



## **GOVERNMENT OF ARUNACHAL PRADESH**

### **Statements laid before Assembly as required under the Fiscal Responsibility and Budget Management Act, 2006**

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Minister of Finance

#### **CONTENTS :**

1. Macro-Economic Framework Statement
2. Medium Term Fiscal Plan Statement
3. Fiscal Plan Strategy Statement

March 19, 2008

## PREFACE

The Fiscal Responsibility and Budget Management (FRBM) Act 2006 came into force with effect from 30<sup>th</sup> March, 2006 and the Fiscal Responsibility and Budget Management (FRBM) Rules, 2007 came into force with effect from 12<sup>th</sup> February, 2007.

In compliance with the relevant provisions of the said Act and Rules, the State Government is required to lay before the House of Legislature (1) Macro-Economic Framework Statement (2) Medium Term Fiscal Plan Statement and (3) Fiscal Plan Strategy Statement along with the Annual Financial Statement and Demands for Grants.

This document containing the three Statements referred to above is, therefore, laid before the House of Legislature in compliance with the above statutory requirements

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## **1. MACRO-ECONOMIC FRAMEWORK STATEMENT**

### **OVERVIEW OF THE ECONOMY**

Sustained, high, and broad-based growth is essential for economic development and poverty alleviation. What is needed for such growth is an increase in investment in the economy. There are encouraging signs on both the growth and investment fronts in recent years. The record in the recent past points to a pick up in investment and likely upward shift in the trajectory of growth.

### **GSDP GROWTH**

The performance of the State economy in 2006-07 so far has exceeded expectations formed at the beginning of the year. The economy had registered a growth rate of only 7.14 per cent in 2005-06.

### **STATE GOVERNMENT FINANCES**

In 2005-06, the State was in revenue surplus of Rs.181.75 crore which was 6.08 per cent of GSDP. The fiscal deficit was Rs.256.72 crore which was 8.59 per cent of GSDP. The Actual figures for 2006-07 indicates that Revenue Surplus is Rs.694.94 (20.68 per cent of GSDP) and Fiscal Deficit during the year is estimated a positive note. Therefore, maintenance of revenue surplus and reduction of fiscal deficit mandated under the Fiscal Responsibility and Budget Management Act, 2006 have been achieved in 2006-07.

**MACRO - ECONOMIC FRAMEWORK STATEMENT**  
(ECONOMIC PERFORMANCE AT A GLANCE)

Sl.No.	Heads	Rs. in Crore		Percentage change (%) in 2006-07
		2005-06 Accounts/ Actuals	2006-07 Accounts/ Actuals	
	2	3	4	5
<b>A</b>	<b>Real Sector</b>			
	GSDP at factor cost			
	(a) at current prices	2987.14	3359.64	12.47
	(b) at 1993-94 prices			
	XI as % of GSDP	-8.59	3.18	-137.02
<b>I</b>	<b>Revenue Receipts (A+B)</b>	<b>1849.41</b>	<b>2592.18</b>	<b>40.18</b>
<b>A</b>	<b>State's own revenue (1+2)</b>	<b>264.42</b>	<b>375.39</b>	<b>41.97</b>
1	Tax Revenue	62.06	78.21	26.02
2	Non-Tax Revenue	202.36	297.18	46.86
<b>B</b>	<b>Receipts from Centre (3+4)</b>	<b>1584.99</b>	<b>2216.79</b>	<b>39.86</b>
3	State's Share of Central Taxes	272.18	347.17	27.55
4	Grants from Centre	1312.81	1869.62	42.41
	Non Plan	388.50	387.54	-0.25
	Plan	924.31	1482.08	60.34
<b>II</b>	<b>Capital Receipts (5+6+7)</b>	<b>495.15</b>	<b>-100.57</b>	<b>-120.31</b>
5	Recovery from loan and advances	2.82	2.34	-17.02
6	Net Public Debt	463.53	17.93	-96.13
7	Net Public Account	28.80	-120.84	-519.58
<b>III</b>	<b>Total Receipts (I+II)</b>	<b>2344.56</b>	<b>2491.61</b>	<b>6.27</b>
<b>IV</b>	<b>Non Plan Exp. (8+9+10)</b>	<b>943.71</b>	<b>1067.96</b>	<b>15.29</b>
8	Revenue Expenditure of which	943.98	1066.23	15.07
	(a) Interest Payment	156.45	187.76	20.01
	(b) Salaries Expenditure	406.30	461.96	13.70
9	Capital Expenditure	-1.07	0.14	-113.08
10	Loans and Advances	0.80	1.59	98.75
<b>V</b>	<b>Plan Exp. (11+12+13)</b>	<b>1165.24</b>	<b>1399.66</b>	<b>20.12</b>
11	Revenue Expenditure	723.68	811.01	12.07
12	Capital Expenditure	438.68	585.46	33.46
13	Loans and Advances	2.88	3.19	10.76
<b>VI</b>	<b>Total Expenditure (IV+V)</b>	<b>2108.95</b>	<b>2487.62</b>	<b>17.96</b>
<b>VII</b>	<b>Revenue Expenditure of which(8+11)</b>	<b>1667.66</b>	<b>1897.24</b>	<b>13.77</b>
	(a) General Services	488.72	559.60	14.50
	(b) Social Services	571.03	633.59	10.96
	(c) Economic Services	607.87	704.04	15.82
<b>VIII</b>	<b>Capital Expenditure (9+12)</b>	<b>437.61</b>	<b>585.60</b>	<b>33.82</b>
<b>IX</b>	<b>Loans and Advances (10+13)</b>	<b>3.68</b>	<b>4.78</b>	<b>29.89</b>
<b>X</b>	<b>Revenue Surplus (I - VII)</b>	<b>181.75</b>	<b>694.94</b>	<b>282.36</b>
<b>XI</b>	<b>Gross Fiscal Deficit (I+5-VI)</b>	<b>-256.72</b>	<b>106.90</b>	<b>-141.64</b>
<b>XII</b>	<b>Primary Deficit ((IV 8(a) - X)</b>	<b>-100.27</b>	<b>--</b>	<b>--</b>
<b>XIII</b>	<b>Outstanding Liabilities (year ending)</b>	<b>2117.07</b>	<b>2336.40</b>	<b>10.36</b>

## 2. MEDIUM TERM FISCAL PLAN STATEMENT

### A. FISCAL INDICATORS - ROLLING TARGETS

(Rs. in crore)

1	Actuals	L.E	Targets for	
	2	3	4	5
	2006-07	2007-08	2008-09	2009-10
1. Revenue surplus as percentage of GSDP (%)	20.68	3.11	10.84	8.27
2. Fiscal Deficit as percentage of GSDP (%)	-	3.18	3.00	2.98
3. Gross Tax revenue as percentage of GSDP (%)	2.33	2.10	2.35	2.34
4. Total outstanding liabilities at the end of the year.	2336.40	2757.56	3136.07	3566.65
5. Liabilities as percentage of GSDP for the year (%)	69.54	72.98	73.79	74.62

There are two significant changes in the budgetary practice with effect from Budget 2005-06. No provision has been made in Budget 2005-06 for loans from the Centre. The State will be raising required loans directly from the market without budgetary intermediation from the Central Government. This has been done in line with the accepted recommendations of the TFC.

### B. Assumptions underlying the Fiscal Indicators

#### 1. Revenue receipts

##### (a) Tax revenue

The Gross Tax Revenue and State's share of Central taxes in BE 2008-09 are placed at Rs.95.40 crore and Rs.515.59 crore respectively as against the estimate of Rs. 79.40 crore and Rs. 410.85 crore respectively during 2007-08 (BE). In line with the progress already made, gross tax revenue is expected to grow by an average 3.17 per cent during 2008-09.

##### (b) Non - tax revenue

The Non- Tax Revenue in BE 2008-09 is placed at Rs. 521.64 crore as against the Estimates of Rs. 176.18 crore during 2007-08(BE), showing step up by 196% over the Budget Estimates of previous year. This is mainly because of anticipated receipts under power head of an order of Rs. 392.80 crores ( which includes upfront receipts of Rs. 250.00 crore from private power developers).

Under the award of the TFC, Central loans to State contracted till March 2004 and the same outstanding as on 31<sup>st</sup> March, 2005 amounting to Rs. 400.18 crore have been consolidated and rescheduled for fresh term of 20 years at an interest rate of 7.5 per cent, which is subject to the enactment of Fiscal Responsibility Legislation by the State. The State Govt. has achieved the eligibility norms for debt waiver during the year 2005-06 & 2006-07 and received the debt waiver for Rs. 20.21 crore each in both the years.

##### (c) State's Economy

While Gross State Domestic Product (GSDP) at current prices was Rs.1629.79 crore in 1999-2000, it increased to Rs. 2121.87 crore in 2002-03. It has been estimated at Rs. 2424.05 crore for 2003-04, for 2004-05 at 2556.37 crore, for 2005-06 at Rs. 2987.14 crore and as per provisional estimates, it would be Rs. 3359.64 crore for 2006-07. The annual average growth rate of GSDP from the financial year 1999-2000 to 2006-07 is 10.94% whereas the Twelfth Finance Commission has estimated that the growth of GSDP would be 12.80% for Arunachal Pradesh at current prices.

## 1. Capital receipts

"Loans from the Centre" was the most significant component in the borrowing profile of the State Government up to 2004-05. Under the State Debt Swap Scheme, the States were being allowed to swap their high cost loans from the Central Government with fresh securities bearing lower interest rates. Up to 2004-05, Rs. 118.00 crore high cost Central loans have been swapped by the State of Arunachal Pradesh with lower interest securities. Central loans of Ministry of Finance to State contracted till March, 2004 amounting to Rs. 419.92 crore and same outstanding as on 31<sup>st</sup> March, 2005 amounting to Rs. 400.18 crore have been consolidated and rescheduled for fresh term of 20 years, under the award of the TFC. The acceptance of the recommendation by the Central Government implies an annual reduction in the loan recovery from the State. Notwithstanding this reduction, the reduction of loans during 2006-07 and 2007-08 has been of the order of Rs. 20.21 crore each on account of Debt Waiver Scheme under Fiscal Responsibility and Budget Management (FRBM), Act, 2006.

## 3. Total expenditure

### (a) Revenue account

#### Plan revenue expenditure

Total Plan Revenue expenditure was increased from Rs. 828.83 crore in BE 2006-07 to Rs. 1044.39 crore in BE 2007-08. The step-up was due to increase in budgetary provisions for expenditure commitments.

#### Non-Plan revenue expenditure

##### (i) Interest payments

One of the positive features of the fiscal policy pursued by the Government and the interest rate regime is that the share of interest payments in the total expenditure has declined and the interest burden as percentage of GSDP and interest burden as percentage of revenue receipts has also come down. The TFC envisaged that State's interest payments should be brought down to 15% of revenue receipts whereas, this percentage has gone down from 9.03 per cent in BE 2006-07 to 8.91 per cent in BE 2007-08.

##### (ii) Non-Plan grant to State

As per the TFC's recommendation, non-plan grants to the State in 2007-08 are placed at Rs. 378.94 crore.

In subsequent years (i.e 2008-09 and 2009-10), these grants will be about Rs. 360.47 crore and Rs. 343.37 crore respectively.

##### (iii) Others

Other major items of revenue expenditure are salaries, pensions, and administrative expenditure. However, the growth of other items of non-plan expenditure has been contained.

### (b) Capital account

##### (i) Loans and advances

As per recommendation of the TFC, only grant portion of the Central assistance is being released by the Central Government to the State with effect from the year 2005-06. The State has been raising the loans directly from the market through the borrowing programme.

##### (ii) Capital outlay

Non-plan Capital Outlay which is mainly for residential/office buildings is a very small part of total expenditure. This is projected to remain static in real terms. Plan capital outlay is projected to grow in line with GSDP growth as increasingly higher share is allocated for these.

## 2. GSDP Growth

GSDP at current prices is assumed to grow annually by 12.47 per cent.

### Assessment of sustainability relating to

- (i) the balance between revenue receipts and revenue expenditure :

The tax revenue as percentage of GSDP is targeted to improve from 8.85 per cent in RE 2005-06 to 11.17 per cent in 2006-07. Tax/GSDP ratio needs to improve well beyond the targeted reduction in fiscal deficit to GSDP ratio because increase in tax revenue has to make up for shortfall in non-tax revenue. The planned introduction of State level Value Added Tax(VAT) w.e.f. 1<sup>st</sup> April, 2005 marks one of the biggest tax reforms undertaken so far. Government intends to expand the scope of taxation of services not only by bringing newer services within the tax net but also to increase the rates of tax and non-tax revenues. In the long run this will be beneficial to the State finances.

Under the statutory Rules made under the Fiscal Responsibility and Budget Management Act, 2006, revenue surplus has to be at least maintained at the base year 2003-04 level (average of the years 2001-02, 2002-03 and 2003-04) from 2005-06 upto 2009-10. After careful consideration of the rigidities in the profile and trends of expenditure on the revenue account, both plan and non-plan, the bulk of the fiscal correction is required to be carried out for maintaining the revenue surplus by improving the Tax: GSDP ratio. Principal constituents of the revenue expenditure portfolio are interest payments, salaries and pensions, which together account for nearly 38% of the total revenue expenditure during 2006-07.

In the normal course, Government borrowings are advisable only for meeting the needs of financing productive investments. However, owing to continuing rigidities, and a narrow tax base, the revenues of Government have not been able to keep pace with its needs of recurring expenditure leading to borrowings to finance such expenditures. This is reflected in the trends in non-plan revenue deficit.

- (ii) The use of capital receipts including market borrowings for generating productive assets.

One of the major objectives of the Fiscal Responsibility and Budget Management Act, 2006, is to effect a shift in the composition of total expenditure, by increasing the share of capital expenditure that would help achieve a higher growth trajectory. The practice of capital receipts for funding revenue expenditure needs to be reversed. The Fiscal Responsibility and Budget Management Act, 2006, has set an important target maintaining revenue surplus at least at the base year level up to 2009-10 which would provide Government the desired flexibility in incurring capital expenditure.

## 3. FISCAL PLAN STRATEGY STATEMENT

### A. Fiscal Plan Overview

The fiscal stress, which had peaked in the aftermath of the recommendation of the 5<sup>th</sup> Central Pay Commission has since eased, mainly due to improvement in tax collections and softening of interest rates. In an attempt to remove the fiscal drag on the economy, the Government has been attempting to increase the tax base and increase in the tax and non-tax rates.

### B. Fiscal Plan for the ensuing financial year(2008-09):

Through the Budget 2008-09, the Government commits itself to pursuing fiscal policies designed to promote savings into productive investment, and to devise ways and means to channel these savings into productive investment, and to fund necessary social expenditures. The central theme that runs through the various schemes and programmes is creation of jobs, strengthening of social infrastructure and providing succor to the weaker sections of society. The sectors targeted for special attention are agriculture, horticulture, tourism, rural employment, elementary education and rural healthcare.

### Tax policy

We must increase our revenue. It is Government's intention to improve the tax to GSDP ratio, expand the tax base, increase tax compliance and make tax administration more efficient.

**Government Borrowings, Lending and Investments**

The Government continues to rely on market borrowing for financing fiscal deficit; to have a soft interest rate regime; and to develop a deep and wide market for government securities.

**Initiatives in Public Expenditure Administration**

Outlays do not necessarily mean outcomes. We need to reorient expenditure to extract better value for money. There is imperative need to improve the quality of implementation and enhance the efficiency and accountability of the delivery mechanism. During the course of the year, a mechanism is sought to be put in place to measure the development outcome for all major programmes.

In a gradual move towards six monthly Budgeting, six monthly ceilings and targets will be prescribed for expenditure and revenue collection. Expenditure in excess of ceilings will require clearance from the Finance department. A review of user charges will be undertaken with a view to increase non tax.

**Policy Evaluation**

Under the FRBM Act, 2006, the Government is committed to maintain revenue surplus upto 2008-09 and thereafter, and re-affirm this commitment. Prudent fiscal policy, therefore, requires raising non-debt resources commensurate with the aspirations for higher levels of public expenditure on social and physical infrastructure; rural development; and education and health.

To conclude, I would like to assure this August House that the Government's commitment to maintain the revenue surplus at least at the base year 2003-04 level upto 2008-09 and thereafter to maintain this remains intact and to reduce the fiscal deficit by 2008-09 at the minimum to 3% of GSDP and to maintain that thereafter. The Government needs some time to revamp tax and expenditure management.

A statement showing details of number of employees as on 31.3.2007 in the Government and related salaries is enclosed at Annex- I in compliance with the Act.

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Staff strength of the Departments of Arunachal Pradesh as on 31.03.2007

Rs. in Lakhs

Sl. No.	Name of the Deptt.	Nos of Employees			Total	Salaries		
		Non Plan	Plan	4		Non Plan	Plan	Total
1	2	3	4	5	6	7	8	
1	Legislative Assembly	150	--	150	296.74	--	296.74	
2	PWD(Road)	2456	414	2870	3579.16	447.39	4026.55	
3	Audi & Pension	117	8	125	68.89	10.48	79.37	
4	Rural development	545	585	1130	984.54	305.52	1290.06	
5	Information & Publicity	185	67	252	221.92	90.89	312.81	
6	RWD	970	747	1717	608.55	350.57	959.12	
7	Education	4881	5274	10155	8301.27	7402.87	15704.14	
8	Industries	101	63	164	131.30	442.32	573.62	
9	labour & Employment	20	66	86	76.79	144.78	221.57	
10	Agriculture	1197	1082	2279	1653.03	602.37	2255.40	
12	Animal Husbandry & Vet.	902	330	1232	1268.19	503.70	1771.89	
13	Urban Development	82	159	241	99.37	2.92	102.29	
14	Horticulture	324	171	495	551.00	240.00	791.00	
16	Tourism	16	84	100	20.82	85.25	107.07	
17	Accounts & Treasuries	140	--	140	255.32	--	255.32	
18	Land Management	127	141	268	265.00	87.00	352.00	
19	Panchayati Raj	103	66	169	130.41	63.00	193.41	
20	Commr. (west)	8	--	8	18.68	--	18.68	
21	Governor's Secretariat	53	--	53	64.79	--	64.79	
22	Social Welfare	140	177	317	264.98	1989.84	2254.82	
23	Cooperation	123	77	200	182.38	72.49	254.87	
24	Art & Culture	40	43	83	285.96	101.44	387.30	
25	Law & Judicial	35	--	35	59.19	--	59.19	
26	Planning & Dev.	49	--	49	72.98	--	72.98	
27	Fisheries	155	126	281	198.68	142.59	341.27	
28	Sports & Youths	4	110	114	56.67	299.91	356.58	
29	Geology & Mining	--	98	98	--	80.00	80.00	

Sl. No.	Name of the Deptt.	Nos of Employees			Salaries		
		Non Plan	Plan	Total	Non Plan	Plan	Total
		3	4	5	6	7	8
1	2						
30	Textiles & Handicrafts	326	171	497	420.00	107.39	527.39
31	PHE	398	880	1278	418.28	796.00	1214.28
35	Power	729	--	729	1172.03	--	1172.03
36	State Transport	604	--	604	861.55	--	861.55
37	Legal Metrology	104	25	129	118.11	35.50	153.61
38	Road Transport	20	15	35	18.00	21.40	39.40
40	Libraries	50	20	70	61.31	54.19	115.50
41	Eco. & Statistics	151	115	266	246.85	127.65	374.50
42	Police	7220	--	7220	8787.39	--	8787.39
44	Stationery & Printing	48	74	122	54.02	77.59	131.61
45	Forest	1931	390	2291	2307.07	470.52	2777.59
46	State Lotteries	2	--	2	3.79	--	3.79
47	Food & Civil Supply	575	72	647	281.80	88.93	370.73
48	Civil Aviation	--	13	13	--	15.68	15.68
49	Health	4789	1286	6075	5665.08	1440.44	7105.52
50	Water Resources	417	677	1094	418.28	796.00	1214.28
51	District Admn.	2565	--	2565	2937.18	--	2937.18
52	Commr. Office	10	--	10	1.05	--	1.05
53	State Election Commission	172	--	172	229.76	--	229.76
54	APPSC	50	--	50	82.62	--	82.62
55	Relief & RH	89	--	89	81.00	--	81.00
56	Commr.(East)	6	--	6	16.00	--	16.00
57	A.P. Secretariat	1135	14	1149	1801.03	23.00	1824.03
60	Gazetiers	14	--	14	55.51	--	55.51
61	Research	93	72	165	85.71	12.11	97.82
62	Fire Service	153	--	153	190.13	--	190.13
63	Tax & Excise	134	--	134	158.87	--	158.87
64	State Information Commission	4	--	4	12.82	--	12.82
65	Resident Commission, New Delhi	60	--	60	93.82	--	93.82
	<b>Total</b>	<b>34972</b>	<b>13682</b>	<b>48594</b>	<b>46201.75</b>	<b>17532.73</b>	<b>63734.48</b>