process

As a part of increasing the efficiency and effectiveness of expenditure and to spread expenditure evenly over the financial year it is important that new programmes are announced in the budget only after thorough scrutiny and appraisal. This pre budget review should take a critical look at existing schemes, which, perhaps, have lost their relevance and therefore need to be modified or discontinued. This exercise in zero based budgeting should be taken up much before the budget so that the department is well aware of the programmes to be taken in the ensuing year and thus can focus on implementation right from the beginning of the financial year. An Expenditure Review Committee already exists for this purpose and the same needs further strengthening.

5.3 Zilla Panchayat/ Taluk Panchayat Computerization

With increasing resources being transferred to Panchayati Raj Institutions in pursuance of Government's emphasis on decentralization, accounting and financial reporting assumes importance. In order to leverage the benefits of Treasury computerization, the software has been extended to Zilla Panchayat level so that accounts consolidation and rendering becomes not only quick but also true and fair. This combined with ZP/TP budget control would streamline the financial reporting from Zilla Panchayats/Taluk Panchayats.

5.4 Human Resource Management System

Salary and Pension expenditure forms a major component of Government recurring expenditure. An integrated and computerized system would save time and avoid the usual human errors. Also creation of a database on government employment can be used for estimating pension/retirement benefits /classification of group wise categories of posts, profiling government service etc. Work on this database is underway and is expected to be available for use in a short time.

5.5 Debt Reforms

Borrowing Cost and alternative sources: The growth of National Small Savings Fund flow in last couple of years has been more than the requirement and this has led to precluding of other sources of borrowing. Though the NSS funds are comparatively costly when compared to rates from other sources like Open Market Borrowings, there is no option to replace through other borrowings like open market loans, foreign currency loans with these funds unless Government of India undertakes decision for vertical and horizontal allocation of funds on the basis of requirement. If Government of India takes a decision in this regard, it would help minimize the cost of borrowing for the State Government.

Externally Aided Projects: In pursuance of Twelfth Finance Commission recommendations pertaining to contracting of foreign currency loans by the State Governments, the loan mechanism has been altered to pass on all externally aided foreign currency loans on back- to-basis to State Government. Already number of loans namely KMRP, NKUIDP, Gram Swaraj are in pipeline on back-to-back basis arrangement. It is essential to make realistic projections on foreign currency movements, LIBOR rate etc in order to estimate future principal and interest payments. Capacity building at State level and help of GoI in this regard is necessary to build debt database incorporating these changes.

Off Budget Borrowings : As has been pointed out in earlier MTFPs, Government is committed to phase out Off Budget borrowing as they are distortionary in nature and do not permit complete picture of State's Finances. Though State is behind the schedule in implementation of this resolve, concerted effort is being made to replace these with on budget support. This is reflected in reducing projections made for Off Budget support. However even though complete elimination is not reflected in the Medium Term Fiscal Plan, depending upon resource availability it is expected to wipe off budget borrowings much before the close of medium term plan period. It is also considered necessary to update the database of off budget loans by reconciliation with Financial Institution and SPV concerned so that true picture of liabilities for future projections is available. This work is proposed to be completed by Debt unit of Fiscal Policy and Analysis Cell.

6

MEDIUM TERM FISCAL PLAN 2006-10

No major change or upheaval in the economic environment so as to mandate revising the assumptions made for the remaining three years in Medium Term Fiscal Plan 2005-6 are anticipated. Hence the underlying assumptions for Medium Term Fiscal Plan period 2005-6 have been continued. Real growth rate for economy has been pegged at 7% and inflation has been assumed at 5% till 2008-9. For the year 2009-10 the real economic growth rate has been taken as 8%. The growth rates assumed are more in line with past trends and draw less weightage from recent upturn in economy.

6.1 Resources

As a major part of States own Tax revenue, rate of growth of Commercial Taxes is assumed to be more than the combined real growth of economy and inflation i.e. with a buoyancy of 1.075. As Value Added Taxes system has been recently introduced, buoyancy of the tax collection needs to be critically examined with sufficient data. System stabilization, effect of input rebate, benefits of VAT chain and increased tax base would mandate a fresh look at these assumptions.

Revenues from State Excise in past years on account of reforms in the area of canalization have seen a rise. Current year's budget estimates have overshot past projections on account of expectation of higher revenues from abolition of wholesale trade and introduction of one time settlement scheme. The revenues from State Excise are expected to grow at a rate faster than growth rate of economy with a buoyancy of 1.025.

Revenues from Stamp duty and registration fees were assumed with a buoyancy of less than 1 for 2005-6 in the backdrop decision of Government to disallow registration of certain documents that were detrimental to urban planned growth. However after resolution of the issue in later half of the year, the revenues recovered and as per provisional figures available Stamps and registration revenues were able to even cross the budgetary estimates. In the years to come Government has committed itself for phased reduction of Stamp duty so as to bring it to a rational level. The revenue loss on account of phased reduction of stamp duty is expected to be more than met by rising real estate prices, higher number of transactions and bringing of more transactions in the fold of registration. Thus growth of revenues has been assumed to keep pace with growth rate in economy.

Revenues from Motor Vehicles Taxes have almost kept pace with projections made and therefore the assumptions made with regard to it in earlier years have been continued. At a Buoyancy of 1.025, growth in these taxes are expected to outpace the growth in economy. Non-Tax revenues have been projected on the basis of past growth rates. However there may be an improvement in collections over projections in case Government of India comes out with a New Mining Policy and revises royalty on major minerals.

Central Grants have been broken down into various sub-heads like CSS, Non-plan, CPS, plan grants and on the basis of historical growth rates projections have been made. Similarly though central devolution receipts have exceeded the projections in last year on account of buoyancy in GoI's revenues, historical growth rates have been assumed as a part of cautious approach to revenue projections.

6.2 Expenditure

6.2 Salary, which forms one of the major items of revenue expenditure, has been projected on the underlying assumptions of 2.75% growth rate for Basic, Dearness Allowance growth rate linked to inflation and other allowances at 1%. Attempt has been made to take into account effect of Pay Commission award during last 2 years of fiscal plan period. Pension payments have been projected on the basis of historical growth rates.

Interest payments have been estimated on the basis of past loans and future expected borrowings. This estimation has taken into consideration the benefit of Debt Consolidation already extended by GOI. An important component of interest payments which is interest payment on borrowings in form of foreign currency loans (back to back loans) are to be tackled on the availability of interest rate data pertaining to these borrowings.

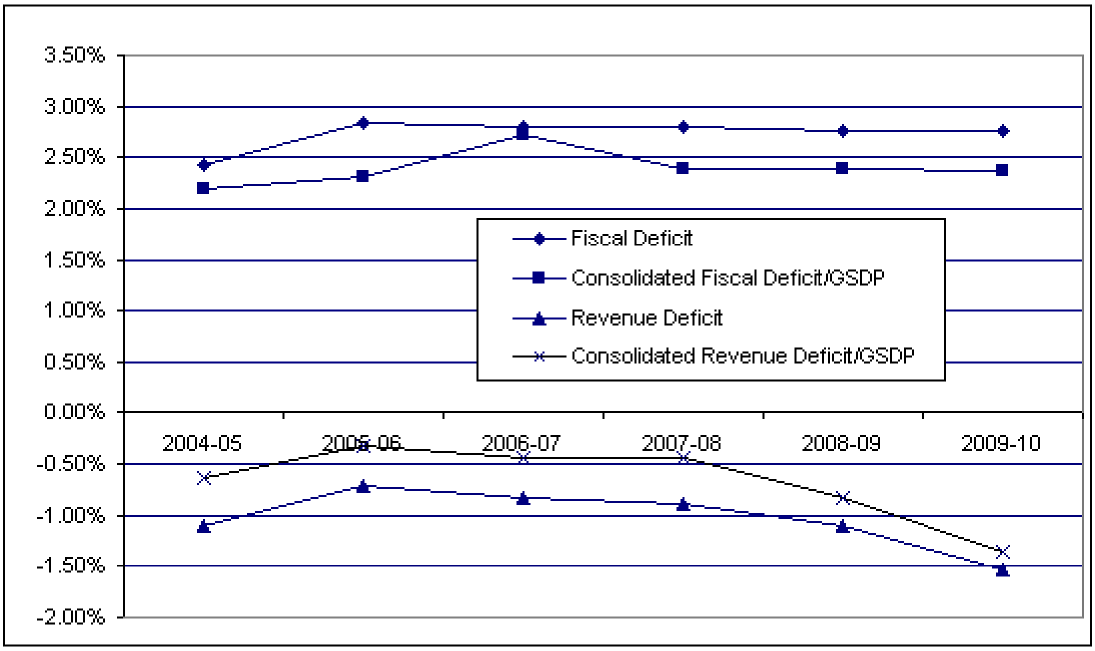
As was a case in last year projections, high growth rates in the area of High Priority Development Expenditures of Education and Health especially in case of non-salary expenditure as a part of salary expenditure has been continued and a growth rate of 30% has been provided for education and 20% for health.

As a part of Government's emphasis on decentralization, devolution to urban Local bodies as a part of Non-loan Net own revenue receipts has been increased in a phased manner. Subsidy expenditure has been pegged at 2006-07 levels.

6.3 Fiscal Indicators:

The Karnataka Fiscal Responsibility Act mandates maintenance of Revenue surplus and Fiscal deficit at sub 3% of GSDP level. In compliance of the same the projections in MTFP 2006-10 estimate revenue surplus to increase from 0.82 % of GSDP to 1.53 % of GSDP and consolidated revenue surplus to increase from 0.44% of GSDP to 1.36% of GSDP during the MTFP period. As a measure to phase out off-budget borrowings consolidated fiscal deficit reduces from 2.71% of GSDP to 2.38% of GSDP. Since the resources mobilized on account of revenue surplus are to be ploughed back for capital formation, therefore the same is projected to increase from 2.72% of GSDP to 3.73% of GSDP during the MTFP period. As additions to consolidated debt stock are to be regulated through maintenance of Fiscal deficit at sub 3% level and through phase out of off budget borrowings the same is projected to decrease from 33.45% of GSDP to 29.61% of GSDP.

Figure-6



Item	2004-05 A/c	2005-06 RE	2006-07 BE	2007-08 Proj	2008-09 Proj	2009-10 Proj
Fiscal Deficit	2.42%	2.85%	2.79%	2.80%	2.75%	2.75%
Consolidated Fiscal Deficit/GSDP	2.19%	2.31%	2.71%	2.39%	2.38%	2.38%
Revenue Deficit	-1.10%	-0.71%	-0.82%	-0.89%	-1.10%	-1.53%
Consolidated Revenue Deficit/GSDP	-0.63%	-0.31%	-0.44%	-0.45%	-0.83%	-1.36%

Table-6.1 Medium Term Fiscal Performance 2006-2010

Item	2004-05 A/c	2005-06 RE	2006-07 BE	2007-08 Proj.	2008-09 Proj.	2009-10 Proj.
Revenue Receipts	26570	29685	35875	40354	45104	50651
of which						
State' Own Tax Revenues	16072	19505	22534	25169	28471	32523
Non Tax Revenues	4472	3637	4088	5199	5765	6318
Resources from the Centre - Devolution	3878	3923	4609	5070	5577	6134
- Grants	2147	2620	4644	4916	5291	5675
Revenue Expenditure	24932	28498	34341	38479	42499	46556
of Which						
Interest	3794	3825	4366	5056	5618	6199
Salaries	5392	5932	7186	8553	9198	9842
Pensions	2157	2313	2666	3215	3524	3864
Subsidies (Food, Transport Housing & Industry)	1180	1721	1741	1735	1808	1878
Power Subsidy	1724	1750	1800	1800	1800	1800
Devolution to ULBs	798	1160	1530	1858	2217	2657
Major O&M (Roads,Buildings & Irrigation)	333	210	1018	1069	1126	1191
Other O & M (Edn, Health,RD,WS,Agr, Forest)	2498	2623	3438	4301	5198	6273
Administrative Expenditure	478	562	687	723	762	803
Other Revenue Expenditure	6577	8401	9909	10169	11246	12050
Capital Receipt (Non Debt)	47	30	45	100	100	100
Revenue Deficit	**-1638**	**-1187**	**-1535**	**-1875**	**-2605**	**-4095**
Expenditure on Capital Formation	3698	5143	5088	5598	7460	9961
Fiscal Deficit	**3600**	**4764**	**5211**	**5875**	**6483**	**7351**
Debt						
Total Debt Stock	46563	51356	56594	63071	69554	76905
Interest	3794	3825	4366	5056	5618	6199
Debt Services	7823	4685	5320	6374	7402	8367
Salary+Pension+Interest	11343	12070	14218	16824	18340	19904
Gross Off Budget Borrowings	**838**	**997**	**845**	**450**	**250**	**150**
Net Off Budget Borrowings	**-347**	**-892**	**-146**	**-867**	**-873**	**-995**
Consolidated interest	4489	4486	5077	5991	6256	6664
Consolidated Revenue Deficit	**-943**	**-525**	**-824**	**-940**	**-1967**	**-3629**
Consolidated Fiscal Deficit	**3253**	**3872**	**5064**	**5008**	**5610**	**6356**

Table-6.2 Medium Term Fiscal Plan (as % of GSDP)

Item	2004-05 A/c	2005-06 RE	2006-07 BE	2007-08 Proj.	2008-09 Proj.	2009-10 Proj.
GSDP at Current Prices	148521	167399	186757	209822	235735	267323
INFLATION	5.00%	5.00%	4.00%	5.00%	5.00%	5.00%
GSDP Annual Real Growth	7.00%	7.00%	7.00%	7.00%	7.00%	8.00%
Revenue Receipts	17.89%	17.73%	19.21%	19.23%	19.13%	18.95%
of which						
State' Own Tax Revenues	10.82%	11.65%	12.07%	12.00%	12.08%	12.17%
Non Tax Revenues	3.01%	2.17%	2.19%	2.48%	2.45%	2.36%
Resources from the Centre - Devolution	2.61%	2.34%	2.47%	2.42%	2.37%	2.29%
- Grants	1.45%	1.57%	2.49%	2.34%	2.24%	2.12%
Revenue Expenditure	16.79%	17.02%	18.39%	18.34%	18.03%	17.42%
of Which						
Interest	2.55%	2.28%	2.34%	2.41%	2.38%	2.32%
Salaries	3.63%	3.54%	3.85%	4.08%	3.90%	3.68%
Pensions	1.45%	1.38%	1.43%	1.53%	1.50%	1.45%
Subsidies (Food, Transport Housing & Industry)	0.79%	1.03%	0.93%	0.83%	0.77%	0.70%
Power Subsidy	1.16%	1.05%	0.96%	0.86%	0.76%	0.67%
Devolution to ULBs	0.54%	0.69%	0.82%	0.89%	0.94%	0.99%
Major O&M (Roads,Buildings & Irrigation)	0.22%	0.13%	0.54%	0.51%	0.48%	0.45%
Other O & M (Edn, Health,RD,WS,Agr, Forest)	1.68%	1.57%	1.84%	2.05%	2.21%	2.35%
Administrative Expenditure	0.32%	0.34%	0.37%	0.34%	0.32%	0.30%
Other Revenue Expenditure	4.43%	5.02%	5.31%	4.85%	4.77%	4.51%
Revenue Deficit	**-1.10%**	**-0.71%**	**-0.82%**	**-0.89%**	**-1.10%**	**-1.53%**
Capital Receipt (Non Debt)	0.03%	0.02%	0.02%	0.05%	0.04%	0.04%
Expenditure on Capital Formation	2.49%	3.07%	2.72%	2.67%	3.16%	3.73%
Fiscal Deficit	**2.42%**	**2.85%**	**2.79%**	**2.80%**	**2.75%**	**2.75%**
Administrative Expdr as % of RR	**1.80%**	**1.89%**	**1.91%**	**1.79%**	**1.69%**	**1.58%**
Debt						
Total Debt Stock	31.35%	30.68%	30.30%	30.06%	29.51%	28.77%
Interest/Revenue	14.28%	12.89%	12.17%	12.53%	12.46%	12.24%
Debt Services/Revenue	29.45%	15.78%	14.83%	15.79%	16.41%	16.52%
(Salary+Pension+Interest)/Revenues	42.69%	40.66%	39.63%	41.69%	40.66%	39.30%
Debt Services/GSDP	5.27%	2.80%	2.85%	3.04%	3.14%	3.13%
(Salary+Pension+Interest)/GSDP	7.64%	7.21%	7.61%	8.02%	7.78%	7.45%
Consolidated Interest/revenue	16.89%	15.11%	14.15%	14.85%	13.87%	13.16%
Off Budget Borrowings/GSDP	**0.56%**	**0.60%**	**0.45%**	**0.21%**	**0.11%**	**0.06%**
Consolidated interest/GSDP	3.02%	2.68%	2.72%	2.86%	2.65%	2.49%
Consolidated Revenue Deficit/GSDP	**-0.63%**	**-0.31%**	**-0.44%**	**-0.45%**	**-0.83%**	**-1.36%**
Consolidated Capital expenditure/GSDP	3.05%	3.67%	3.18%	2.88%	3.27%	3.78%
Consolidated Fiscal Deficit/GSDP	**2.19%**	**2.31%**	**2.71%**	**2.39%**	**2.38%**	**2.38%**

Table-3 DMTFP Allocations

Major Head of A/c		2006-07			Projections								
No.	Description	BE			2007-08			2008-09			2009-10		
		Plan	Non Plan	Total	Plan	Non Plan	Total	Plan	Non Plan	Total	Plan	Non Plan	Total
	Revenue Expenditure												
2011	Legislature		52.82	52.82		55.39	55.39		57.83	57.83		60.75	60.75
2012	Governor		2.48	2.48		2.61	2.61		2.74	2.74		2.89	2.89
2013	Council of Ministers		10.79	10.79		11.31	11.31		11.78	11.78		12.37	12.37
2014	Law	12.00	199.22	211.22	12.48	211.20	223.68		222.61	235.59		234.93	248.55
2014	Elections		34.55	34.55		36.25	36.25		37.90	37.90		99.74	99.74
2020	Colln of Taxes on Inc & Exp		2.96	2.96		3.13	3.13		3.30	3.30		3.49	3.49
2029	Land Revenue		84.16	84.16		89.06	89.06		94.04	94.04		99.37	99.37
2030	Stamps & Regn Fees		63.49	63.49		66.77	66.77		69.71	69.71		73.31	73.31
2039	State Excise		55.49	55.49		58.44	58.44		61.32	61.32		64.53	64.53
2040	Sales Tax	31.00	99.35	130.35	32.24	104.78	137.02	33.53	110.28	143.80	35.21	116.28	151.48
2041	Vehicles	0.50	41.57	42.07	0.53	43.77	44.30	0.55	46.02	46.56	0.57	48.52	49.09
2045	Other Taxes & Duties		5.46	5.46		5.74	5.74		6.03	6.03		6.35	6.35
2047	Other Fiscal Services		42.33	42.33		44.47	44.47		46.31	46.31		48.65	48.65
2049	Interest Payments		4366.02	4366.02		5056.03	5056.03		5618.44	5618.44		6198.52	6198.52
2051	Public Service Commission		8.99	8.99		9.41	9.41		9.84	9.84		10.35	10.35
2052	Secretariat General Services	14.62	53.84	68.46	15.35	56.76	72.11	15.97	59.60	75.57	16.76	62.79	79.55
2053	District Admistration		157.66	157.66		166.81	166.81		176.22	176.22		186.22	186.22
2054	Treasury Accunts & Admn	8.00	49.13	57.13	8.32	51.88	60.20	8.74	54.70	63.44	9.09	57.59	66.68
2055	Home	49.00	1142.41	1191.41	50.96	1204.49	1255.45	53.00	1269.38	1322.37	55.65	1339.02	1394.67
2056	Jails		48.49	48.49		39.07	39.07		40.98	40.98		43.18	43.18
2057	Supplies & Disposal												
2058	Stationery & Printing	1.00	61.40	62.40	1.04	64.17	65.22	1.09	66.98	68.07	1.15	70.39	71.54
2059	Public Works	4.00	335.22	339.22	4.16	360.58	364.74	4.33	388.53	392.86	4.54	419.56	424.10

Major Head of A/c		2006-07			Projections								
No.	Description	BE			2007-08			2008-09			2009-10		
		Plan	Non Plan	Total	Plan	Non Plan	Total	Plan	Non Plan	Total	Plan	Non Plan	Total
2070	Other Admn Services	7.00	918.49	925.49	7.28	2060.04	2067.32	7.58	3257.35	3264.93	7.96	4159.53	4167.49
2071	Pensions		2665.54	2665.54		3214.62	3214.62		3524.38	3524.38		3863.98	3863.98
2075	Misc General Services		2358.53	2358.53		2593.40	2593.40		2851.18	2851.18		3134.94	3134.94
2202	Education	1072.47	4030.80	5103.28	1119.55	4246.58	5366.13	1166.36	4486.57	5652.93	1225.57	4742.40	5967.97
2203	Technical Education	107.00	76.64	183.64	111.74	80.53	192.27	116.65	84.52	201.17	122.51	89.08	211.59
2204	Youth Services	16.91	52.02	68.94	17.61	54.35	71.95	18.31	56.71	75.02	19.23	59.62	78.85
2205	Kannada & Culture	88.41	52.31	140.72	91.99	54.76	146.76	95.71	57.27	152.98	100.51	60.26	160.76
2210	Expdr on Health	295.03	858.65	1153.69	447.97	999.55	1447.52	540.03	1144.63	1684.66	640.74	1302.12	1942.86
2211	Family Welfare	185.78	7.85	193.62	249.73	18.81	268.54	290.69	21.90	312.59	335.30	25.26	360.56
2215	Water Supply	166.49	8.92	175.41	187.75	9.64	197.39	211.82	10.40	222.23	239.10	11.24	250.35
2216	Housing	194.07	45.45	239.52	211.26	50.11	261.37	230.07	55.38	285.45	241.57	61.57	303.14
2217	Urban Development	1469.80	23.23	1493.03	1528.67	24.35	1553.02	1589.82	25.49	1615.32	1669.32	26.84	1696.15
2220	Information	3.45	17.04	20.49	3.60	17.90	21.50	3.77	18.72	22.49	3.96	19.70	23.66
2225	Social Welfare	1463.43	711.13	2174.55	1514.27	720.71	2234.98	1566.94	771.52	2338.46	1620.91	785.80	2406.71
2230	Labour	41.90	51.94	93.84	43.85	54.82	98.67	45.75	57.78	103.54	48.11	60.98	109.09
2245	Natural Calamity		129.39	129.39		134.57	134.57		139.95	139.95		145.55	145.55
2250	Other Social Services	25.00	39.26	64.26	26.00	40.86	66.86	27.04	42.53	69.57	28.39	44.67	73.06
2251	Secretariat Social Services		10.28	10.28		10.85	10.85		11.44	11.44		12.06	12.06
2401	Agriculture	349.63	349.74	699.36	337.99	357.00	694.99	387.40	395.07	782.47	444.22	437.96	882.18
2402	Soil Convervation	217.33	26.99	244.32	226.27	28.57	254.84	235.55	30.20	265.75	247.43	31.92	279.35
2403	Animal Husbandry	91.74	134.02	225.76	95.69	141.48	237.17	99.76	149.24	248.99	104.85	157.62	262.47
2404	Dairy Development	49.90	11.00	60.90	51.90	11.44	63.34	53.97	11.90	65.87	56.67	12.49	69.16
2405	Fisheries	29.74	10.91	40.65	30.94	11.54	42.48	32.19	12.19	44.37	33.80	12.88	46.68
2406	Foresty & Wild Life	166.95	173.99	340.94	175.93	183.06	358.99	185.36	192.28	377.64	194.70	202.73	397.43
2408	Food		738.74	738.74		739.81	739.81		740.93	740.93		742.10	742.10
2415	Agriculture Reserch & Edn	62.00	75.41	137.41	64.48	78.43	142.91	67.06	81.56	148.62	70.41	85.64	156.05
2425	Co-operation	104.76	241.91	346.66	109.66	252.34	362.00	114.79	263.16	377.95	120.53	276.63	397.16

Major Head of A/c		2006-07			Projections								
No.	Description	BE			2007-08			2008-09			2009-10		
		Plan	Non Plan	Total	Plan	Non Plan	Total	Plan	Non Plan	Total	Plan	Non Plan	Total
2501	RDPR	669.99	308.50	978.49	696.95	322.59	1019.54	724.98	337.24	1062.23	761.30	354.67	1115.97
2506	Land Reforms	7.50	5.33	12.83	7.80	3.50	11.30	8.11	3.67	11.78	8.52	3.87	12.38
2575	Other Spl Area Programme	60.00	150.00	210.00		156.00	156.00		162.24	162.24		170.35	170.35
2701	Major Irrigation	3.90	59.62	63.52	4.08	87.40	91.48	4.27	104.15	108.42	4.49	121.21	125.71
2702	Minor Irrigation	21.53	84.36	105.89	22.77	88.79	111.56	24.02	93.42	117.43	25.36	101.16	126.53
2705	Command Area Development	50.40		50.40	52.42		52.42	54.52		54.52	57.25		57.25
2711	Flood Control		0.30	0.30		0.31	0.31		0.33	0.33		0.34	0.34
2801	Energy	18.51	2417.00	2435.51	19.25	2441.68	2460.93	20.02	2467.35	2487.37	21.02	2500.71	2521.74
2810	NCSE	13.44		13.44	13.98		13.98	14.54		14.54	15.27		15.27
2851	Village Industries	172.27	142.20	314.47	178.91	149.57	328.48	186.13	157.17	343.29	195.46	165.24	360.69
2852	Industries	9.51	16.89	26.39	9.89	17.50	27.38	10.28	18.09	28.37	10.80	18.77	29.57
2853	Mines & Geology	2.00	5.05	7.05	2.16	5.33	7.49	2.26	5.63	7.89	2.38	5.94	8.32
2885	Other Outlay on Ind & Minerals	4.00		4.00	4.16		4.16	4.33		4.33	4.54		4.54
3051	Ports & Light Houses		3.51	3.51		3.70	3.70		3.89	3.89		4.11	4.11
3053	Civil Aviation		0.93	0.93		0.97	0.97		1.02	1.02		1.07	1.07
3054	Roads & Bridges	155.10	762.62	917.72	181.74	762.53	944.28	212.52	759.56	972.08	247.72	754.85	1002.58
3055	Transport		158.20	158.20		80.81	80.81		80.83	80.83		80.86	80.86
3056	Inland Water Transport		1.44	1.44		1.52	1.52		1.61	1.61		1.70	1.70
3425	Other Scientific Services	9.43	0.01	9.44	9.81	0.01	9.82	10.20	0.01	10.21	10.71	0.01	10.72
3435	Ecology & Environment	32.10		32.10	33.40		33.40	34.75		34.75	36.49		36.49
3451	Secretariat Economic Services	13.78	40.69	54.47	14.33	42.68	57.02	14.91	44.76	59.66	15.65	47.12	62.77
3452	Tourism	50.50	1.62	52.12	52.54	1.71	54.25	54.65	1.80	56.45	57.38	1.90	59.29
3454	Census Surveys & Statitistics	5.25	12.12	17.38	5.49	12.80	18.28	5.73	13.48	19.21	5.99	14.22	20.21
3455	Meteorology	0.50		0.50	0.52		0.52	0.54		0.54	0.57		0.57
3456	Civil Suplies	2.20	3.69	5.89	2.31	3.89	6.20	2.43	4.09	6.52	2.55	4.31	6.87
3465	Gen Financial & Trading Ins		0.01	0.01		0.01	0.01		0.01	0.01		0.01	0.01
3475	Other Gen Economic Serv	228.75	38.74	267.48	372.88	40.96	413.84	423.12	43.25	466.37	480.52	45.67	526.18
3604	Local Bodies		1530.18	1530.18		1858.09	1858.09		2217.43	2217.43		2657.27	2657.27
Total		**7859.59**	**26480.95**	**34340.54**	**8464.61**	**30014.59**	**38479.21**	**9016.11**	**33469.81**	**42498.90**	**9662.73**	**36879.70**	**46556.07**

Major Head of A/c		2006-07			Projections								
No.	Description	BE			2007-08			2008-09			2009-10		
		Plan	Non Plan	Total	Plan	Non Plan	Total	Plan	Non Plan	Total	Plan	Non Plan	Total
	Capital Expenditure						0.01			0.00			
4055	Home	46.64		46.64	66.72		66.72	66.02		66.02	65.32		65.32
4059	Public Works	125.50		125.50	138.57		138.57	207.16		207.16	248.59		248.59
4202 01	Education	46.94		46.94	150.00		150.00	200.00		200.00	250.00		250.00
4202 02	Technical Education	5.39		5.39									
4202 03	Sports & Youth Services	2.00		2.00	2.20		2.20	2.42		2.42	2.66		2.66
4202 04	Kannada & Culture	1.10	1.04	2.14	1.21	1.14	2.36	1.82	1.26	3.07	2.18	1.38	3.56
4210	Expdr on Health	116.83		116.83	148.90		148.90	248.35		248.35	398.02		398.02
4211	Family Welfare	1.00		1.00	1.10		1.10	1.65		1.65	1.98		1.98
4215	Water Supply	821.70		821.70	950.00		950.00	1100.00		1100.00	1400.00		1400.00
4216	Housing	256.35		256.35	283.04		283.04	448.15		448.15	537.78		537.78
4217	Urban Development				4.54		4.54	46.46		46.46	43.43		43.43
4220	Information	2.06		2.06	2.27		2.27	3.40		3.40	4.08		4.08
4225	Social Welfare	168.98		168.98	161.49		161.49	155.30		155.30	349.04		349.04
4250	Other Social Services	6.20		6.20	6.82		6.82	7.50		7.50	8.25		8.25
4401	Agriculture	0.30		0.30	0.33		0.33	0.36		0.36	0.40		0.40
4402	Soil Convervation	8.65		8.65	9.55		9.55	14.28		14.28	17.13		17.13
4403	Animal Husbandry	5.00		5.00	5.52		5.52	8.25		8.25	9.90		9.90
4405	Fisheries	6.40		6.40	7.07		7.07	10.56		10.56	12.68		12.68
4406	Foresty & Wild Life	0.81		0.81	0.89		0.89	1.33		1.33	1.60		1.60
4408	Food	8.10		8.10	8.94		8.94	13.37		13.37	16.04		16.04
4415	Agriculture Reserch & Edn	3.00		3.00	3.31		3.31	4.95		4.95	5.94		5.94
4425	Co-operation	9.40		9.40	10.38		10.38	15.51		15.51	18.61		18.61
4515	RDPR		1.21	1.21		1.34	1.34		2.00	2.00		2.40	2.40
4701	Major Irrigation	1786.50	3.68	1790.18	1795.93	4.07	1800.00	1993.92	6.08	2000.00	2820.71	7.29	2828.00
4702	Minor Irrigation	566.18		566.18	600.00		600.00	800.00		800.00	1100.00		1100.00

Major Head of A/c		2006-07			Projections								
No.	Description	BE			2007-08			2008-09			2009-10		
		Plan	Non Plan	Total	Plan	Non Plan	Total	Plan	Non Plan	Total	Plan	Non Plan	Total
4705	Command Area Development	0.00		0.00	0.00		0.00	0.00		0.00	0.00		0.00
4711	Flood Control	10.50		10.50	11.59		11.59	17.33		17.33	20.80		20.80
4801	Energy	16.52		16.52	18.24		18.24	528.77		528.77	634.52		634.52
4851	Village Industries	14.05		14.05	11.98		11.98	14.89		14.89	15.02		15.02
4852	Industries	10.00	30.00	40.00	11.04	63.00	74.04	116.51		116.51	139.81		139.81
4885	Other Outlay on Ind & Minerals	0.02	1.00	1.02	0.02	1.10	1.13	0.03	1.65	1.68	0.04	1.98	2.02
5051	Ports & Light Houses	6.50		6.50	7.18		7.18	10.73		10.73	12.88		12.88
5054	Roads & Bridges	981.61		981.61	1100.00		1100.00	1400.00		1400.00	1800.00		1800.00
5452	Tourism												
5465	Gen Financial & Trading Ins		0.01	0.01		0.01	0.01		0.01	0.01		0.01	0.01
6404	Dairy dev												
7610	Misc General Services	7.00	9.60	16.60	7.70	1.10	8.80	8.47	1.21	9.68	9.32	1.33	10.65
	Total	**5041.22**	**46.53**	**5087.76**	**5526.55**	**71.76**	**5598.31**	**7447.52**	**12.20**	**7459.72**	**9946.75**	**14.39**	**9961.13**
	KBJNL 4701			863.99			1359.91			747.61			658.70
	KNNL 4701			454.75			395.31			429.64			361.20
	KRDC 5054			107.63			135.74			133.24			130.74
	Mahiti Bonds 5465			60.00			67.65						
	KREIS 4225			10.22			9.70			9.18			8.66
	KPHCL 4055			57.03			66.72			66.02			65.32
	KSCB 4217			31.51			39.50			36.64			34.01
	KSIIDC 5465						18.51			16.55			15.57
	KLAC 4215			32.23			34.18			32.37			30.57
	Cauvery NNL 4701			65.00			117.96			282.96			302.96
	Sanna NNL												
	Sarva Siksha Abhiyan-4202			3.59			3.45			3.25			3.06
	Keonics-Hudco- 4851			16.00			3.53			3.02			2.85
Total Capital Expenditure				**5598.84**			**6789.70**			**7850.47**			**9220.20**