

Approach to Eleventh Five-Year Plan (2007-2012)

Five Year Plans have always occupied a significant position in shaping India's economy. India has completed nine Five-Year Plans (FYP) and is currently implementing the last year of the Tenth Plan. While the Tenth Plan is coming to a near end, high level meetings are in vogue to discuss and work out the modalities of the Eleventh Plan. A FYP is considered as a general forecast of what the Government intends to do to bring about economic development and provides continuity irrespective of the Government in power. It acts as a guideline/ roadmap to the policies and programmes that would be framed to achieve the desired objective. The guiding principles of India's FYPs are provided by the basic objectives of growth, employment, self-reliance and social justice. A plan takes into account the constraints faced and attempts to make directional changes. Given that FYP is a broad policy framework, it is actually the annual plans / budget that specifies the action plan detailing the activities and their expenditure based on strategies outlined in the FYP document. With regional imbalances prevailing in the country to a large extent, the need for a national plan is greatly felt to ensure equitable allocation of the country's resources to bring about balanced regional development.

Approach Paper to the Eleventh FYP

The approach paper to the Eleventh FYP is ready and Planning Commission, the highest planning body in the country, has circulated it to the members of the National Development Council (NDC) on 14th June 2006. Planning Commission is holding a series of discussions with the Chief Ministers of the States to decide the priorities and strategies for the XI Plan.

The Indian economy is in a much stronger position now than it was a few years ago. The growth performance in the first four years of the Tenth Plan averaged at 6.3%. The economy is in a state of take-off and large investments are underway. The macro economic fundamentals are sound. Indian economy is getting integrated with the global economy. It is expected that the upward trend would continue throughout the XI plan period and give further boost to the economic growth.

During the Ninth Plan, the growth rate averaged around 5.5% which has accelerated in the Tenth Plan and the rate is likely to be around 7%. Though this is below the Tenth Plan target of 8%, it is the highest growth rate achieved in any plan period. The combined fiscal deficit of the Central and the State Governments is higher than it should be but has been falling. Inflation has been moderate, despite sharp hike in international oil prices. The current account was surplus during the first two years of the Tenth Plan and turned into a deficit in the third year (to the extent of 1.0% of GDP). Foreign exchange reserves are also comfortably poised at \$ 162 mn (as on June 2006)

Macroeconomic indicators

The following table compares the macroeconomic indicators in the Ninth Plan vis-à-vis the Tenth Plan.

	Ninth Plan (1997-98 to 2001-02)	Tenth Plan (2002-03 to 2006-07)
GDP Growth (%) of which	5.5	7.0
Agriculture	2.0	1.8
Industry	4.6	8.0
Services	8.1	8.9
Gross Domestic Savings (% of GDP) at market prices	23.1	28.2
Current Account Balance (% of GDP) at market prices	-0.7	0.7
Combined Fiscal Deficit of Centre and the States (% of GDP at market prices)	8.8	8.4
Foreign Exchange Reserves (US \$ billion)	54.2	151.6
Rate of Inflation (based on WPI)	4.9	4.8

Note:

1. GDP growth is in terms of GDP at factor cost at 1993-94 prices. For the X Plan, the growth rate is for the first four years, i.e., years 2002-03 to 2005-06
2. Gross savings rate, gross investment rates and the current account balance are expressed in current prices and are averages for the Plan. For the X Plan, these are the average for the first four years, i.e., years 2002-03 to 2005-06
3. Combined Fiscal Deficit is the average for the Plan – for X Plan it is the average of the first four years, i.e., years 2002-03 to 2005-06
4. Foreign Exchange Reserves are as on 29th March, 2002 for the Ninth Plan and 31st March 2006 for the Tenth Plan
5. The rate of inflation for the X Plan is the average up to January 2006.

Growth potential in the XI Plan

The approach paper has come up with three alternative scenarios for the XI Plan. Using the Planning Commission model of Incremental Capital Output Ratio (ICOR), it shows that acceleration from the baseline 7% growth to 9% will require an increase in total investment rate from 29.1% to 35.1%. However, the feasibility of this level of investment is dependent upon the willingness of the public and private sector to invest and the Government's ability to finance these investments (see table below).

Alternative scenarios for the Eleventh Plan

Target GDP growth rate in the 11 th Plan	7.0%	8.0%	9.0%
Average Investment rate	29.1	32.0	35.1
Average CAD as % of GDP	2.0	2.4	2.8
Domestic Savings Rate of which	27.1	29.6	32.3
a) Household	20.1	20.5	21.0
b) Corporate	5.0	5.5	6.1
c) Public Sector Enterprises	3.1	3.1	2.8
d) Government	-1.1	0.5	2.4

The current account deficit (CAD) is projected to increase from 2% of GDP (in the 7% growth projection) to 2.8% (in the 9% growth projection). This is a manageable level and does not seem to pose any danger. In all, the Planning Commission aims at keeping the CAD at below 3%.

High buoyancy in tax revenues displayed in the recent years is an indication of the positive impact of the tax reforms and administration and Planning Commission has expressed its satisfaction. Continuation of these efforts is likely to lead to rapid growth in tax revenue which when combined with moderation in the growth of current expenditure (especially subsidies) would keep the deficit indicators under control.

Sectoral Growth rates

The sectoral growth rates consistent with the growth scenarios are given below.

The target growth rates for industry and services appear feasible in the light of recent performance, although agricultural growth rate is much higher than recent trends.

Agriculture

The agricultural growth targets are explicitly derived by assuming virtually zero growth in agricultural imports and a step up in the rate of growth of agricultural exports by 10% per annum. The large agricultural research system that successfully launched the Green Revolution in the past would be called for addressing newer challenges. A National Rainfed Areas Authority is to be set up for developing concerted action plans for rainfed areas in close consultation with State Governments. The agricultural strategy for the XI Plan would be based on the

GDP	7.0	8.0	9.0
Agriculture	3.2	3.7	4.1
Industry	8.2	9.4	10.5
Services	7.7	8.8	9.9
Imports*	10.9	11.7	12.5
Exports*	14.2	15.4	18.4

* Measured in US \$. In case of imports, it is assumed that the price of oil remains constant at \$70 per barrel from 2006-07 onwards and average tariff rate stabilizes at 10% from 2008-09

recognition of the need for strategies specific to different agro-climatic zones. The approach paper has made it clear that though the strategies can emerge through consultations between the Centre and the States, the task of implementing these strategies falls almost wholly on the State Governments.

Industry

The Eleventh Plan aims at raising the annual rate of growth of the industrial sector to 10% and manufacturing growth to 12%. The most critical barriers to growth, viz., absence of adequate infrastructure and shortage of skilled manpower (by giving boost to higher and technical education) would be specially addressed in this plan to facilitate rapid industrial growth. The approach paper aims at giving priority to the following initiatives –

- 1) taxes and duties to be made non-distortionary and competitive
- 2) encourage Special Economic Zones (SEZs) and Special Economic Regions (SERs)
- 3) technological modernization
- 4) State Governments to create investor friendly climate
- 5) Labour intensive mass manufacturing based on relatively lower skill levels to provide opportunities for expanding employment in the industrial sector
- 6) Creation of an enabling environment for village and small enterprises
- 7) Review of the mineral policy to eliminate constraints in the way of investments in mining activities

Services

The service sector accounts for 54 per cent of GDP and is currently the fastest growing sector. India has about 65% share of global offshore of IT services and 46% of global business process outsourcing. This sector is estimated to have the potential for generating 40 million jobs by 2020. Therefore, the XI Plan has a special focus on this sector so that its potential is fully realized. Emerging skill constraints would be tackled by way of enhancing the standard of higher and technical education which would be accorded high priority in the XI Plan. The issue of enlarging the scope of Foreign Direct Investment in construction, housing and real estate, expansion of adequate tourism infrastructure would be considered.

Infrastructure

The Approach paper has highlighted that infrastructure inadequacies in both rural and urban areas are a major factor constraining India's growth. A Committee on Infrastructure established under the Chairmanship of the PM has identified programmes for infrastructure development which will cover the entire XI Plan period. PPPs are increasingly finding their way in rendering infrastructure services and State Governments have also been advised to adopt a similar approach.

Energy

The XI Plan aims to set up a robust energy R & D systems to develop relevant technology and energy sources to enhance energy security and lead to energy independence in a cost effective way in the long run. A number of technology missions covering areas such as in-situ gasification, solar energy, energy storage, etc. are proposed to be launched. The scope for production and use of renewable energy sources such as wind energy, bio-fuels, etc. would also find a place in the plan. It also emphasizes the need for a regulatory structure across all energy sub-sectors.

Poverty and Employment

The strategy of doubling the rate of growth of agriculture is expected to reduce poverty further if a steady expansion of schemes aimed at supporting incomes and welfare of poorer sections, viz., National Rural Employment Guarantee, Bharat Nirman, National Rural Health Mission, etc. is achieved. It is evident that a greater stress is laid on agricultural growth for overall development. To provide gainful employment, the XI plan would be paying special attention to labour intensive manufacturing sectors such as food processing industry, textiles, small and medium enterprises (SMEs), tourism and construction apart from focusing on employment generating schemes that yield results in the short term.

Health, education and other essential services

A central part of this approach paper is aimed at devising strategies that would extend access to essential public services like health, education, clean and safe drinking water, sanitation, etc which are not available to a large proportion of the population. Plan expenditure in these areas is likely to increase substantially and the monitoring process would lay stress on outcomes than outlays to determine the effectiveness in delivery of these services.

Major challenges for Planning Commission

Some of the major challenges posed before the PC while formulating the plan are -

- Regaining and sustaining agricultural growth
- Increasing manufacturing competitiveness
- Harnessing human resources
- Providing essential public services for the poor
- Environment protection
- Improving rehabilitation and resettlement practices
- Improving governance and ensuring fiscal discipline

COMMENTS

The transition towards faster and more inclusive growth calls for significant new initiatives in many sectors. Every effort will be required to push the agricultural growth to achieve the agri growth targets. Failure to do this will put the burden excessively on the non-agricultural sectors in order to achieve the overall GDP growth rate.

Industries have highlighted the emerging skill constraint among the workforce. With India aggressively pursuing the trade in services, it is necessary that educational standards and technical skills be maintained at levels comparable with the best in the world to sustain the growth in service sector.

Infrastructural inadequacies continue to constrain the full potential for industrial resurgence and pick up in investment. Policies and institutions need to be geared up to meet the specific requirements of the infrastructure sectors. With PPP being taken up seriously, it is expected to yield better results.

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