

Appendices

Explanatory Notes on Appendices I to VI

The Liberal Budget has set out its budgetary estimates for 2007-08, based on the conventional pattern of the Central Budget documents. Given the need for like to like comparison of crucial budgetary data, it is inevitable that we do not disturb the existing structure and composition of the budgetary figures.

However, the Liberal Budget recommends a comprehensive reform of the budgetary structure, based on the system of Fund Based Accounting system, outlined in the Liberal Budget 2004-05. In this context, we are happy that the Finance Ministry has begun the efforts to document Outcomes Budget. Of course, this system needs to be continuously fine-tuned with a view to make it more comprehensible and analysis-friendly.

The Liberal Budget has also been making a consistent case for doing away with the existing classification of expenditure as Plan Expenditure and Non-Plan Expenditure. This does not serve any useful purpose, and often gives a distorted picture of the budgetary transactions.

The most appropriate approach is to have well-defined economic and functional classifications of all Budget transactions, especially government expenditure. From this point of view, it will be necessary to undertake a comprehensive activity-wise classification of the expenditure pattern under a broad-based framework of Developmental and Non-Developmental Expenditure. While doing so, the Government must appoint a Statutory Expert Committee to review the existing budgetary data and recommend reforms therein, including the prevailing classification of Revenue and Capital Budgets.

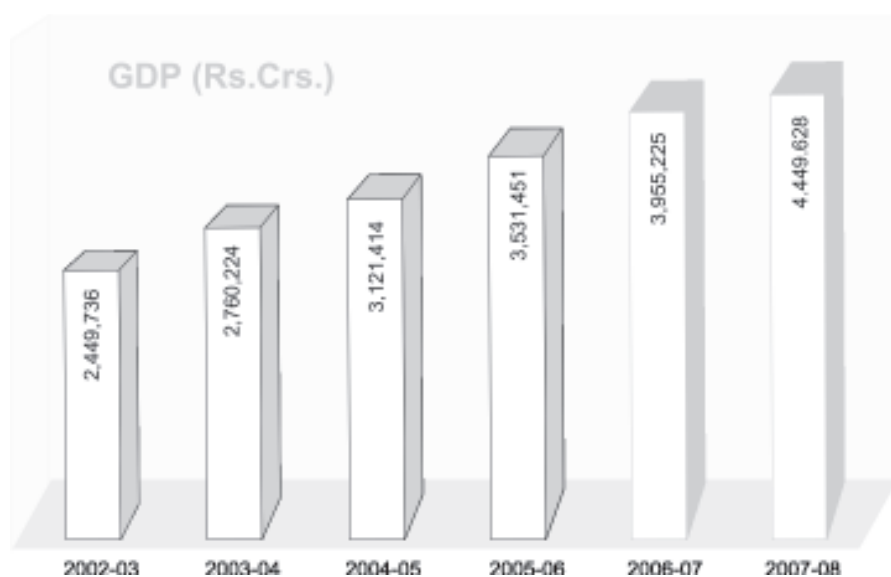
Having said this, the Liberal Budget highlights the following key features of its estimates for the year 2007-08:

- First, the Liberal Budget 2007-08 envisages total expenditure (Revenue + Capital) of Rs 617,000 crores, representing an increase of 9.4% over the budget estimates of 2006-07. The increase in the previous Central Budget was 10.9%.
- Second, this total expenditure will be funded through revenue receipts of Rs 461,000 crores (or 74.7% of the total) and capital receipts of Rs 156,000 crores (or 25.3% of the total). It is the aim of the Liberal Budget to reduce progressively the dependence on the funding of total expenditure from capital receipts. The purpose is to reduce fiscal deficits substantially.
- Third, the revenue deficit is projected to fall drastically from 2.1% of GDP at current market prices in 2006-07 to 1% in 2007-08. Likewise, the ratio of fiscal deficit is projected to decline from 3.8% to 3.3% during this period. The Liberal Budget recommends more aggressive phasing out of the revenue deficits, which is consistent with the strategy of controlling revenue expenditure and boosting capital expenditure.
- Fourth, in terms of resource efforts, the emphasis of the Liberal Budget is on raising the gross tax to GDP ratio from 11.2% in 2006-07 to 11.6% in 2007-08. There are limitations on raising the non-tax revenues given the fact that a large number of Central Public Sector Enterprises are loss-making. The increase in tax ratio should be accomplished through better tax administration and the overall buoyancy in tax revenues.
- Fifth, it has been the mission of the Liberal Budget to bring about a sharp cutback in non-Plan Expenditure and raise correspondingly the allocations for Developmental Expenditure. Accordingly, the ratio of Development Expenditure to Total Expenditure will increase from 45.4% in 2006-07 to 50.8% in 2007-08. In particular, the spending on Interest Payments and Subsidies – the two predominant items of Non-Development Expenditure – will together drop from 4.7% of GDP to 4.4% of GDP. This is a major task in expenditure management. The spending on Defence is maintained in terms of ratio to GDP in 2007-08 in view of the rising threats of internal insurgency. However, this is more of an exception for this year.
- Lastly, the Liberal Budget believes in a holistic management of the fiscal system, and is strongly of the view that budgetary arithmetic is not an end in itself. What is most important is that the objective criteria of the Liberal Philosophy must be reflected not only in the budget figures, but also in the overall stance and substance of the fiscal policy. ❖

Liberal Budget at a Glance

(Rs. Crores)

	2002-03 (Actuals)	2003-04 (Actuals)	2004-05 (Actuals)	2005-06 (Revised Estimates)	2006-07 (Budget Estimates)	2007-08 (LBE)
1. Revenue Receipts (2 + 3)	230,834	263,813	306,013	348,474	403,465	461,000
(2) Tax Revenue (Net to Centre)	158,544	186,982	224,798	274,139	327,205	385,000
(3) Non-Tax Revenue	72,290	76,831	81,215	74,335	76,260	76,000
4. Capital Receipts (5 + 6)	180,531	211,333	191,669	160,231	160,526	156,000
(5) Loan Recoveries & Other Receipts*	35,459	88,060**	66,467**	14,056	11,840	11,000
(6) Borrowings and Other Liabilities #	145,072	123,273	125,202	146,175	148,686	145,000
7. Total Receipts (1 + 4)	411,365	475,146	497,682	508,705	563,991	617,000
8. Total Expenditure (9 + 10)	411,365	475,146	497,682	508,705	563,991	617,000
(9) Revenue Expenditure	338,713	362,074	384,351	440,295	488,192	507,000
(10) Capital Expenditure	72,652	113,072 ^	113,331 ^	68,410	75,799	110,000
11. Revenue Deficit (9 - 1)	109,879	98,261	78,338	91,821	84,727	46,000
12. Fiscal Deficit [8 - (1 + 5)]	145,072	123,273	125,202	146,175	148,686	145,000
13. Primary Deficit @	27,268	(-) 815	(-) 1,732	16,143	8,863	(-) 6,000
Deficit Ratios (%) :						
a) Revenue Deficit to GDP	4.4	3.6	2.5	2.6	2.1	1.0
b) Fiscal Deficit to GDP	5.9	4.5	4.0	4.1	3.8	3.3
c) Primary Deficit to GDP	1.1	(-) 0.0	(-) 0.1	0.5	0.2	(-) 0.1
14. Derived GDP at Current Market Prices	2,449,736	2,760,224	3,121,414	3,531,451	3,955,225	4,449,628



LBE Liberal Budget Estimates
 @ Fiscal Deficit less Interest Expenditure
 (-) denotes generation of surplus position
 * Includes Disinvestment Proceeds
 ** Includes Receipts from States on account of Debt Swap Scheme
 # Borrowing does not include receipts in respect of Market Stabilization Scheme, which remain in the cash balances of the government and is not used for expenditure
 ^ Includes repayment to National Small Savings Fund out of the proceeds of Debt Swap Scheme

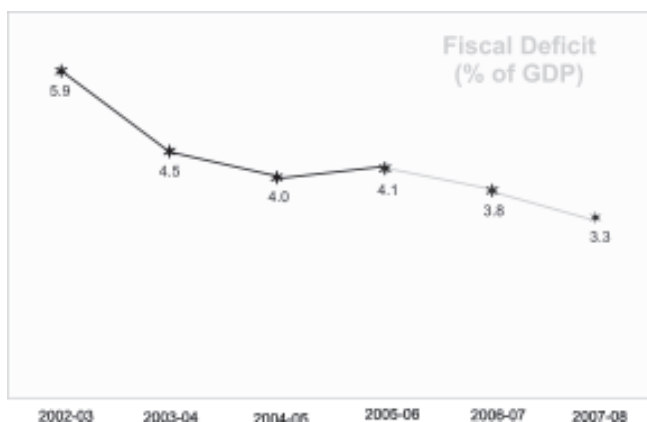
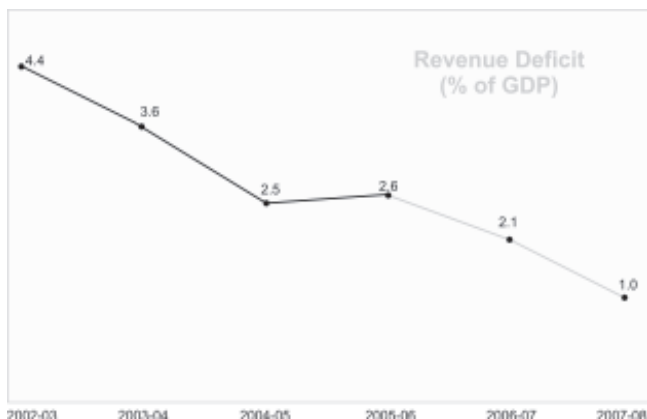
Notes:

- Figures from 2002-03 to 2006-07 are based on official budget documents
- Figures for 2007-08 are Liberal Budget Estimates, based on various proposals set out in the text
- GDP growth at current market prices is assumed to rise at 12% in 2006-07 as projected in the official budget document and at 12.5% in 2007-08
- From 2005-06, the government stopped the practice of routing State government borrowings for Plan expenditure through its accounts. This has resulted in a reduction of its Capital Expenditure

The Liberal Budget at a Glance

(% of GDP)

	2002-03 (Actuals)	2003-04 (Actuals)	2004-05 (Actuals)	2005-06 (Revised Estimates)	2006-07 (Budget Estimates)	2007-08 (LBE)
1. Revenue Receipts (2 + 3)	9.4	9.6	9.8	9.9	10.2	10.4
(2) Tax Revenue (Net to Centre)	6.5	6.8	7.2	7.8	8.3	8.7
(3) Non-Tax Revenue	3.0	2.8	2.6	2.1	1.9	1.7
4. Capital Receipts (5 + 6)	7.4	7.7	6.1	4.5	4.1	3.5
(5) Loan Recoveries & Other Receipts *	1.4	3.2**	2.1**	0.4	0.3	0.2
(6) Borrowings and Other Liabilities #	5.9	4.5	4.0	4.1	3.8	3.3
7. Total Receipts (1 + 4)	16.8	17.2	15.9	14.4	14.3	13.9
8. Total Expenditure (9 + 10)	16.8	17.2	15.9	14.4	14.3	13.9
(9) Revenue Expenditure	13.8	13.1	12.3	12.5	12.3	11.4
(10) Capital Expenditure	3.0	4.1 ^	3.6 ^	1.9	1.9	2.5
11. Revenue Deficit Ratio (% of GDP)	4.4	3.6	2.5	2.6	2.1	1.0
12. Fiscal Deficit Ratio (% of GDP)	5.9	4.5	4.0	4.1	3.8	3.3
13. Primary Deficit Ratio (% of GDP)	1.1	(-) 0.0	(-) 0.1	0.5	0.2	(-) 0.1



- LBE Liberal Budget Estimates
 @ Fiscal Deficit /less Interest Expenditure
 (-) denotes generation of surplus position
 * Includes Disinvestment Proceeds
 ** Includes Receipts from States on account of Debt Swap Scheme
 # Borrowing does not include receipts in respect of Market Stabilization Scheme, which remain in the cash balances of the government and is not used for expenditure
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The Liberal Budget - Revenue Receipts

(Rs. Crores)

	2002-03 (Actuals)	2003-04 (Actuals)	2004-05 (Actuals)	2005-06 (Revised Estimates)	2006-07 (Budget Estimates)	2007-08 (LBE)
Gross Tax Revenue	216,266	254,348	304,958	370,141	442,153	515,000
Union Excise duties	82,310	90,774	99,125	112,000	119,000	133,000
Customs	44,852	48,629	57,611	64,215	77,066	79,500
Corporation tax	46,172	63,562	82,680	103,573	133,010	155,000
Income tax	36,866	41,387	49,259	66,239	77,409	100,000
Service tax	4,122	7,891	14,200	23,000	34,500	46,000
Others	1,944	2,105	2,083	1,114	1,168	1,500
Less: States' Share and Transfer to National Calamity Contingency Fund	57,722	67,366	80,160	96,002	114,948	130,000
1. Net Tax Revenue	158,544	186,982	224,798	274,139	327,205	385,000
Non-Tax Revenue						
Interest receipts	37,622	38,538	32,364	21,245	19,263	18,000
Dividend and profits	21,230	21,160	22,939	25,481	27,500	27,000
Others	13,438	17,133	25,912	27,609	29,497	31,000
2. Total Non-Tax Revenue	72,290	76,831	81,215	74,335	76,260	76,000
Total Revenue Receipts (1 + 2)	230,834	263,813	306,013	348,474	403,465	461,000

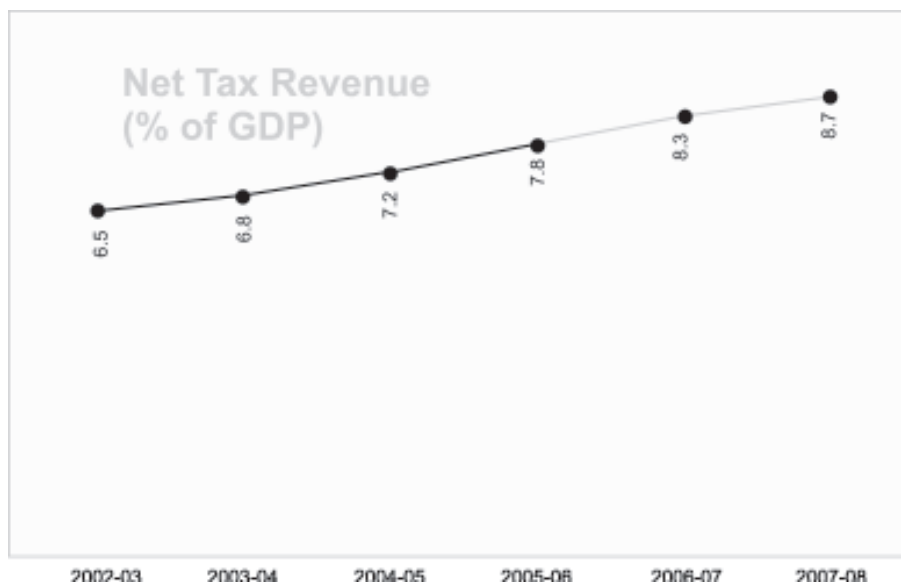
LBE Liberal Budget Estimates

Notes:

1. Figures from 2002-03 to 2006-07 are based on official budget documents
2. Figures for 2007-08 are Liberal Budget Estimates, based on various proposals set out in the text
3. GDP growth at current market prices is assumed to rise at 12% in 2006-07 as projected in the official budget document and at 12.5% in 2007-08
4. From 2005-06, the government stopped the practice of routing State government borrowings for Plan expenditure through its accounts. This has resulted in a reduction of its Capital Expenditure

The Liberal Budget - Revenue Receipts

	(% of GDP)					
	2002-03 (Actuals)	2003-04 (Actuals)	2004-05 (Actuals)	2005-06 (Revised Estimates)	2006-07 (Budget Estimates)	2007-09 (LBE)
Gross Tax Revenue	8.8	9.2	9.8	10.5	11.2	11.6
Union Excise duties	3.4	3.3	3.2	3.2	3.0	3.0
Customs	1.8	1.8	1.8	1.8	1.9	1.8
Corporation tax	1.9	2.3	2.6	2.9	3.4	3.5
Income tax	1.5	1.5	1.6	1.9	2.0	2.2
Service tax	0.2	0.3	0.5	0.7	0.9	1.0
Others	0.1	0.1	0.1	0.0	0.0	0.0
Less States' Share and Transfer to National Calamity Contingency Fund	2.4	2.4	2.6	2.7	2.9	2.9
1. Net Tax Revenue	6.5	6.8	7.2	7.8	8.3	8.7
Non-Tax Revenue						
Interest receipts	1.5	1.4	1.0	0.6	0.5	0.4
Dividend and profits	0.9	0.8	0.7	0.7	0.7	0.6
Others	0.5	0.6	0.8	0.8	0.7	0.7
2. Total Non-Tax Revenue	3.0	2.8	2.6	2.1	1.9	1.7
Total Revenue Receipts (1 + 2)	9.4	9.6	9.8	9.9	10.2	10.4
GDP at current market prices (Rs. Crores)	2,449,736	2,760,224	3,121,414	3,531,451	3,955,225	4,449,628



LBE Liberal Budget Estimates

Notes:

1. Figures from 2002-03 to 2006-07 are based on official budget documents
2. Figures for 2007-08 are Liberal Budget Estimates, based on various proposals set out in the text
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The Liberal Budget - Expenditure Pattern

	(Rs. Crores)					
	2002-03 (Actuals)	2003-04 (Actuals)	2004-05 (Actuals)	2005-06 (Revised Estimates)	2006-07 (Budget Estimates)	2007-08 (LBE)
I. Non-Development Expenditure of which	242,749	243,298	262,904	290,264	316,081	311,000
1. Defence	40,709	43,203	43,862	48,625	51,542	56,000
2. Interest Payments	117,804	124,088	126,934	130,032	139,823	151,000
3. Subsidies	43,533	44,323	43,653	46,874	46,213	45,000
II. Developmental Expenditure of which :	184,197	195,428	214,955	232,698	262,515	321,000
1. Economic Services	103,820	108,071	115,030	139,254*	156,629**	175,000
2. Social Sector	58,606	61,178	62,614	74,275	81,605	102,000
Total Expenditure (I + II)	426,946	438,726	477,859	522,962	578,596	632,000
Ratio of Development Expenditure to Total Expenditure(%)	43.1	44.5	45.0	44.5	45.4	50.8

LBE Liberal Budget Estimates

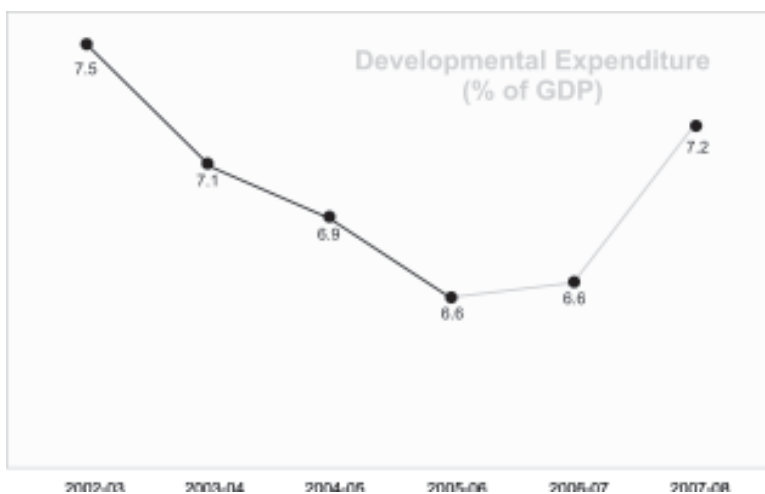
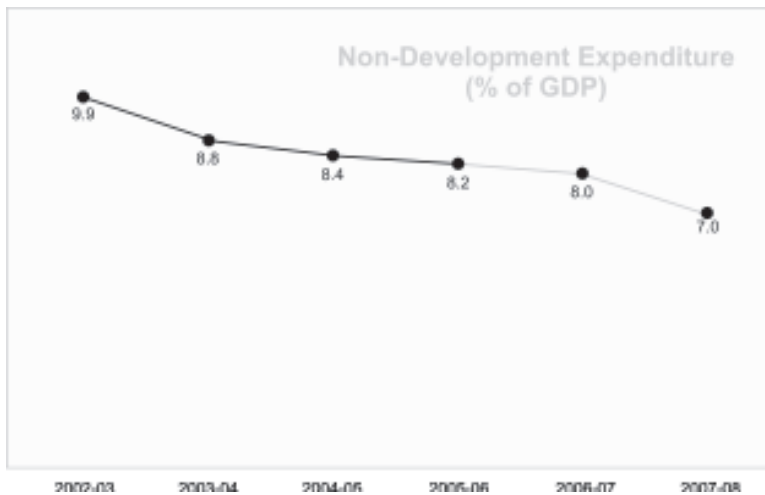
* Revised Estimates

@ Budget Estimates

- (1) Figures of Non-Development and Development Expenditure (including that for Social Sector) from 2002-03 to 2006-07 are compiled from the Reserve Bank of India's Annual Report 2005-06 (Page no. 295). Figures of Economic Services are from the RBI's Handbook of Statistics on Indian Economy, 2006
- (2) Data for 2007-08 are estimates for the Liberal Budget based on certain assumptions set out in the text.
- (3) Total expenditure in this table is inclusive of transaction of Commercial Departments. Hence, these figures do not tally with figures in Appendix I & II.

The Liberal Budget - Expenditure Pattern

	2002-03 (Actuals)	2003-04 (Actuals)	2004-05 (Actuals)	2005-06 (Revised Estimates)	2006-07 (Budget Estimates)	2007-08 (LBE)
	(% to GDP)					
I. Non-Development Expenditure of which :	9.9	8.8	8.4	8.2	8.0	7.0
1. Defence	1.7	1.6	1.4	1.4	1.3	1.3
2. Interest Payments	4.8	4.5	4.1	3.7	3.5	3.4
3. Subsidies	1.8	1.6	1.4	1.3	1.2	1.0
II. Developmental Expenditure of which :	7.5	7.1	6.9	6.6	6.6	7.2
1. Economic Services	4.2	3.9	3.7	3.9*	4.0**	3.9
2. Social Sector	2.4	2.2	2.0	2.1	2.1	2.3
Total Expenditure (I + II)	17.4	15.9	15.3	14.8	14.6	14.2
GDP at current market prices (Rs. Crores)	2,449,736	2,760,224	3,121,414	3,531,451	3,955,225	4,449,628



LBE Liberal Budget Estimates

* Revised Estimates

** Budget Estimates

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4. From 2005-06, the government stopped the practice of routing State government borrowings for Plan expenditure through its accounts. This has resulted in a reduction of its Capital Expenditure

PARTICIPANTS AT THE DISCUSSIONS PREPARATORY TO THE DRAFTING OF LIBERAL BUDGET 2007-08

Three symposiums in Mumbai *

Mr. Sunil S. Bhandare

Advisor,
Economic and Government Policy,
Tata Strategic Management Group

Mr. Saugata Bhattacharya

Vice President,
Business and Economic Research,
UTI Bank

Mr. Arun Chacko

Director, Press Institute of India

Dr. Madhav Datar

Corporate Strategy and Planning
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Mr. Allwyn Fernandes

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Mumbai University

Dr. Avadoot Nadkarni

Professor of Economics,
Mumbai University

Ms. Kiran Nanda

Economic Advisor,
Indian Merchants' Chamber

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Infrastructure Development Finance
Co. Ltd.

Mr. Partha Ray

Executive Assistant to Deputy Governor,
Reserve Bank of India

Dr. Siddhartha Roy

Economic Advisor –
Tata Group, Tata Services Ltd.

Mr. Jayraj Salgaokar

Writer and Publisher of '*Kaldirnay*'

Mr. Mangesh Soman

Dy. General Manager,
Aditya Birla Management
Corporation

Mr. Narayan Varma

Chartered Accountant

Mr. Mahesh Vijapurkar

Deputy Editor, *The Hindu*

* **Post-Reform Trends in Poverty and Inequality in India, June 29, 2006**

Keynote Speaker: Prof. Suresh Tendulkar, Economist and currently member of the Prime Minister's Economic Advisory Council.

* **Post-Reform Trends in Employment and Labour Policy in India, July 28, 2006**

Keynote Speakers : Prof. Lalit Deshpande, Research Consultant, retired Professor of Economics and Director of Economics, Bombay University and Prof. Sudha Deshpande, Demographer.

* **The Approach Document to the 11th Five Year Plan, August 25, 2006**

Keynote Speaker : Dr. A. Vasudevan, formerly Executive Director, Reserve Bank of India.

Note: The list is a composite one. Not every one was present at all three symposiums.

Workshop in Chennai, August 5, 2006

Mr. Sunil S. Bhandare
Economist

Mr. P. K. Doraiswamy
IAS Retd.

Mr. K. P. Geethakrishnan
IAS Retd.

Mr. T. S. Gopal
Social Activist

Dr. U. Jayalakshmi
Professor of Economics

Mr. R. G. Katoti
Economist

Ms. J. Madhuri
Equity Research Analyst

Mr. R. Natarajan
Retired Banker

Mr. Rajmohan V Pai
Company Executive

Prof. S. Radhakrishnan
Professor of Economics

Mr. N. Ramesh
Social Activist

Mr. Pavan N. Rao
Chartered Accountant

Mrs. Sushila Ravindran
Teacher in Economics

Mr. Sunil Rongala
Economist

Dr. A. Selvaraj
Professor of Economics

Dr. A. Singarayyar
Professor of Economics

Mr. T. S. Sitaram
Insurance Executive

Mr. S. Sivarajasingham
Agronomist

Mr. Mangesh Soman
Economist

Mr. H. Sai Sridhar
Business Executive

Dr. G. Sundaram
IAS Retd.

Dr. A. M. Swaminathan
IAS Retd.

Mr. O. P. Tandon
Coordinator - Projects,
Press Institute of India

Mr. M. R. Venkatesh
Chartered Accountant

Dr. V. Vijayalakshmi
Professor of Economics

Mr. S. Viswanathan
Editor, *Industrial Economist*

**Students from the Great Lakes
Institute of Management,
Chennai**

Ms. Abhirami G.

Mr. Hariprasad B.

Ms. Indranil D.

Mr. Anil Kumar

Ms. N. Manjula

Mr. S. Subramanian

Mr. Kuldeep Tahim

**Workshop in Devlali at the LSP
Centre, September 9 & 10, 2006**

Mr. S. Arunajatesan
Formerly Deputy General Manager,
State Bank of India

Dr. Shyam Ashtekar
Director, School of Health Science,
Maharashtra Open University

Mr. Sunil S. Bhandare
Economist

Dr. Dinesh Chandra
IAS Retd.

Dr. C. S. Deshpande
Economist

Mr. R. G. Katoti
Economist

Ms. Neela Khandge
Economist

Dr. Girdhar Patil
Homeopath

Mr. V. V. S. Rama Rao
Agriculturist

Prof. R. M. Mohan Rao
Professor of Agriculture

Dr. Y. Sivaji
Former Member of Rajya Sabha

Mr. Mangesh Soman
Economist

Mr. M. R. Venkatesh
Chartered Accountant

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Cover Design & Layout:
Umesh Magar & Vivek Raju

Published by:

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Fax : (0091 22) 2284 3416 ● E-mail : freedom@vsnl.com

DTP Typesetting & Printing by:

SHUBHAM PRINT & WEB, 59, Dr. V. B. Gandhi Marg, Fort, Mumbai 400 001.
Telefax : (0091 22 2284 2619 ● Mobile : 98929 21277 ● E-mail : kotaknet@mtnl.net.in
1500/11/2006