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THE ECONOMIC TIMES

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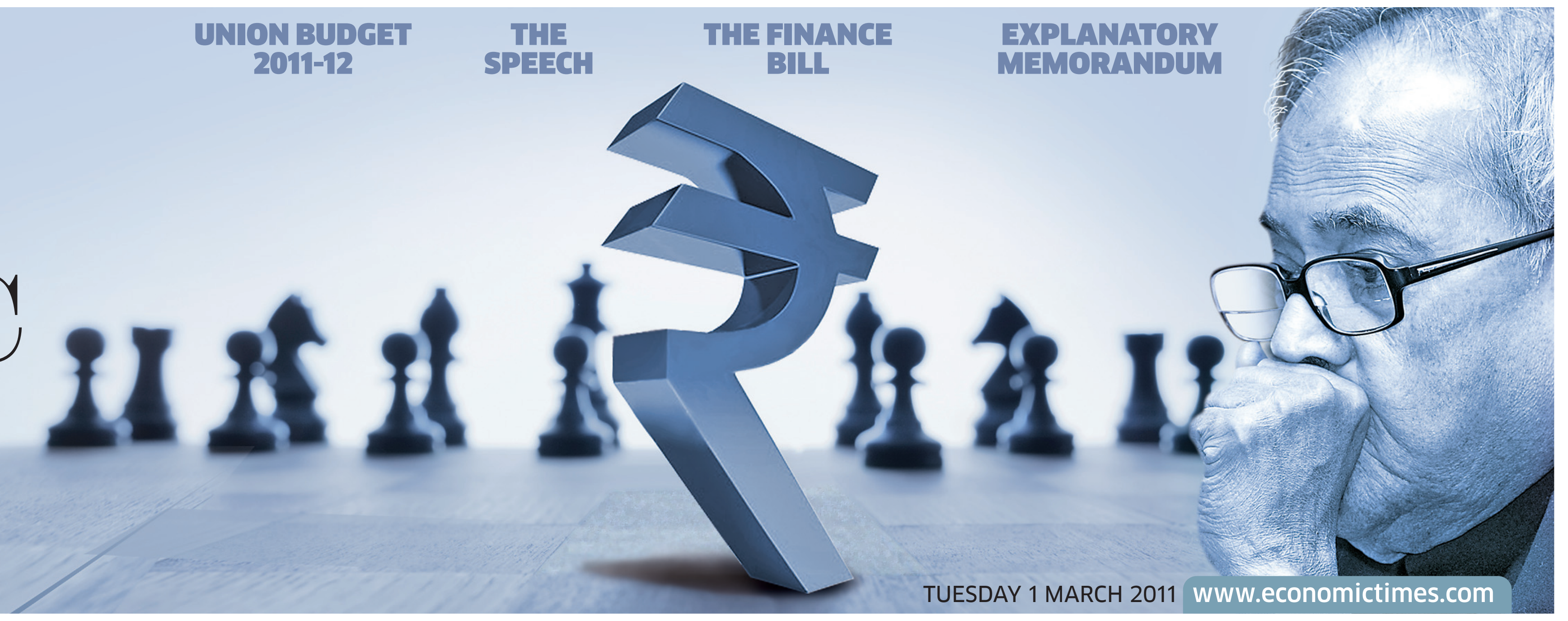
UNION BUDGET 2011-12 | THE SPEECH | THE FINANCE BILL | EXPLANATORY MEMORANDUM

TUESDAY 1 MARCH 2011 www.economictimes.com



Back To Pre-Crisis Growth Path

Following are the excerpts of the Budget speech made by Finance Minister **Pranab Mukherjee**:

Madam Speaker,

I rise to present the Union Budget for 2011-12.

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% in February 2010 to less than half at 9.3% 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, on 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 Prime Minister and the strong support lent by UPA chairperson 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% in 2010-11 in real terms. In 2010-11 agriculture is estimated to have grown at 5.4%, industry at 8.1% and services at 9.6%. 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.

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.

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% with an outside band of +/- 0.25% 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% of their respective Gross State Domestic Product latest by 2014-15. It has also recommended a combined States' debt target of 24.3% 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 April 1, 2012 to allow taxpayers, 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 grain, 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 fertilisers, the Government will move towards direct transfer of cash subsidy to people living below poverty line in a phased manner.

People's Ownership of PSUs

The government's programme to broad-base 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 ₹40,000 crore, the government will raise about ₹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 ₹40,000 crore. Let me reiterate here that the Government is committed to retain at least 51% ownership and management control of the CPSUs, as stated earlier in my Budget speech for 2009-10.

Foreign Direct Investment

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

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 $20 billion taking the limit to $ 25 billion. This will raise the total limit available to the FIIs for investment in corporate bonds to $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 ₹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%. I propose to provide a sum of ₹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 ₹350 crore was given to these banks during this year. I propose to provide ₹500 crore during 2011-12 to enable them maintain a CRAR of at least 9% as on March 31, 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 ₹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 ₹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 an 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 ₹18,000 crore in 2011-12 from ₹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, ₹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 ₹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 ₹3,000 crore to NABARD, in phases for these cooperative societies. The initiative would benefit 15,000 cooperative 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% of total priority sector lending at the end of last year have increased to 13.6% in the current year. I have directed the Public Sector Banks to achieve the target of 15% 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 ₹15 lakh where the cost of the house does not exceed ₹25 lakh from the present limit of ₹10 lakh and ₹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 ₹20 lakh to ₹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 ₹3,000 crore from the existing ₹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 March 31, 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 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 ₹6,755 crore in 2010-11 to ₹7,860 crore in 2011-12.

Bringing Green Revolution to Eastern Region

The Green Revolution in Eastern Region is waiting to happen. To realise the potential of the region, last year's initiative will be continued in 2011-12 with a further allocation of ₹400 crore. The program 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

The 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 tonnes of pulses is expected this year as against 147 lakh tonnes 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 ₹300 crore to promote 60,000 pulses villages in rainfed areas for increasing crop productivity and strengthening market linkages.

Promotion of Oil Palm

The domestic production of edible oil meets only about 50% 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 tonnes in 2010-11 as against 249 lakh tonnes 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 ₹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 tonnes 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 ₹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 ₹300 crore is being made to promote higher production of these cereals, upgrade their processing technologies and create awareness regarding their health benefits.

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 ₹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 ₹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 ₹300 crore. Well, the number 3 happens to be my lucky number!

National Mission for Sustainable Agriculture

While the need to maximise crop yields to meet the growing demand for food grains 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 ₹3,75,000 crore this year to ₹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.

In view of the enhanced target for flow of agriculture credit, I propose to strengthen NABARD's capital base by infusing ₹3,000 crore, in a phased manner, as Government equity. This would raise its paid-up capital to ₹5,000 crore. To enable NABARD refinance the short-term crop loans of the cooperative credit institutions and RRBs at concessional rates, I propose a contribution of ₹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 fruit, their availability is inadequate due to bottlenecks in retailing capacity. An estimated 40% 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 grain procurement. On January 1, 2011, the grain stock in Central pool reached 470 lakh metric tonnes, 2.7 times higher than 174 lakh metric tonnes on January 1, 2007. The storage capacity for such large quantities requires augmentation. Process to create new storage capacity of 150 lakh metric tonnes through private entrepreneurs and warehousing corporations has been fast tracked. Decision to create 20 lakh metric tonnes 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 tonnes of capacity by March 2011, based on existing sanctions, the addition will reach 40 lakh tonnes by March 2012. During 2010-11, another 24 lakh metric tonnes of storage capacity has been created under the Rural Godown Scheme.

Agriculture Produce Marketing Act

The recent episode of inflation in vegetables and fruit 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 ₹2,14,000 crore is being made for this sector, which is 23.3% higher than current year. This amounts to 48.5% 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 ₹20,000 crore by March 31, 2011 and ₹25,000 crore by March 31, 2012. The take out financing scheme announced in the Budget 2009-10 has been implemented and seven projects have

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