SPEECH OF SHRI PRANAB MUKHERJEE, MINISTER OF FINANCE, INTRODUCING THE BUDGET FOR THE YEAR 2011-2012*

Highlights

— *Promoting Micro Finance Institutions*

— *Setting up of Financial Sector Legislative Reforms Commission*

— *National Mission for Protein Supplements*

— *National Mission for Sustainable Agriculture*

— *Need to review Agriculture Produce Marketing Act*

— *Setting up of National Innovation Council*

Madam Speaker,

I rise to present the Union Budget for 2011-2012.

We are reaching the end of a remarkable fiscal year. In a globalised world with its share of uncertainties and rapid changes, this year brought us some opportunities and many challenges as we moved ahead with steady steps on the chosen path of fiscal consolidation and high economic growth.

Our growth in 2010-11 has been swift and broad-based. The economy is back to its pre-crisis growth trajectory. While agriculture has shown a rebound, industry is regaining its earlier momentum. Services sector continues its near double digit run. Fiscal consolidation has been impressive. This year has also seen significant progress in those critical institutional reforms that would set the pace for double-digit growth in the near future.

While we succeeded in making good progress in addressing many areas of our concern, we could have done better in some others. The total food inflation declined from 20.2 per cent in February 2010 to less

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than half at 9.3 per cent in January 2011, but it still remains a concern. In the medium-term perspective, our three priorities of sustaining a high growth trajectory; making development more inclusive; and improving our institutions, public delivery and governance practices, remain relevant. These would continue to engage the Indian policy-planners for some time. However, there are some manifestations of these challenges that need urgent attention in the short-term.

Though we have regained the pre-crisis growth momentum, there is a need to effect adjustments in the composition of growth on demand and supply side. We have to ensure that along with private consumption, the revival in private investment is sustained and matches pre-crisis growth rates at the earliest. This requires a stronger fiscal consolidation to enlarge the resource space for private enterprise and addressing some policy constraints. We also have to improve the supply response of agriculture to the expanding domestic demand. Determined measures on both these issues will help address the structural concerns on inflation management. It will also ensure a more stable macroeconomic environment for continued high growth.

The UPA Government has significantly scaled up the flow of resources to rural areas to give a more inclusive thrust to the development process. The impact is visible in the new dynamism of our rural economy. It has helped India navigate itself rapidly out of the quagmire of global economic slowdown. Yet, there is much that still needs to be done, especially in rural India. We have to reconcile legitimate environmental concerns with necessary developmental needs. Above all, there is the 'challenge of growing aspiration' of a young India.

To address these concerns, I do not foresee resources being a major constraint, at least not in the medium-term. However, the implementation gaps, leakages from public programmes and the quality of our outcomes are a serious challenge.

Certain events in the past few months may have created an impression of drift in governance and a gap in public accountability. Even as the Government is engaged in addressing specific concerns emanating from some of these events in the larger public interest and in upholding the rule of law, such an impression is misplaced. We have to seize in these developments, the opportunity to improve our regulatory standards and administrative practices. Corruption is a problem that we have to fight collectively.

In a complex and rapidly evolving economy, the Government can not profess to be the sole repository of all knowledge. Indeed, in a democratic polity, it stands to benefit from inputs from colleagues on both sides of the House. They must lend their voice and expertise to influence public policy in the wider national interest. In some areas, good results depend on coordinated efforts of the Centre and the State Governments and in some others, an favourable external developments.

I see the Budget for 2011-12 as a transition towards a more transparent and result oriented economic management system in India. We are taking major steps in simplifying and placing the administrative procedures concerning taxation, trade and tariffs and social transfers on electronic interface, free of discretion and bureaucratic delays. This will set the tone for a newer, vibrant and more efficient economy.

At times the biggest reforms are not the ones that make headline, but the ones concerned with the details of governance, which affect the everyday life of *aam aadmi*. In preparing this year's Budget, I have been deeply conscious of this fact. I am grateful for the able guidance of the Hon'ble Prime Minister and the strong support lent by UPA Chairperson Smt. Sonia Gandhi in my endeavour. I would now begin with a brief overview of the economy.

Overview of the Economy

On last Friday, I laid on the Table of the House the Economic Survey 2010-11, which gives a detailed analysis of the economic situation of the country over the past 12 months. The Gross Domestic Product (GDP) of India is estimated to have grown at 8.6 per cent in 2010-11 in real terms. In 2010-11 agriculture is estimated to have grown at 5.4 per cent, industry at 8.1 per cent and services at 9.6 per cent. All three sectors are contributing to the consolidation of growth. More importantly, the economy has shown remarkable resilience to both external and domestic shocks.

Our principal concern this year has been the continued high food prices. Inflation surfaced in two distinct episodes. At the beginning of the year, food inflation was high for some cereals, sugar and pulses. Towards the second half, while prices of these items moderated and even recorded negative rates of inflation, there was spurt in prices of onion, milk, poultry and some vegetables. Of late, prices of onion have crashed in wholesale markets and we have had to remove the ban on their exports.

Despite improvement in the availability of most food items, consumers were denied the benefit of seasonal fall in prices normally seen in winter months. These developments revealed shortcomings in distribution and marketing systems, which are getting accentuated due to growing demand for these food items with rising income levels. The huge differences between wholesale and retail prices and between markets in different parts of the country are just not acceptable. These are at the expense of remunerative prices for farmers and competitive prices for consumers.

Monetary policy stance in 2010-11, while being supportive of fiscal policy, has succeeded in keeping core-inflation in check. As the transmission lag in monetary policy tends to be long, I expect the measures already taken by the RBI to further moderate inflation in coming months.

The developments on India's external sector in the current year have been encouraging. Even as the recovery in developed countries is gradually taking root, our trade performance has improved. Exports have grown at 29.4 per cent to reach US Dollar 184.6 billion, while imports at US Dollar 273.6 billion have recorded a growth of 17.6 per cent during April-January 2010-11, over the corresponding period last year. The current account deficit is around the 2009-10 level and poses some concerns because of the composition of its financing.

Policy making in a globalised world has to take into account the likely international developments. To realise the desired outcomes, it is important that there is convergence in expectations of our investors, entrepreneurs and consumers on the macroeconomic prospects of the economy. Against this backdrop, the Indian economy is expected to grow at 9 per cent with an outside band of +/- 0.25 per cent in 2011-12. I expect the average inflation to be lower next year and the current account deficit smaller and better managed with higher domestic savings rate and stable capital flows. While, like last year, I seek the blessings of *Lord Indra* to bestow on us timely and bountiful monsoons, I would pray to *Goddess Lakshmi* as well. I think it is a good strategy to diversify one's risks.

Sustaining Growth

In my last Budget, I had started rolling back the fiscal stimulus implemented over 2008-09 and 2009-10 to mitigate the impact of the global financial crisis on economic slowdown in India. In the course of the year, I have moved further on that path. I believe that a part of the current recovery must be stored away to build future resilience. Indeed, a counter cyclical fiscal policy is our best insurance against external shocks and localised domestic factors.

Fiscal Consolidation

The experience with Fiscal Responsibility and Budget Management Act, 2003 (FRBM Act) at Centre and the corresponding Acts at State level show that statutory fiscal consolidation targets have a positive effect on macroeconomic management of the economy. In the course of the year, the Central Government would introduce an amendment to the FRBM Act, laying down the fiscal road map for the next five years.

The Thirteenth Finance Commission has worked out a fiscal consolidation road map for States requiring them to eliminate revenue deficit and achieve a fiscal deficit of 3 per cent of their respective Gross State Domestic Product latest by 2014-15. It has also recommended a combined States' debt target of 24.3 per cent of GDP to be reached during this period. The States are required to amend or enact their FRBM Acts to conform to these recommendations.

The Government has been in the process of setting-up an independent Debt Management Office in the Finance Ministry. A Middle Office is already operational. As a next step, I propose to introduce the Public Debt Management Agency of India Bill in the next Financial year.

Tax Reforms

The introduction of the Direct Taxes Code (DTC) and the proposed Goods and Services Tax (GST) will mark a watershed. These reforms will result in moderation of rates, simplification of laws and better compliance.

As Hon'ble Members are aware, the Direct Taxes Code Bill was introduced in Parliament in August 2010. After receiving the report of the Standing Committee, we shall be able to finalise the Code for its enactment during 2011-12. This has been a pioneering effort in participative legislation. The Code is proposed to be effective from 1 April 2012 to allow tax-payers, practitioners and administrators to fully understand the legislation and adjust to the revised procedures.

Unlike DTC, decisions on the GST have to be taken in concert with the States with whom our dialogue has made considerable progress in the last four years. Areas of divergence have been narrowed. As a step towards the roll-out of GST, I propose to introduce the Constitution Amendment Bill in this session of Parliament. Work is also underway on drafting of the model legislation for the Central and State GST.

Among the other steps that are being taken for the introduction of GST is the establishment of a strong IT infrastructure. We have made significant progress on the GST Network (GSTN). The key business processes of registration, returns and payments are in advanced stages of finalisation. The National Securities Depository Limited (NSDL) has been selected as technology partner for incubating the National Information

Utility that will establish and operate the IT backbone for GST. By June 2011, NSDL will set up a Pilot portal in collaboration with eleven States prior to its roll out across the country.

Expenditure Reforms

The effective management of public expenditure is an integral part of the fiscal consolidation process. Expenditure has to be oriented towards the production of public goods and services. The extant classification of public expenditure between plan, non-plan, revenue and capital spending needs to be revisited. This is necessary as one recognises the importance of service sector and the knowledge economy for our development. A Committee under Dr. C. Rangarajan has been set up by the Planning Commission to look into these issues.

Subsidies

During the year 2010-11, the Nutrient Based Subsidy (NBS) policy was successfully implemented for all fertilisers except Urea. The policy has been well received by all stakeholders, and the availability of fertilisers has improved. The extension of the NBS regime to cover Urea is under active consideration of the Government.

The Government provides subsidies, notably on fuel and foodgrains, to enable the common man to have access to these basic necessities at affordable prices. A significant proportion of subsidised fuel does not reach the targeted beneficiaries and there is large scale diversion of subsidised kerosene oil. A recent tragic event has highlighted this practice. We have deliberated for long the modalities of implementing such subsidies. The debate now has to make way for decision. To ensure greater efficiency, cost effectiveness and better delivery for both kerosene and fertilizers, the Government will move towards direct transfer of cash subsidy to people living below poverty line in a phased manner.

A task force headed by Shri Nandan Nilekani has been set-up to work out the modalities for the proposed system of direct transfer of subsidy for kerosene, LPG and fertilisers. The interim report of the task force is expected by June 2011. The system will be in place by March 2012.

People's Ownership of PSUs

The Government's programme to broadbase the ownership of Central Public Sector Undertakings (CPSUs) has received an overwhelming response. The six public issues of CPSUs in the current financial year have attracted around 50 lakh retail investors.

As against a target of Rs. 40,000 crore, the Government will raise about Rs. 22,144 crore from disinvestment in 2010-11. A higher than anticipated realisation in non-tax revenues has led us to reschedule some of the divestment issues planned for the current year. I intend to maintain the momentum on disinvestment in 2011-12 by raising Rs. 40,000 crore. Let me reiterate here that the Government is committed to retain at least 51 per cent ownership and management control of the CPSUs, as stated earlier in my Budget speech for 2009-10.

Investment Environment

Foreign Direct Investment (FDI)

To make the FDI policy more user-friendly, all prior regulations and guidelines have been consolidated into one comprehensive document, which is reviewed every six months. The last review has been released in September 2010. This has been done with the specific intent of enhancing clarity and predictability of our FDI policy to foreign investors. Discussions are underway to further liberalise the FDI policy.

Foreign Institutional Investors (FIIs)

Currently, only FIIs and sub-accounts registered with the SEBI and NRIs are allowed to invest in mutual fund schemes. To liberalise the portfolio investment route, it has been decided to permit SEBI registered mutual funds to accept subscriptions from foreign investors who meet the KYC requirements for equity schemes. This would enable Indian mutual funds to have direct access to foreign investors and widen the class of foreign investors in Indian equity market.

To enhance the flow of funds to the infrastructure sector, the FII limit for investment in corporate bonds, with residual maturity of over five years issued by companies in infrastructure sector, is being raised by an additional limit of US Dollar 20 billion taking the limit to US Dollar 25 billion. This will raise the total limit available to the FIIs for investment in corporate bonds to US Dollar 40 billion. Since most of the infrastructure companies are organised in the form of SPVs, FIIs would also be permitted to invest in unlisted bonds with a minimum lock-in period of three years. However, the FIIs will be allowed to trade amongst themselves during the lock-in period.

Financial Sector Legislative Initiatives

The financial sector reforms initiated during the early 1990s have borne good results for the Indian economy. The UPA Government is committed to take this process further. Accordingly, I propose to move the following legislations in the financial sector:

(i) The Insurance Laws (Amendment) Bill, 2008;

(ii) The Life Insurance Corporation (Amendment) Bill, 2009;

(iii) The revised Pension Fund Regulatory and Development Authority Bill, first introduced in 2005;

(iv) Banking Laws Amendment Bill, 2011;

(v) Bill on Factoring and Assignment of Receivables;

(vi) The State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2009; and

(vii) Bill to amend RDBFI Act, 1993 and SARFAESI Act, 2002.

In my last Budget speech, I had announced that Reserve Bank of India would consider giving some additional banking licences to private sector players. Accordingly, RBI issued a Discussion Paper in August 2010, inviting feedback from the public. RBI has proposed some amendments in the Banking Regulation Act. I propose to bring suitable legislative amendments in this regard in this session. RBI is planning to issue the guidelines for banking licences before the close of this financial year.

Public Sector Bank Recapitalisation

During the year 2010-11, the Government is providing a sum of Rs. 20,157 crore for infusion in the Public Sector Banks to maintain Tier I Capital to Risk Weighted Asset Ratio (CRAR) at 8 per cent and increase government equity in some banks to 58 per cent. I propose to provide a sum of Rs. 6,000 crore for the year 2011-12 to enable Public Sector Banks to maintain a minimum Tier I CRAR at 8 per cent.

Recapitalisation of Regional Rural Banks

As a part of financial strengthening of Regional Rural Banks, an amount of Rs. 350 crore was given to these banks during this year. I propose to provide Rs. 500 crore during 2011-12 to enable them maintain a CRAR of at least 9 per cent as on 31 March 2012.

Micro Finance Institutions

The Micro Finance Institutions (MFIs) have emerged as an important means of financial inclusion. Creation of a dedicated fund for providing equity to smaller MFIs would help them maintain growth and achieve scale and efficiency in operations. I propose to create in the course of the year, "India Microfinance Equity Fund" of Rs. 100 crore with SIDBI. To empower women and promote their Self-Help Groups (SHGs), I propose to create a "Women's SHG's Development Fund" with a corpus of Rs. 500 crore. The Committee set up by RBI to look into issues relating to micro finance sector in India has submitted its report. The Government is considering putting in place appropriate framework to protect the interests of small borrowers.

Rural Infrastructure Development Fund

The Rural Infrastructure Development Fund (RIDF) is important instrument for routing bank funds for financing rural infrastructure. This is popular among State Governments. I propose to raise the corpus of RIDF XVII to Rs. 18,000 crore in 2011-12 from Rs. 16,000 crore in the current year. The additional allocation would be dedicated to creation of warehousing facilities.

Micro, Small and Medium Enterprises

Micro and Small enterprises play a crucial role in furthering the objective of equitable and inclusive growth. Last year, Rs. 4,000 crore was provided to SIDBI for refinancing incremental lending by banks to these enterprises. For the year 2011-12, I propose to provide Rs. 5,000 crore to SIDBI for the same purpose out of the shortfall of banks on priority sector lending targets.

Handloom weavers have been facing economic stress. Consequently, many of them have not been able to repay debts to handloom weaver cooperative societies which have become financially unviable. I propose to provide Rs. 3,000 crore to NABARD, in phases for these cooperative societies. The initiative would benefit 15,000 co-operative societies and about 3 lakh handloom weavers. The details of the scheme would be worked out by the Ministry of Textiles in consultation with Planning Commission.

I am happy to report that the outstanding loans to minority communities which stood at 13 per cent of total priority sector lending at the end of last year have increased to 13.6 per cent in the current year. I have directed the Public Sector Banks to achieve the target of 15 per cent at the earliest.

Housing Sector Finance

To further stimulate growth in housing sector, I am liberalising the existing scheme of interest subvention of 1 per cent on housing loans by extending it to housing loan upto Rs. 15 lakh where the cost of the house does not exceed Rs. 25 lakh from the present limit of Rs. 10 lakh and Rs. 20 lakh respectively.

On account of increase in prices of residential properties in urban areas, I propose to enhance the existing housing loan limit from Rs. 20 lakh to Rs. 25 lakh for dwelling units under priority sector lending.

To provide housing finance to targeted groups in rural areas at competitive rates, I propose to enhance the provision under Rural Housing Fund to Rs. 3,000 crore from the existing Rs. 2,000 crore.

Credit enablement of Economically Weaker Sections (EWS) and LIG households is a serious challenge. To address this issue, I propose to create a Mortgage Risk Guarantee Fund under *Rajiv Awas Yojana*. This would guarantee housing loans taken by EWS and LIG households and enhance their credit worthiness.

To prevent frauds in loan cases involving multiple lending from different banks on the same immovable property, the Government has facilitated setting up of Central Electronic Registry under the SARFAESI Act, 2002. This Registry will become operational by 31 March 2011.

Financial Sector Legislative Reforms Commission

In pursuance of the announcement made in Budget 2010-11, the Government has set up a Financial Sector Legislative Reforms Commission under the Chair of Justice B.N. Srikrishna. It would rewrite and streamline the financial sector laws, rules and regulations and bring them in harmony with the requirements of a modern financial sector. The Commission will complete its work in 24 months.

The Companies Bill introduced in the Parliament in 2009 has been received from the Parliamentary Standing Committee. The proposed bill will be introduced in the Lok Sabha in the current session.

Agriculture

Agriculture development is central to our growth strategy. Measures taken during the current year have started attracting private investment in agriculture and agro-processing activities. This process has to be deepened further.

In the Budget for 2010-11, I had delineated a four-pronged strategy covering agricultural production, reduction in wastage of produce, credit support to farmers and a thrust to the food processing sector. These initiatives have started showing results but there are other issues in our food economy that require attention. The recent spurt in food prices was driven by increase in the prices of items like fruits and vegetables, milk, meat, poultry and fish, which account for more than 70 per cent of the WPI basket for primary food items. Removal of production and distribution bottlenecks for these items will be the focus of my attention this year. I propose to make allocations for these schemes under the ongoing *Rashtriya Krishi Vikas Yojana* (RKVY) for an early take off. The total allocation of RKVY is being increased from Rs. 6,755 crore in 2010-11 to Rs. 7,860 crore in 2011-12.

Bringing Green Revolution to Eastern Region

The Green Revolution in Eastern Region is waiting to happen. To realize the potential of the region, last year's initiative will be continued in 2011-12 with a further allocation of Rs. 400 crore. The programme would target the improvement in the rice based cropping system of Assam, West Bengal, Orissa, Bihar, Jharkhand, Eastern Uttar Pradesh and Chhattisgarh.

Integrated Development of 60,000 Pulses Villages in Rainfed Areas

Government's initiative on pulses has received a positive response from the farmers. As per the second advance estimates, a record production of 165 lakh ton of pulses is expected this year as against 147 lakh ton last year. While consolidating these gains, we must strive to attain self-sufficiency in production of pulses within next three years. I propose to provide an amount of Rs. 300 crore to promote 60,000 pulses villages in rain-fed areas for increasing crop productivity and strengthening market linkages.

Promotion of Oil Palm

The Domestic production of edible oil meets only about 50 per cent demand. The gap in supply is met through imports, which are often at high prices due to the quantum of our requirement. Our recent interventions and good rains are expected to result in a higher oilseeds production of 278 lakh ton in 2010-11 as against 249 lakh ton in 2009-10. To achieve a major breakthrough, we have to pay special attention to oil palm as it is one of the most efficient oil crops. I propose to provide an amount of Rs. 300 crore to bring 60,000 hectares under oil palm plantation, by integrating the farmers with the markets. The initiative will yield about 3 lakh metric ton of palm oil annually in 5 years.

Initiative on Vegetable Clusters

The growing demand for vegetables has to be met by a robust increase in the productivity and market linkage. An efficient supply chain, to provide quality vegetables at competitive prices will have to be established. I propose to provide an amount of Rs. 300 crore for implementation of vegetable initiative to set in motion a virtuous cycle of higher production and incomes for the farmers. To begin with, this programme will be launched near major urban centres.

Nutri-cereals

While we ensure food for all, we must also promote balanced nutrition. Bajra, jowar, ragi and other millets are highly nutritious and are known to possess several medicinal properties. The availability and consumption of these Nutri-cereals is, however, low and has been steadily declining over recent years. A provision of Rs. 300 crore is being made to promote higher production of these cereals, upgrade their processing technologies and create awareness regarding their health benefits. This initiative would provide market linked production support to ten lakh millet farmers in the arid and semi-arid regions of the country. The programme would be taken up in 1,000 compact blocks covering about 25,000 villages. This will help improve nutritional security and increase feed and fodder supply for livestock.

National Mission for Protein Supplements

The consumption of foods rich in animal protein and other nutrients has risen of late, with demand growing faster than production. The National Mission for Protein Supplements is being launched in 2011-12 with an allocation of Rs. 300 crore. It will take up activities to promote animal based protein production through livestock development, dairy farming, piggery, goat rearing and fisheries in selected blocks.

Accelerated Fodder Development Programme

Adequate availability of fodder is essential for sustained production of milk. It is necessary to accelerate the production of fodder through intensive promotion of technologies to ensure its availability throughout the year. I propose to provide Rs. 300 crore for Accelerated Fodder Development Programme which will benefit farmers in 25,000 villages.

Hon'ble Members may be curious as to why all these new initiatives are being launched with an allocation of Rs. 300 crore. Well, the number 3 happens to be my lucky number!

National Mission for Sustainable Agriculture

While the need to maximize crop yields to meet the growing demand for foodgrains is critical, we have to sustain agricultural productivity in the long-run. There has been deterioration in soil health due to removal of crop residues and indiscriminate use of chemical fertilizers, aided by distorted prices.

To address these issues, the Government proposes to promote organic farming methods, combining modern technology with traditional farming practices like green manuring, biological pest control and weed management.

Agriculture Credit

To get the best from their land, farmers need access to affordable credit. Banks have been consistently meeting the targets set for agriculture credit flow in the past few years. For the year 2011-12, I am raising the target of credit flow to the farmers from Rs. 3,75,000 crore this year to Rs. 4,75,000 crore in 2011-12. Banks have been asked to step up direct lending for agriculture and credit to small and marginal farmers.

The existing interest subvention scheme of providing short-term crop loans to farmers at 7 per cent interest will be continued during 2011-12. In the last Budget, I had provided an additional 2 per cent interest subvention to those farmers who repay their crop loans on time. The response to this scheme has been good. In order to provide further incentive to these farmers, I propose to enhance the additional subvention to 3 per cent in 2011-12. Thus, the effective rate of interest for such farmers will be 4 per cent per annum.

In view of the enhanced target for flow of agriculture credit, I propose to strengthen NABARD's capital base by infusing Rs. 3,000 crore, in a phased manner, as Government equity. This would raise its paid-up capital to Rs. 5,000 crore. To enable NABARD refinance the short-term crop loans of the co-operative credit institutions and RRBs at concessional rates, I propose a contribution of Rs. 10,000 crore to NABARD's Short-term Rural Credit Fund for 2011-12 from the shortfall in priority sector lending by Scheduled Commercial Banks.

Mega Food Parks

Despite growing production of vegetables and fruits, their availability is inadequate due to bottlenecks in retailing capacity. An estimated 40 per cent of the fruit and vegetable production in India goes waste due to lack of storage, cold chain and transport infrastructure. To address these issues, the Eleventh Plan target for number of Mega Food Parks was set at 30. So far, 15 such parks have been sanctioned. During 2011-12, approval is being given to set up 15 more Mega Food Parks.

Storage Capacity and Cold Chains

The years 2008 to 2010 saw very high levels of foodgrain procurement. On 1 January 2011, the foodgrain stock in Central pool reached 470 lakh metric ton, 2.7 times higher than 174 lakh metric ton on 1 January 2007. The storage capacity for such large quantities requires augmentation. Process to create new storage capacity of 150 lakh metric ton through private entrepreneurs and warehousing corporations has been fast tracked. Decision to create 20 lakh metric ton of storage capacity under Public Entrepreneurs Guarantee (PEG) Scheme through modern silos has been taken. While we will be able to add about 2.6 lakh ton of capacity by March 2011, based on existing sanctions, the addition will reach 40 lakh ton by March 2012. During 2010-11, another 24 lakh metric ton of storage capacity has been created under the Rural Godown Scheme.

Investment in cold storage projects is now gaining momentum. During this year, 24 cold storage projects with a capacity of 1.4 lakh metric ton have been sanctioned under National Horticulture Mission. In addition, 107 cold storage projects with a capacity of over 5 lakh metric ton have been approved by the National Horticulture Board.

To attract investment in this sector, henceforth, capital investment in the creation of modern storage capacity will be eligible for viability gap funding scheme of the Finance Ministry. It is also proposed to recognize cold chains and post-harvest storage as an infrastructure sub-sector.

Agriculture Produce Marketing Act

The recent episode of inflation in vegetables and fruits has exposed serious flaws in our supply chains. The government regulated *mandis* sometimes prevent retailers from integrating their enterprises with the farmers. There is need for the State Governments to review and enforce a reformed Agriculture Produce Marketing Act urgently.

Infrastructure and Industry

Infrastructure is critical for our development. For 2011-12, an allocation of over Rs. 2,14,000 crore is being made for this sector, which is 23.3 per cent higher than current year. This amounts to 48.5 per cent of the Gross Budgetary Support to plan expenditure.

Our experience with PPP model for creation of public sector assets in the country has been good. We have recently launched the National Capacity Building Programme to enhance capacities of public functionaries in identifying, conceptualising, structuring and managing PPPs. It is our endeavour to come up with a comprehensive policy that can be used by the Centre and the State Governments in further developing public-private partnerships.

Government established India Infrastructure Finance Company Limited (IIFCL) to provide long-term financial assistance to infrastructure projects. It is expected to achieve a cumulative disbursement target of Rs. 20,000 crore by 31 March 2011 and Rs. 25,000 crore by 31 March 2012. The take out financing scheme announced in the Budget 2009-10 has been implemented and seven projects have been sanctioned with a debt of Rs. 1,500 crore. Another Rs. 5,000 crore will be sanctioned during 2011-12.

In order to give a boost to infrastructure development in railways, ports, housing and highways development, I propose to allow tax free bonds of Rs. 30,000 crore to be issued by various Government undertakings in the year 2011-12. This includes Indian Railway Finance Corporation Rs. 10,000 crore, National Highway Authority of India Rs. 10,000 crore, HUDCO Rs. 5,000 crore and Ports Rs. 5,000 crore.

To attract foreign funds for the infrastructure financing, I propose to create Special Vehicles in the form of notified infrastructure debt funds. I will come to the details in Part B of my speech.

National Manufacturing Policy

For sustained growth of GDP and productive employment for younger generation, it is imperative that the growth in manufacturing sector picks up. We expect to take the share of manufacturing in GDP from about 16 per cent to 25 per cent over a period of ten years. Government will come out with a manufacturing policy, which will bring down the compliance burden on the industry through self-regulation and help make Indian industry globally competitive.

To address the need for greater transparency and accountability in procurement policy and allocation, pricing and utilisation of natural resources, the Government has set up two committees. The recommendations will be available within three months.

A Group of Ministers has been set up to consider all issues relating to reconciliation of environmental concerns emanating from various departmental activities including those related to infrastructure and mining. This Group will also suggest changes in the existing statutes, rules, regulations and guidelines and make its recommendations in a time bound manner.

The Indian automobile market is the second fastest growing in the world and has shown nearly 30 per cent growth this year. World over, substantial investments are being made in the field of hybrid and electric mobility. To provide green and clean transportation for the masses, National Mission for Hybrid and Electric Vehicles will be launched in collaboration with all stakeholders.

The funding of 15,260 modern low floor and semi-low floor buses under JNNURM, besides adding to passenger comfort, has transformed the urban transport across India. In 2011-12, Delhi Metro Phase-III and Mumbai Metro Line III are proposed to be taken up. The ongoing Metro projects of Bengaluru, Kolkata and Chennai will be provided financial assistance for speedy implementation.

Investment in fertilizer sector is capital intensive and is considered high risk. It is proposed to include capital investment in fertiliser production as an infrastructure sub-sector.

Exports

The Task Force on Transactions Cost set up by the Department of Commerce to identify and suggest ways to achieve improvement in efficiency of our export processes, has completed its work. Twenty one suggestions made by the Task Force have already been implemented. Action on remaining two will be taken in next few months. This will mitigate transactions cost by about Rs. 2,100 crore.

To quicken the clearance of the cargo by Customs authorities and further modernise the Customs administration, I propose to introduce self-assessment in Customs. Under this, importers and exporters will themselves assess their duty liabilities while filing their declarations in the EDI system. The Department will verify such assessments on a selective system driven basis.

There have been considerable difficulties in the sanction of refunds relating to tax paid on services used for export of goods. I propose to shortly introduce a scheme for the refund of these taxes on the lines of drawback of duties in a far more simplified and expeditious manner. A new scheme is also being introduced by which units in SEZs will be able to obtain tax-free receipt of services wholly consumed within the zone and get their refunds in a much easier manner.

Mega clusters have large employment and export potential. I propose to extend the Mega Cluster Scheme for development of leather products. Seven mega leather clusters would be set up during the year 2011-12. I also propose to include Jodhpur for the development of a handicraft mega cluster.

Black Money

The generation and circulation of black money is an area of serious concern. To deal with this problem effectively, Government has put into operation a five-fold strategy which consists of joining the global crusade against 'black money'; Creating an appropriate legislative framework; Setting up institutions for dealing with illicit funds; Developing systems for implementation; and Imparting skills to the manpower for effective action.

We secured Membership of the Financial Action Task Force (FATF) in June last year. This is an important initiative of G-20 for anti-money laundering. We have also joined the Task Force on Financial Integrity and Economic Development, Eurasian Group (EAG) and Global Forum on Transparency and Exchange of Information for Tax Purposes.

During the year, we have concluded discussions for 11 Tax Information Exchange Agreements (TIEAs) and 13 new Double Taxation Avoidance Agreements (DTAAs) along with revision of provisions of 10 existing DTAAs. To effectively handle the increase in tax information exchange and transfer pricing issues, Foreign Tax Division of CBDT has been strengthened. A dedicated Cell for exchange of information is being set up to work on this agenda.

The amendment in our Money Laundering legislation in 2009 has significantly increased its scope and application. The number of cases registered under this law has increased from 50 between 2005 to 2008 to over 1200 by January this year. The strength of the Enforcement Directorate has been increased three-fold to deal effectively with the increased workload.

The Ministry of Finance has commissioned a study on unaccounted income and wealth held within and outside our country. It would suggest methods to tax and repatriate this illicit money.

Trafficking in narcotic drugs is also a contributor to the generation of black money. To strengthen controls over prevention of trafficking and improve the management of narcotic drugs and psychotropic substances, I propose to announce a comprehensive national policy in the near future.

Strengthening Inclusion

The UPA Government has engineered a major directional change in public policy by its focus on inclusive development. Creation of legal entitlements for an individual's right to work has added to resilience and dynamism in our rural economy. The right to information and the right to education are effective tools of empowerment for removing social imbalances. The country has carried for long enough the burden of hunger and malnutrition. After detailed consultations with all stakeholders including

State Governments, we are close to the finalisation of National Food Security Bill (NFSB) which will be introduced in the Parliament during the course of this year. The proposed allocation of Rs. 1,60,887 crore for social sector in 2011-12 is an increase of 17 per cent over current year. It amounts to 36.4 per cent of the total plan allocation.

Bharat Nirman

The UPA Government's flagship programmes have been the principal instrument for implementing its agenda for inclusive development. For the year 2011-12, *Bharat Nirman* which includes *Pradhan Mantri Gram Sadak Yojana* (PMGSY), Accelerated Irrigation Benefit Programme, *Rajiv Gandhi Grameen Vidyutikaran Yojana*, *Indira Awas Yojana*, National Rural Drinking Water Programme and Rural telephony have together been allocated Rs. 58,000 crore. This is an increase of Rs. 10,000 crore from the current year. A plan has been finalised to provide Rural Broadband Connectivity to all 2,50,000 Panchayats in the country in three years.

MGNREGA

In pursuance of my earlier budget announcement to provide a real wage of Rs. 100 per day, the Government has decided to index the wage rates notified under the MGNREGA to the Consumer Price Index for Agricultural Labour. The enhanced wage rates have been notified by the Ministry of Rural Development on 14 January 2011. It has resulted in significant enhancement of wages for the beneficiaries across the country.

The Anganwadi workers and Anganwadi helpers are the backbone of Integrated Child Development Services Scheme. I am happy to announce an increase in the remuneration of Anganwadi workers from Rs. 1,500 per month to Rs. 3,000 per month and for Anganwadi helpers from Rs. 750 per month to Rs. 1,500 per month. This will be effective from 1 April 2011. Around 22 lakh Anganwadi workers and helpers will benefit from the increase.

Scheduled Castes and Tribal Sub-plan

In the Budget for 2011-12, for the first time, specific allocations are being earmarked towards Scheduled Castes Sub-plan and Tribal Sub-plan. These will be shown in the Budget of the relevant Ministries and Departments under separate minor heads of account. Further, I propose to increase the Budget allocation for primitive tribal groups from Rs. 185 crore in 2010-11 to Rs. 244 crore in 2011-12.

Education

Our "demographic dividend" of a relatively younger population compared to developed countries is as much of an opportunity as it is a challenge. Over 70 per cent of Indians will be of working age in 2025. In this context, universalising access to secondary education, increasing the percentage of our scholars in higher education and providing skill training is necessary. For education, I propose an allocation Rs. 52,057 crore, which is an increase of 24 per cent over the current year.

Sarva Shiksha Abhiyan

The existing operational norms of *Sarva Shiksha Abhiyan* have been revised to implement the right of children to free and compulsory education which has come into force with effect from 1 April 2010. For the year 2011-12, I propose to allocate Rs. 21,000 crore which is 40 per cent higher than Rs. 15,000 crore allocated in the Budget for 2010-11. A revised Centrally Sponsored Scheme "Vocationalisation of Secondary Education" will be implemented from 2011-12 to improve the employability of our youth.

Empowerment flows from Education. While the Scheduled Castes and Scheduled Tribes had access to post-matric scholarships, there was so far a lack of pre-matric scholarship scheme. In 2011-12, I propose to introduce a scholarship scheme for needy students belonging to the Scheduled Castes and Scheduled Tribes studying in classes ninth and tenth. It would benefit about 40 lakh Scheduled Caste and Scheduled Tribe students.

National Knowledge Network

Approved in March 2010, the National Knowledge Network (NKN) will link 1,500 Instituties of Higher Learning and Research through an optical fibre backbone. During the current year, 190 institutes will be connected to NKN. Since the core will be ready by March 2011, the connectivity to all 1,500 institutions will be provided by March 2012.

Innovations

To move beyond the formal R&D paradigm, a National Innovation Council under Shri Sam Pitroda has been set up to prepare a roadmap for innovations in India. The process of setting up State Innovation Councils in each State and Sectoral Innovation Councils aligned to Central Ministries is underway.

The Government has been providing special grants to recognise excellence in universities and academic institutions. In the course of 2011-12, I propose to provide:

- Rs. 50 crore each to upcoming centres of Aligarh Muslim University at Murshidabad in West Bengal and Malappuram in Kerala;

- Rs. 100 crore as one-time grant to the Kerala Veterinary and Animal Sciences University at Pookode, Kerala;
- Rs. 10 crore each for setting up Kolkata and Allahabad Centres of Mahatma Gandhi Antarrashtriya Hindi Vishwavidyalaya, Wardha;
- Rs. 200 crore as one-time grant to IIT, Kharagpur;
- Rs. 20 crore for Rajiv Gandhi National Institute of Youth Development, Sriperumbudur, Tamil Nadu;
- Rs. 20 crore for IIM, Kolkata, to set up its Financial Research and Trading Laboratory;
- Rs. 200 crore for Maulana Azad Education Foundation;
- Rs. 10 crore for Centre for Development Economics and Ratan Tata Library, Delhi School of Economics, Delhi; and
- Rs. 10 crore for Madras School of Economics.

Skill Development

I am happy to inform the House that National Skill Development Council (NSDC) is well on course to achieve its mandate of creation of 15 crore skilled workforce two years ahead of 2022, the stipulated target year. It has alrady sanctioned 26 projects with a total funding of Rs. 658 crore. These projects alone are expected to create more than 4 crore skilled workforce over the next ten years. In the current year, skill training has so far been provided to 20,000 persons. Of these, 75 per cent have found placements. I will provide an additional Rs. 500 crore to the National Skill Development Fund during the next year.

National celebrations of 150th Birth Anniversary of Gurudev Rabindranath Tagore will commence from 7 May 2011 in New Delhi. Important events will be held in several countries in Europe, America and Asia. A series of events are also proposed to be organized under the aegis of joint India-Bangladesh Celebrations Committee. An international award with prize money of Rs. 1 crore is being instituted for promoting values of Universal Brotherhood in the memory of Gurudev Rabindranath Tagore.

Health

For health, I propose to step up the plan allocations in 2011-12 by 20 per cent to Rs. 26,760 crore. The *Rashtriya Swasthya Bima Yojana* has emerged as an effective instrument for providing a basic health cover to poor and marginal workers. It is now being extended to MGNREGA beneficiaries, *beedi* workers and others. In 2011-12, I propose to further extend this scheme to cover unorganized sector workers in hazardous mining and associated industries like slate and slate pencil, dolomite, mica and asbestos, etc.

Financial Inclusion

In my last budget speech, I had advised Banks to provide banking facilities to habitations having a population of over 2,000 by March 2012. The Banks have identified about 73,000 such habitations for providing banking facilities using appropriate technologies. A multi-media campaign, "Swabhimaan", has been launched to inform, educate and motivate people to open bank accounts. During this year, banks will cover 20,000 villages. Remaining will be covered during 2011-12.

Unorganised Sector

I had announced a co-contributory pension scheme "*Swavalamban"* in the Budget 2010-11. This scheme has been welcomed by the workers in unorganised sector. Over 4 lakh applications have already been received. On the basis of the feedback received, I am relaxing the exit norms whereby a subscriber under *Swavalamban* will be allowed exit at the age of 50 years instead of 60 years, or a minimum tenure of 20 years, whichever is later. I also propose to extend the benefit of Government contribution from three to five years for all subscribers of *Swavalamban* who enroll during 2010-11 and 2011-12. An estimated 20 lakh beneficiaries will join the scheme by March 2012.

Under the on-going Indira Gandhi National Old Age Pension Scheme for BPL beneficiaries, the eligibility for pension is proposed to be reduced from 65 years at present to 60 years. Further, for those who are 80 years and above, the pension amount is being raised from Rs. 200 at present to Rs. 500 per month.

Environment and Climate Change

Forests

Protection and regeneration of forests has great ecological, economic and social value. Our Government has launched an ambitious ten-year Green India mission. I propose to allocate Rs. 200 crore from the National Clean Energy Fund to begin its implementation in 2011-12.

Environmental Management

Environmental pollution has emerged as a serious public health concern across the country. I propose to allocate Rs. 200 crore from the National Clean Energy Fund as Centre's contribution in 2011-12 for launching environmental remediation programmes.

Cleaning of Rivers and Lakes

A number of projects under the National Ganga River Basin Authority have been approved in 2010-11. This momentum will be further stepped up. There are many rivers and lakes of cultural and historical signficance that need to be cleaned. In the course of the year 2011-12, I propose to provide a special allocation of Rs. 200 crore for the clean-up of some important lakes and rivers other than the Ganga.

Some Other Initiatives

In order to boost development in the North Eastern Region and Special Cateogry States, the allocation for special assistance has been almost doubled to Rs. 8,000 crore for 2011-12. Out of this, Rs. 5,400 crore has been allocated as united Special Central Assistance.

The Government's special support to Jammu and Kashmir is anchored in Rs. 28,000 crore Prime Minister's Reconstruction Plan. In addition, for the current year, about Rs. 8,000 crore has been provided for the State's development needs. A Task Force to assess infrastructure needs that can be addressed within a time horizon of 24 months for Ladakh and Jammu regions of the State has recommended projects amounting to Rs. 416 crore and Rs. 497 crore, respectively. I am providing Rs. 100 crore for Ladakh and Rs. 150 crore for Jammu for these identified projects in 2011-12.

To give a boost to the development of backward regions, the allocation under the Backward Regions Grant Fund has been increased from Rs. 7,300 crore to Rs. 9,890 crore amounting to an increase of over 35 per cent.

To address problems related to Left Wing Extremism affected districts and Integrated Action Plan (IAP) for 60 selected tribal and backward districts has been launched in December 2010. The scheme is being implemented with 100 per cent block grant of Rs. 25 crore and Rs. 30 crore per district during the years 2010-11 and 2011-12, respectively. The allocated funds are placed at the disposal of the district level committees who in consultation with local MPs will have the flexibility to spend the amount on development schemes as per the local needs.

In recognition of the sacrifices made by Central Para-military Forces engaged in tackling Left Wing Extremism, a lump sum *ex-gratia* compensation of Rs. 9 lakh for 100 per cent disability will now be granted to personnel of the Defence and para-military forces who are discharged from service on medical grounds on account of disability attributable to or aggravated in government service. For personnel with disability ranging from 20 to 99 per cent, a proportionate amount would be given.

In the Budget 2011-12, a provision of Rs. 1,64,415 crore has been made for Defence services which include Rs. 69,199 crore for capital expenditure. Needless to say, any further requirement for the country's defence would be met.

In order to speed up delivery of justice, the Plan provision for Department of Justice for 2011-12 has been increased three-fold to Rs. 1,000 crore. The enhanced provision will help in building judicial infrastructure and the project on e-courts.

Census 2011

The 15th Census in the country is being conducted from 9 February. It is the largest administrative exercise in the country providing statistical data on different socio-economic parameters of population.

In response to the overwhelming demand for enumeration of castes other than Scheduled Castes and Scheduled Tribes in Census 2011, it has been decided to canvass 'caste' as a separate time bound exercise. This exercise will start in June 2011 and will be completed by 30 September 2011.

Improving Governance

I now turn to some important measures being taken for improving governance.

UID Mission

The UID Mission has taken off and *Aadhaar* numbers are being generated in large numbers. So far 20 lakh *Aadhaar* numbers have been given and from 1 October 2011, ten lakh numbers will be generated per day. The stage is now set for realising the potential of *Aadhaar* for improving service delivery, accountability and transparency in governance of various schemes.

IT Initiatives

The backbone of an efficient tax administration is a robust IT infrastructure and its deployment for enhanced tax-payer services. Towards this objective, both the Central Boards of Direct Taxes (CBDT) and Excise and Customs (CBEC) have put in place the following measures:

- The on-line preparation and e-filing of income tax returns, e-payment of taxes through 32 agency banks, ECS facility for electronic clearing of refunds directly in tax-payers' bank accounts and electronic filing of TDS returns are now available throughout the country. These measures have empowered tax-payers to meet their tax obligations without visiting an income tax office.

- The Centralized Processing Centre (CPC) at Bengaluru has increased its daily processing capacity from 20,000 to 1.5 lakh returns in 2010-11. This project has won a Gold Award for e-Governance in 2011. Two more CPCs will become operational in Manesar and Pune by May 2011 and a fourth CPC will come up in Kolkata in 2011-12.
- With the completion of its IT Consolidation Project, CBEC can now centrally host its key applications in Customs, Central Excise and Service Tax. The Customs EDI system now covers 92 locations across the country. CBEC's e-Commerce portal ICEGATE, has also been conferred a Gold Award for e-Governance.
- The 'Sevottam' concept has been adopted by both Boards. The three pilot projects of *Aaykar Seva Kendras* (ASKs) under CBDT have come of age. CBDT will commission eight more such centres this year. In 2011-12, another fifty ASKs will be set up across the country. CBEC has also launched a similar initiative and four of their pilot projects have been commissioned.
- The electronic filing of Tax Deduction at Source (TDS) statements has stabilized. The Board shall soon notify a category of salaried tax-payers who will not be required to file a return of income as their tax liability has been discharged by their employer through deduction at source.
- CBDT will provide a separate web-based facility to enable a direct, stand-alone interface for tax-payers with the Income Tax Department so that they can report and track the resolution of their refunds and credit for prepaid taxes.

Mission Mode Projects for computerization of Commercial Taxes in States that I announced in my last Budget, will allow States to align with the roll out of GST. Funds have been released for 31 projects received from the States and Union Territories. Most of the States and UTs have already enabled the facility of dealers making electronic payments. A number of States have already started accepting Electronic Tax Returns and issuing forms required for inter-state trade.

With the development of the economy, the need to review the provisions of the Indian Stamp Act, 1899 has been felt over the years. I propose to introduce a Bill shortly to amend the Indian Stamp Act.

Five years ago, we took an initiative to introduce a modern and people-friendly e-stamping facility in the country. Only six States have introduced this system so far. I propose to launch a new scheme with an outlay of Rs. 300 crore to provide assistance to States to modernise their stamp and registration administration and roll out e-stamping in all the districts in the next three years.

I propose to introduce a new simplified return form '*Sugam*' to reduce the compliance burden of small tax-payers who fall within the scope of presumptive taxation.

The increase in scope of cases admitted by the Settlement Commissions has provided relief to several tax-payers. This has also increased the workload of the Commission. To fast track the disposal of cases, three more Benches of the Commission are being set up.

Substantial amounts of revenue in both direct and indirect taxes, remain locked up in appeals at different levels. Both Boards also invest substantial effort and money in litigation with their employees. In keeping with the National Litigation Policy, several steps have been initiated in 2010-11 for reducing litigation and focusing attention on high revenue cases. Instructions have been issued raising limit of tax effects below which, tax disputes will not be pursued by Government in higher Courts of Appeal. These measures would enhance productivity of resources employed in raising revenue.

Corruption

A Group of Ministers has been constituted to consider measures for tackling corruption. The Group has been tasked with addressing issues relating to State funding of elections, speedier processing of corruption cases of public servants, transparency in public procurement and contracts, discretionary powers of Central Ministers and competitive system for exploiting natural resources. The Group will make its recommendations in a time bound manner.

Performance Monitoring and Evaluation System

Pursuant to the recommendations of Second Administrative Reforms Commission, the Government has set up a Performance Monitoring and Evaluation System (PMES) to assess the effectiveness of Government departments in their mandated functions. It involves preparation of a Results Framework Document (RFD) by each department, highlighting its objectives and priorities for the financial year and achievements against pre-specified targets at the end of the year. This document would be available for public information on the departmental websites. In the first phase, 62 departments have been covered under PMES.

TAGUP

In pursuance of the announcement made in the Budget 2010-11, I had set up a Technology Advisory Group for Unique Projects (TAGUP). The Group has submitted its report and its recommendations have been accepted in principle. The modalities of implementation are being worked out.

Indian Rupee now has a new symbol which has been notified for use by the Central and State Governments, business entities and the general public. A new series of coins carrying this symbol will be issued shortly. The Government has approached Unicode Standards Authority for inclusion of the symbol in international standards.

Budget Estimates 2011-12

I now turn to the Budget Estimates for 2011-12.

The Gross Tax Receipts are estimated at Rs. 9,32,440 crore which is an increase of 24.9 per cent over the Budget Estimates for 2010-11. After devolution to States, the net tax to Centre in 2011-12 is Rs. 6,64,457 crore. The Non Tax Revenue Receipts for 2011-12 are estimated at Rs. 1,25,435 crore.

The total expenditure proposed for 2011-12 is Rs. 12,57,729 crore, which is an increase of 13.4 per cent over the Budget Estimates for 2010-11. The Plan Expenditure at Rs. 4,41,547 crore marks an increase of 18.3 per cent and the Non Plan Expenditure at Rs. 8,16,182 crore is an increase of 10.9 per cent over BE 2010-11. As 2011-12 is the last year of the Eleventh Plan, I am happy to share that Eleventh Plan expenditure in nominal terms is more than 100 per cent of the expenditure envisaged for the Plan period.

The total plan and non-plan transfers of Rs. 2,01,733 crore to States and UT Governments in 2011-12 have increased by 23 per cent over the Budget Estimates 2010-11. This includes grants of Rs. 13,713 crore in 2011-12 to local bodies as per the recommendation of the Thirteenth Finance Commission.

Hon'ble Members are aware that in the course of 2010-11, I had the opportunity to effect a further improvement in the fiscal balance, due to the higher than anticipated non-tax revenues from 3G spectrum auctions. I chose to do that and much more. While I provided additional resources of about Rs. 50,000 crore to critical infrastructure and social sectors and also to meet the expenditure on subsidies, I have brought down the fiscal deficit from 5.5 per cent to 5.1 per cent of the GDP for 2010-11.

For 2011-12, I have kept it at 4.6 per cent of GDP, which improves upon my own target for 2011-12 indicated in the fiscal roadmap presented in the last Budget. In the Medium-Term Fiscal Policy Statement being presented to the House today, the rolling targets for fiscal deficit are placed at 4.1 per cent for 2012-13, and 3.5 per cent for 2013-14.

There has been some concern expressed regarding the stickiness of Government's revenue deficit in the post-global crisis phase of the economy. For 2010-11 as against a target of 4 per cent, the revenue deficit is estimated at 3.4 per cent of GDP. In the past few years the transfers to States and other developmental expenditure have grown significantly. These are classified as revenue expenditure even though a considerable part of the expenditure from these transfers is in the nature of capital expenditure. In 2010-11, Rs. 90,792 crore from such revenue expenditures were in the nature of capital expenditure. Similarly, in 2011-12 grants-in-aid for creation of capital assets, which are now shown separately in the Budget documents, are about Rs. 1.47 lakh crore. Taking these Budget provisions into account, the "effective revenue deficit" is estimated at 2.3 per cent in the Revised Estimates for 2010-11 and 1.8 per cent for 2011-12.

In my last Budget, I had stated that Government would avoid issuing bonds in lieu of subsidies to oil and fertiliser companies. I have adhered to this decision, thereby bringing all subsidy related liabilities into our fiscal accounting.

The fiscal deficit of 4.6 per cent of GDP in 2011-12 works out to Rs. 4,12,817 crore. Taking into account the various other financing items for fiscal deficit, the net market borrowing of the Government in 2011-12 would be Rs. 3.43 lakh crore. In addition, Rs. 15,000 crore is proposed to be financed through Treasury Bills. Accordingly, the Central Government debt as a proportion of GDP is estimated at 44.2 per cent for 2011-12 as against 52.5 per cent recommended by the Thirteenth Finance Commission.

PART-B

Madam Speaker,

I shall now present my tax proposals.

In the formulation of these proposals, my priorities are directed towards making taxes moderate, payments simple for the tax-payer and collection of taxes easy for the tax collector.

Direct Taxes

I shall now deal with direct taxes.

As Government's policy on direct taxes has been outlined in the DTC, which is before Parliament, I have limited my proposals to initiatives that require urgent attention.

Last year I provided relief to individual tax-payers by broadening the tax slabs. To take us closer to DTC rates, I propose to enhance the exemption limit for the general category of individual tax-payers from Rs. 1,60,000 to Rs. 1,80,000 this year. This measure will provide a uniform tax relief of Rs. 2,000 to every tax-payer of this category.

Senior citizens deserve our special attention. For them, I propose

- to reduce the qualifying age, from 65 years to 60 years;
- to enhance the exemption limit from Rs. 2,40,000 to Rs. 2,50,000;
- To create a new category of Very Senior Citizens, eighty years and above, who will be eligible for a higher exemption limit of Rs. 5,00,000.

In the case of corporates, my initiative of phasing out the surcharge countinues. I propose to reduce the current surcharge of 7.5 per cent on domestic companies to 5 per cent. Simultaneously, I propose to increase the rate of Minimum Alternate Tax (MAT) from the current rate of 18 per cent to 18.5 per cent of book profits to keep the effective rate of the MAT at the same level. As a measure to ensure equal sharing of the corporate tax liability, I propose to levy MAT on developers of Special Economic Zones as well as units operating in SEZs.

To attract foreign funds for financing of infrastructure, I propose to:

- create special vehicles in the form of notified infrastructure debt funds;
- subject interest payment on the borrowings of these funds to a reduced wihtholding tax rate of 5 per cent instead of the current rate of 20 per cent;
- exempt the income of the fund from tax.

In order to promote savings and raise funds for infrastructure, and additional deduction of Rs. 20,000 for investment in long-term infrastructure bonds was notified by the Central Government in 2010-11. I propose to extend this window for one more year.

It has been represented that the taxation of foreign dividends in the hands of resident tax-payers at full rate is a disincentive for their repatriation to India and they continue to remain invested abroad. For the year 2011-12, I propose a lower rate of 15 per cent tax on dividends received by an Indian company from its foreign subsidiary. I do hope these funds will now flow to India.

In order to give a boost to production in the agriculture sector, I propose to extend the benefit of investment linked deduction to businesses engaged in the production of fertilisers.

Considering the importance of housing, I also propose investment linked deduction to businesses which develop afforadable housing under a notified scheme.

In this Decade of Innovation, I enhanced the weighted deduction on payments made to National Laboratories, universities and Institutes of technology, for scientific research, to 175 per cent in the last Budget. I propose to further enhance this to 200 per cent.

In order to strengthen our system of collection of information from foreign tax jurisdictions, I propose to provide a toolbox of counter measures to discourage transactions with entities located in non-cooperative jurisdictions as may be notified by the Government.

My proposals on direct taxes are estimated to result in a net revenue loss of Rs. 11,500 crore for the year.

Indirect Taxes

I shall now turn to my indirect tax proposals.

In view of the healthy growth in indirect taxes in 2010-11, I had the option to roll back the Central Excise duty to levels prevailing in November 2008. I have chosen not to do so for two reasons. I would like to see improved business margins translated into higher investment rates. I would also like to stay my course towards GST. I have, therefore, decided to maintain the standard rate of Central Excise duty at 10 per cent.

I propose certain changes in the Central Excise rate structure to prepare the ground for the transition to GST, beginning with a reduction in the number of exemptions. At present, there are about 100 items that are exempt from Central Excise as well as State VAT. In addition, there are as many as 370 items that enjoy exemption from Central Excise duty but are chargeable to VAT. I propose to withdraw the exemption on 130 of these items that are mainly in the nature of consumer goods. The remaining 240 items would be brought into the tax net when GST is introduced.

A nominal Central Excise duty of 1 per cent is being imposed on the 130 items that are entering the tax net. No CENVAT credit would be available for the manufacture of these items. Basic food and fuel would continue to be exempt. This levy would also not apply to precious metals and stones. In case of jewellery and articles of gold, silver and precious metals, the levy would apply only to goods sold under a brand name.

Most of the Sates have increased their merit rate of VAT from 4 per cent to 5 per cent. In line with this, I also propose to enhance the lower rate of Central Excise duty from 4 per cent to 5 per cent.

Ready-made garments and made-ups of textiles are currently under an optional excise duty regime. A manufacturer is required to pay duty only if he wishes to avail of CENVAT credit. Our garment and made-ups industry has come of age and has shown handsome growth in recent years. As part of base expansion, I propose to convert the optional levy into a mandatory levy at a unified rate of 10 per cent. The levy would, however, apply only to branded garments or made-ups and not to those tailored or made to order for a retail customer. Credit of tax paid on inputs, capital goods and input services would be avaiable to manufacturers of these products. Keeping in mind the fragmented nature of this industry, full SSI exemption is also being extended to these products. Export of these items would continue to be zero-rated.

We have a long-term commitment to align our customs duty rates to those prevailing in ASEAN countries. The peak rate of customs duty has been reduced over the years and has settled at 10 per cent. In view of continued uncertainties in the global economy, I propose to hold the peak rate at its current level. However, some rationalization is being done to unify three rates namely, 2 per cent, 2.5 per cent and 3 per cent at the middle level of 2.5 per cent.

I now turn to proposals that are aimed at encouraging some of the thrust sectors that are in need of attention.

Agriculture and Related Sectors

Hon'be members would recall that, in the last Budget, I had announced a package of measures to improve the availability of storage and warehouse facilities for agricultural produce as well as to incentivize food processing. I have received encouraging feedback on the impact of these measures. I propose to enlarge the scope of these exemptions by:

- extending full exemption from excise duty to air-conditioning equipment and refrigeration panels for cold chain infrastructure;
- including conveyor belts in the full exemption from excise duty to equipment used in cold storages, mandis and warehouses.

A concessional rate of basic customs duty of 5 per cent was provided to specified agricultural machinery in the last Budget. This duty is being reduced further to 2.5 per cent and the concession is also being extended to parts of such machinery to encourage their domestic production.

Micro-irrigation is an environment-friendly and efficient means of irrigation especially for dry-land farming. I propose to reduce the basic customs duty on micro-irrigation equipment from 7.5 per cent to 5 per cent.

De-oiled rice bran cake constitutes an important ingredient of cattle feed and its improved availability would have a positive impact on milk production. I propose to provide full exemption from basic customs duty to this item. Simultaneously, an export duty of 10 per cent would be levied to discourage its export.

Manufacturing Sector

For the manufacturing sector, my proposals seek to encourage domestic value addition *vis-a-vis* imports, to remove duty inversions and anomalies and to provide a level playing field to the domestic industry. The major proposals are to:

- reduce basic customs duty on raw silk (not thrown) from 30 to 5 per cent;
- reduce basic customs duty from 5 per cent to 2.5 per cent on certain textile intermediates and inputs for chemicals, ferro-alloys and paper;
- reduce basic customs duty on certain specified inputs for manufacture of certain technical fibre and yarn from 7.5 per cent to 5 per cent;
- fully exempt stainless steel scrap from basic customs duty;
- reduce import duties on specified raw material for the manufacture of syringes and needles to 5 per cent basic and 4 per cent CVD;
- extend the concession available to parts, components and accessories for manufacture of mobile handsets till 31 March 2012 and to include few more items in its ambit;
- expand the raw material list for manufacture of specified electronic components that are fully exempt from basic customs duty;
- reduce excise duty (and hence CVD) on parts of ink-jet and laser-Jet printers from 10 per cent to 5 per cent.

Iron ore attracts an export duty of 15 per cent in the case of lumps and 5 per cent in the case of fines. This is a natural resource which needs to be conserved. I propose to enhance the rate of export duly for all types of iron ore and unify it at 20 per cent *ad valorem*. Iron ore is also exported in a value-added, pelletized form. Full exemption from export duty is being provided to iron ore pellets to encourage the value addition process for fines.

As a measure of relief to cement industry, I propose to replace the existing excise duty rates with composite rates having an *ad valorem* and specific component with some rationalization. The basic customs duty on two critical raw materials of this industry *viz*. petcoke and gypsum is proposed to be reduced to 2.5 per cent.

To drive the financial inclusion agenda of the Government, I propose to fully exempt cash dispensers from basic customs duty. Full exemption is also being extended to parts of such machines to encourage their domestic production.

Environment

Full exemption from basic customs duty and a concessional rate of Central Excise duty of 4 per cent was provided to specified parts of electrical vehicles in the last Budget on actual-user basis. I propose to extend the concession to batteries imported by such manufacturers for the replacement market.

Fuel cell or Hydrogen cell technology is a promising green technology for the automobile sector. I propose to extend the concessional excise duty of 10 per cent to vehicles based on this technology.

Hybrid vehicles enjoy a concessional excise duty rate of 10 per cent. However, import dependence for their critical parts/sub-assemblies is still quite high. It is proposed to grant specified parts of such vehicles full exemption from basic customs duty and special CVD. In addition, a concessional rate of excise duty of 5 per cent is being prescribed to incentivise their domestic production.

In response to the growing demand for green products, a technology has been developed indigenously for the conversion of fossil fuel vehicles into hybrid vehicles through the fitment of a kit. I propose to reduce the excise duty on such kits and their parts from 10 per cent to 5 per cent.

In the last Budget, Central Excise duty on LED lights was reduced from 8 per cent to 4 per cent to promote their use. The basic component of these lights *viz*. the LED attracts an excise duty (hence, CVD) of 10 per cent and a special CVD of 4 per cent. The excise duty on LEDs is being reduced to 5 per cent and special CVD is being fully exempted.

The solar lantern enables our countrymen in far-flung villages to partake of developments in green technology. The basic customs duty on such lanterns is being reduced from 10 per cent to 5 per cent. Basic customs duty on a few more inputs used in the manufacture of solar modules/cells is being reduced to Nil.

Environmental considerations demand promotion of laundry soaps which conserve water and are gentle on the soil. To this end, full exemption from basic customs duty is being provided to Crude Palm Stearin for use in the manufacture of laundry soap.

Pre-tanning or tanning processes in the leather industry use chemicals which are pollutants. To encourage use of green processes, full exemption from basic excise duty is being granted to enzyme-based preparations for pre-tanning.

Infrastructure

Capital goods imported for the expansion of existing mega or ultra mega power projects enjoy a concessional basic customs duty of 2.5 per cent and full exemption from CVD. This creates a disability for the domestic suppliers who are required to pay Central Excise duty on supplies to such projects. I propose to correct this anomaly by providing a parallel excise duty exemption.

Bio-based asphalt is an emerging, green technology for the surfacing of roads. Full exemption from basic customs duty is being extended to bio-asphalt and specified machinery for its application in the construction of National Highways. Tunnel-boring machines required for the construction of highways are also being included in this exemption.

Other Proposals

Works of art and antiquities are exempt from customs duties when imported for exhibition in a public museum or national institution. In recent years, many organisations have joined the cause of promoting and popularising both traditional and contemporary art. Some of them have been active in locating heritage works of Indian art and antiquities in foreign countries and bringing them back home. To encourage such initiatives, I propose to expand the scope of this exemption for works of art and antiquities to also apply to imports for exhibition or display, in private art galleries or similar premises that are open to the general public. Department of Culture will notify details of the scheme separately.

Full exemption from import duty is available to spares and capital goods required for ship-repair units. This exemption is being extended to imports by ship owners too.

The concessional basic customs duty of 5 per cent and CVD of 5 per cent, presently applicable to high-speed printing presses imported by newspaper establishments is being extended to mailroom equipment.

The Indian film industry has represented that colour, unexposed jumbo rolls of cinematographic film are not manufactured domestically and have to be imported. I propose to exempt jumbo rolls of 400 feet and 1000 feet from CVD by providing full exemption from excise duty.

I propose to provide outright concession to factory-built ambulances in place of the existing refund-based concession from excise duty. A refund-based concession is available to taxis having a seating capacity not exceeding 7 persons including the driver. I propose to extend this to vehicles upto a seating capacity not exceeding 13 persons including the driver.

Some of the other relief measures that I propose are:

- Reduction in basic customs duty on raw pistachio from 30 per cent to 10 per cent;
- Reduction in basic customs duty on bamboo for *agarbatti* from 30 per cent to 10 per cent;
- Reduction in basic customs duty on lactose for the manufacture of homeopathic medicines from 25 per cent to 10 per cent; and
- Reduction in Central Excise duty on sanitary napkins, baby and adult diapers from 10 per cent to 1 per cent.

My proposals relating to customs and Central Excise are estimated to result in a net revenue gain of Rs. 7,300 crore for the year.

Service Tax

The actual collections of service tax do not reflect the full potential of this sector. While retaining the standard rate of service tax at 10 per cent, I seek to achieve a closer fit between the present service tax regime and its GST successor by:

- Bringing in a few new services into the tax net to expand the tax base while ensuring that the impact is predominantly on sections of society that have the ability to pay;
- Suitably expanding or rationalizing the scope of existing service categories;
- Rationalizing certain provisions relating to import of services and valuation;

- Modifying provisions of the CENVAT Credit scheme to achieve a more realistic balance between input credits and output tax and harmonising the provisions of the scheme across goods and services;
- Rationalizing penal provisions to reinforce the message that honest tax-payers would be facilitated and deviants would be dealt with severely; and
- Adoption of Point of Taxation rules for services which would shift the basis for tax collection from "cash" towards "accrual" basis as with Central Excise duty.

I propose to levy service tax on the following new services:

- Hotel accommodation, in excess of declared tariff of Rs. 1,000 per day with an abatement of 50 per cent so that the effective burden is only 5 per cent of the amount charged;
- Service provided by air-conditioned restaurants that have licence to serve liquor, by giving an abatement of 70 per cent. Thus, the effective burden will be 3 per cent of the bill.

I imposed service tax in 2010-11 on health check up or treatment. This levy has resulted in differential treatment between persons who make payments themselves and others where payments are made by an insurance company or a business entity. Thus, I propose to replace it with a tax on all services provided by hospitals with 25 or more beds that have the facility of central air-conditioning. Though the tax is on high-end treatment, I propose to sweeten the pill by an abatement of 50 per cent so that the actual burden is kept at 5 per cent of the value of service. I also propose to extend the levy to diagnostic tests of all kinds with the same rate of abatement. However, all Government hospitals shall be outside this levy.

I propose to raise the service tax on air travel by Rs. 50 in the case of domestic air travel and Rs. 250 on international journeys by economy class. I also propose to tax travel by higher classes on domestic sector at the standard rate of 10 per cent to bring it on par with journeys by higher classes on international air travel.

Services provided by life insurance companies in the area of investment are also proposed to be brought into tax net on the same lines as ULIPs. I propose to expand the scope of legal services to include services provided by business entities to individuals as well as representational and arbitration services by individuals to business entities. There shall, however, be no tax on services provided by individuals to other individuals.

There are certain other changes mainly by way of rationalisation or expansion in the scope of certain services or by plugging existing loopholes. I do not wish to take the valuable time of the House in further elaboration here.

The strength of a good value-added tax lies in the free flow of the credit of the tax paid at the previous stage. Due to complexities, there have been many legal disputes on the availability of credit on a number of inputs or input services. These provisions are being rationalized by laying down clear definitions so that the scope of inputs and input services that are eligible and those that are not, is clear. Allocation of CENVAT credit to exempt and taxable goods and services is also being streamlined.

The number of assessees in service tax has grown manifold. I find that a large number of them comprise individuals or sole proprietors with small turnovers. Any audit at their premises tends to dislocate their activities for the duration of the audit. I, therefore, propose to free all individual and sole proprietor tax-payers with a turnover upto Rs. 60 lakh from the formalities of audit. This will give relief to a large number of tax-payers. I also intend to give all assessees with turnover upto Rs. 60 lakh, the benefit of 3 percentage points in interest on delayed payment.

In keeping with our thrust to encourage voluntary compliance, the penal provisions for service tax are being rationalised. A key component of this strategy would be to treat less harshly those who have maintained truthful records but have fallen short of discharging their tax liability. Simultaneously, deliberate evaders with unrecorded business transactions will be dealt with more severely. Similar changes are being carried out in Central Excise and Customs laws. The details of the provisions are in the Finance Bill.

My proposals relating to service tax are estimated to result in net revenue gain of Rs. 4,000 crore for the year.

Many experts have argued that it will be desirable to tax services based on a small negative list, so that many untapped sectors are brought into the tax net. Such an approach will be very conducive for a nationwide GST. I propose to initiate an informed public debate on the subject to help us finalise the approach to GST.

Copies of notifications giving effect to the changes in Customs, Central Excise and Service Tax will be laid on the Table of the House in due course.

My proposals on direct taxes are estimated to result in a revenue loss of Rs. 11,500 crore for the year. Proposals relating to indirect taxes are estimated to result in a net revenue gain of Rs. 11,300 crore, leaving a net loss of Rs. 200 crore in the Budget.

As an emerging economy, with a voice on the global stage, India stands at the threshold of a decade which presents immense possibilities. We must not let the recent strains and tensions hold us back from converting these possibilities into realities. With oneness of heart, let us all build an India, which in not too distant a future, will enter the comity of developed nations.

Madam Speaker, with these words, I commend the Budget to the House.