

# **Budget 2010-2011**

## **Speech of**

**Pranab Mukherjee**

*Minister of Finance*

**February 26, 2010**

**Madam Speaker,**

I rise to present the Union Budget for 2010-11.

In 2009, when I presented the interim Budget in February and the regular Budget in July in this august House, the Indian economy was facing grave uncertainties. Growth had started decelerating and the business sentiment was weak. The economy's capacity to sustain high growth was under serious threat from the widespread economic slowdown in the developed world.

2. It was not clear to us, as also to the policy makers in many other countries, how this crisis would eventually unfold. What would be its impact on the growth momentum of the Indian economy? How soon will we be able to turnaround the fortunes of our economy? The short term global outlook was bleak and the consensus was that year 2009 would face the brunt of this crisis across the world.

3. At home, there was added uncertainty on account of the delayed and sub-normal south-west monsoon, which had undermined the kharif crop in the country. There were concerns about production and prices of food items and its possible repercussions on the growth of rural demand.

4. Today, as I stand before you, I can say with confidence that we have weathered these crises well. Indian economy now is in a far better position than it was a year ago. That is not to say that the challenges today are any less than what they were nine months ago when UPA under the leadership of Mrs Sonia Gandhi was elected back to power and Prime Minister Dr. Manmohan Singh formed the Government for the second term.

5. The three challenges and the medium term perspective that I had outlined in my last Budget Speech remain relevant, even today. These would continue to engage the Indian policy-planners for the next few years.

**6.** The *first* challenge before us is to quickly revert to the high GDP growth path of 9 per cent and then find the means to cross the 'double digit growth barrier'. This calls for imparting a fresh momentum to the impressive recovery in growth witnessed in the past few months. In this endeavour, I seek Lord Indra's help to make the recovery more broad-based in the coming months.

**7.** Growth is only as important as what it enables us to do and be. Therefore, the *second* challenge is to harness economic growth to consolidate the recent gains in making development more inclusive. The thrust imparted to the development of infrastructure in rural areas has to be pursued to achieve the desired objectives within a fixed time frame.

**8.** We have to strengthen food security, improve education opportunities and provide health facilities at the level of households, both in rural and urban areas. These are issues that require significant resources, and we have to find those resources.

**9.** The *third* challenge relates to the weaknesses in government systems, structures and institutions at different levels of governance. Indeed, in the coming years, if there is one factor that can hold us back in realising our potential as a modern nation, it is the bottleneck of our public delivery mechanisms. There have been many initiatives in this regard, in different sectors, at different points of time. Some of them have been effective in reforming the way the Government works in those areas. But we have a long way to go before we can rest on this count.

**10.** The Union Budget cannot be a mere statement of Government accounts. It has to reflect the Government's vision and signal the policies to come in future.

**11.** With development and economic reforms, the focus of economic activity has shifted towards the non-governmental actors, bringing into sharper focus the role of Government as an enabler.

**12.** An enabling Government does not try to deliver directly to the citizens everything that they need. Instead it creates an enabling ethos so that individual enterprise and creativity can flourish. Government concentrates on supporting and delivering services to the disadvantaged sections of the society.

**13.** It is this broad conceptualisation of the Budget that informs my speech today. I would now begin by presenting a brief overview of the economy.

#### Overview of the Economy

**14.** Yesterday, I laid on the table of the House the Economic Survey, which gives a detailed analysis of the economic situation of the country over the past twelve months. I intend to highlight only a few salient features that form the backdrop of this Budget.

**15.** The fiscal year 2009-10 was a challenging year for the Indian economy. The significant deceleration in the second half of 2008-09, brought the real GDP growth down

to 6.7 per cent, from an average of over 9 per cent in the preceding three years. We were among the first few countries in the world to implement a broad-based counter-cyclic policy package to respond to the negative fallout of the global slowdown. It included a substantial fiscal expansion along with liberal monetary policy support.

**16.** The effectiveness of these policy measures became evident with fast paced recovery. The economy stabilised in the first quarter of 2009-10 itself, when it clocked a GDP growth of 6.1 per cent, as against 5.8 per cent in the fourth quarter of the preceding year. It registered a strong rebound in the second quarter, when the growth rate rose to 7.9 per cent. With the Advance Estimates placing the likely growth for 2009-10 at 7.2 per cent, we are indeed vindicated in our policy stand. The final figure may well turn out to be higher when the third and fourth quarter GDP estimates for 2009-10 become available.

**17.** This recovery is very encouraging for it has come about despite a negative growth in the agriculture sector. More importantly, it is the result of a renewed momentum in the manufacturing sector and marks the rise of this sector as the growth driver of the economy. The growth rate in manufacturing in December 2009 was 18.5 per cent—the highest in the past two decades. There are also signs of a turnaround in the merchandise exports with a positive growth in November and December 2009 after a decline of about twelve successive months. Export figures for January are also encouraging. Significant private investment can now be expected to provide the engine for sustaining a growth of 9 per cent per annum. With some luck, I hope to breach the 10 per cent mark in not-too-distant a future.

**18.** A major concern during the second half of 2009-10 has been the emergence of double digit food inflation. There was a momentum in food prices since the flare-up of global commodity prices preceding the financial crisis in 2008, but it was expected that the agriculture season beginning June 2009 would help in moderating the food inflation. However, the erratic monsoons and drought like conditions in large parts of the country reinforced the supply side bottlenecks in some of the essential commodities. This set in motion inflationary expectations. Since December 2009, there have been indications of these high food prices, together with the gradual hardening of the fuel product prices, getting transmitted to other non-food items as well. The inflation data for January seems to have confirmed this trend.

**19.** Government is acutely conscious of this situation and has set in motion steps, in consultation with the State Chief Ministers, which should bring down the inflation in the next few months and ensure that there is better management of food security in the country.

## CONSOLIDATING GROWTH

**20.** Managing a complex economy is a difficult task, more so when it is a growing economy in a globalised world. And yet, choices have to be made and they have to be well-timed.

**21.** After successfully managing the effects of the global slowdown, we need to strengthen the domestic macroeconomic environment to help consolidate the rebound in growth and sustain it over the medium term. We need to review the stimulus imparted to the economy and move towards the preferred path of fiscal consolidation that facilitated the remarkable growth in the pre-crisis five year period. We need to make growth more broad-based and ensure that supply-demand imbalances are better managed.

#### Fiscal Consolidation

**22.** The success of the fiscal stimulus in supporting domestic demand could be traced to its composition. The approach of the Government was to increase the disposable income in the hands of the people by effecting reductions in indirect taxes and by expanding public expenditure on programmes like the Mahatma Gandhi National Rural Employment Guarantee Scheme and rural infrastructure. Now that the recovery has taken root, there is a need to review public spending, mobilise resources and gear them towards building the productivity of the economy.

**23.** In shaping the fiscal policy for 2010-11, I have acted on the recommendations of the Thirteenth Finance Commission. It has recommended a calibrated exit strategy from the expansionary fiscal stance of last two years. The Commission has recommended a capping of the combined debt of the Centre and the States at 68 per cent of the GDP to be achieved by 2014-15.

**24.** As a part of the fiscal consolidation process, it would be for the first time that the Government would target an explicit reduction in its domestic public debt-GDP ratio. I intend to bring out, within six months, a status paper giving a detailed analysis of the situation and a road map for curtailing the overall public debt. This would be followed by an annual report on the subject.

#### Tax reforms

**25.** I am happy to inform the Honourable Members that the process for building a simple tax system with minimum exemptions and low rates designed to promote voluntary compliance, is now nearing completion. On the Direct Tax Code the wide-ranging discussions with stakeholders have been concluded. I am confident that the Government will be in a position to implement the Direct Tax Code from April 1, 2011.

**26.** On Goods and Services Tax, we have been focusing on generating a wide consensus on its design. In November, 2009 the Empowered Committee of the State Finance Ministers placed the first discussion paper on GST in the public domain. The Thirteenth Finance Commission has also made a number of significant recommendations relating to GST, which will contribute to the ongoing discussions. We are actively engaged with the Empowered Committee to finalise the structure of GST as well as the modalities of its expeditious implementation. It will be my earnest endeavour to introduce GST along with the DTC in April, 2011.

### People's ownership of PSUs

- 27.** While presenting the Budget for 2009-10, I invited people to participate in Government's disinvestment programme to share in the wealth and prosperity of the Central Public Sector Undertakings.
- 28.** Since then, ownership has been broad based in Oil India Limited, NHPC, NTPC and Rural Electrification Corporation while the process is on for National Mineral Development Corporation and Satluj Jal Vidyut Nigam. The Government will raise about Rs.25,000 crore during the current year. Through this process, I propose to raise a higher amount during the year 2010-11. The proceeds will be utilised to meet the capital expenditure requirements of social sector schemes for creating new assets.
- 29.** Listing of Central Public Sector Undertakings improves corporate governance, besides unlocking the value for all stakeholders—the government, the company and the shareholders. Market capitalization of five companies which have been listed since October, 2004 has increased by 3.8 times from the book value of Rs.78,841 crore to Rs.2,98,929 crore.
- 30.** The effective management of public expenditure by bringing it in line with the Government's objectives is a part of the fiscal consolidation process. This calls for proper targeting of subsidies and expenditure adjustment.

### Fertiliser subsidy

- 31.** I had announced the intent of the Government for the fertiliser sector in my Budget Speech of 2009. A Nutrient Based Subsidy policy for the fertiliser sector has since been approved by the Government and will become effective from April 1, 2010. This policy is expected to promote balanced fertilization through new fortified products and focus on extension services by the fertiliser industry. This will lead to an increase in agricultural productivity and consequently better returns for the farmers. Over time, the policy is expected to reduce volatility in the demand for fertiliser subsidy in addition to containing the subsidy bill. Government will ensure that nutrient based fertiliser prices for transition year 2010-11, will remain around MRPs currently prevailing. The new system will move towards direct transfer of subsidies to the farmers.

### Petroleum and Diesel pricing policy

- 32.** In the last Budget, the constitution of an Expert Group, to advise the Government on a viable and sustainable system of pricing of petroleum products, was announced. The Group headed by Shri Kirit Parikh has submitted its recommendations to the Government. Decision on these recommendations will be taken by my colleague, the Minister of Petroleum & Natural Gas, in due course.
- 33.** I am very happy to inform the Honourable Members that we have not only adhered to the fiscal roadmap that I had presented as a part of the Budget documents last

year, but we have improved upon it. Except for meeting the liabilities of the year 2008-09, we have not issued oil or fertiliser bonds. I shall come to the numbers when I refer to the budget estimates a little later.

## Improving Investment Environment

### Foreign Direct Investment

**34.** Foreign Direct Investment (FDI) inflows during the year have been steady in spite of the decline in global capital flows. India received FDI equity inflows of US\$ 20.9 billion during April-December, 2009 compared to US\$ 21.1 billion during the same period last year.

**35.** Government has taken a number of steps to simplify the FDI regime to make it easily comprehensible to foreign investors. For the first time, both ownership and control have been recognised as central to the FDI policy, and methodology for calculation of indirect foreign investment in Indian companies has been clearly defined. A consistent policy on downstream investment has also been formulated. Another major initiative has been the complete liberalization of pricing and payment of technology transfer fee, trademark, brand name and royalty payments. These payments can now be made under the automatic route.

**36.** Government also intends to make the FDI policy user-friendly by consolidating all prior regulations and guidelines into one comprehensive document. This would enhance clarity and predictability of our FDI policy to foreign investors.

### Financial Stability and Development Council

**37.** The financial crisis of 2008-09 has fundamentally changed the structure of banking and financial markets the world over. With a view to strengthen and institutionalise the mechanism for maintaining financial stability, Government has decided to setup an apex-level Financial Stability and Development Council. Without prejudice to the autonomy of regulators, this Council would monitor macro prudential supervision of the economy, including the functioning of large financial conglomerates, and address inter-regulatory coordination issues. It will also focus on financial literacy and financial inclusion.

### Banking Licences

**38.** The Indian banking system has emerged unscathed from the crisis. We need to ensure that the banking system grows in size and sophistication to meet the needs of a modern economy. Besides, there is a need to extend the geographic coverage of banks and improve access to banking services. In this context, I am happy to inform the Honourable Members that the RBI is considering giving some additional banking licenses to private sector players. Non Banking Financial Companies could also be considered, if they meet the RBI's eligibility criteria.

## Public Sector Bank Capitalisation

**39.** During 2008-09, the Government infused Rs.1900 crore as Tier-I capital in four public sector banks to maintain a comfortable level of Capital to Risk Weighted Asset Ratio. An additional sum of Rs.1200 crore is being infused now. For the year 2010-11, I propose to provide a sum of Rs.16,500 crore to ensure that the Public Sector Banks are able to attain a minimum 8 per cent Tier-I capital by March 31, 2011.

## Recapitalisation of Regional Rural Banks

**40.** Regional Rural Banks (RRBs) play an important role in providing credit to rural economy. The capital of these banks is shared by the Central Government, sponsor banks and State Governments. The banks were last capitalised in 2006-07. I propose to provide further capital to strengthen the RRBs so that they have adequate capital base to support increased lending to the rural economy.

## Corporate Governance

**41.** Improvement in corporate governance and regulation is an important part of the overall investment environment in the country. Government has introduced the Companies Bill, 2009 in the Parliament, which will replace the existing Companies Act, 1956. The proposed new bill will address issues related to regulation in corporate sector in the context of the changing business environment.

## Exports

**42.** Government has provided interest subvention of 2 per cent on pre-shipment export credit up to March 31, 2010 for exports in certain sectors. I propose to extend the interest subvention of 2 per cent for one more year for exports covering handicrafts, carpets, handlooms and small and medium enterprises.

## Special Economic Zones (SEZs)

**43.** The SEZs have attracted significant flows of domestic and foreign investments. In first three quarters of 2009-10 exports from SEZs recorded a growth of 127 per cent over the corresponding period last year. Government is committed to ensuring continued growth of SEZs to draw investments and boost exports and employment.

## Agriculture Growth

**44.** The agriculture sector occupies centre-stage in our resolve to promote inclusive growth, enhance rural incomes and sustain food security. To spur the growth in this sector, the Government intends to follow a *four-pronged strategy* covering (a)

agricultural production; (b) reduction in wastage of produce; (c) credit support to farmers; and (d) a thrust to the food processing sector.

**45.** The *first element* of the strategy is to extend the green revolution to the eastern region of the country comprising Bihar, Chattisgarh, Jharkhand, Eastern UP, West Bengal and Orissa, with the active involvement of Gram Sabhas and the farming families. For the year 2010-11, I propose to provide Rs.400 crore for this initiative.

**46.** In the 60th year of the Republic, it is proposed to organise 60,000 "pulses and oil seed villages" in rain-fed areas during 2010-11 and provide an integrated intervention for water harvesting, watershed management and soil health, to enhance the productivity of the dry land farming areas. I propose to provide Rs.300 crore for this purpose. This initiative will be an integral part of the Rashtriya Krishi Vikas Yojana.

**47.** The gains already made in the green revolution areas have to be sustained through conservation farming, which involves concurrent attention to soil health, water conservation and preservation of biodiversity. I propose an allocation of Rs.200 crore for launching this climate resilient agriculture initiative.

**48.** The *second element* of the strategy relates to reduction of significant wastages in storage as well as in the operations of the existing food supply chains in the country. This needs to be addressed. As the Prime Minister has said recently, "*We need greater competition and therefore need to take a firm view on opening up of the retail trade.*" It will help in bringing down the considerable difference between the farm gate prices, wholesale prices and retail prices.

**49.** There is wastage of grain procured for buffer stocks and public distribution system due to acute shortage of storage capacity in the Food Corporation of India. This deficit in the storage capacity is met through an ongoing scheme for private sector participation where the FCI has been hiring godowns from private parties for a guaranteed period of 5 years. This period is now being extended to 7 years.

**50.** The *third element* of the strategy relates to improving the availability of credit to farmers. I am happy to inform the Honourable Members that banks have been consistently meeting the targets set for agriculture credit flow in the past few years. For the year 2010-11, the target has been raised to Rs.3,75,000 crore from Rs.3,25,000 crore in the current year.

**51.** The *Debt Waiver and Debt Relief Scheme for Farmers* was a major initiative of the UPA Government. In view of the recent drought in some States and the severe floods in some other parts of the country, I propose to extend by six months the period for repayment of the loan amount by farmers from December 31, 2009 to June 30, 2010.



**52.** In the last budget, I had provided an additional one per cent interest subvention as an incentive to those farmers who repay their short-term crop loans as per schedule. I propose to raise this subvention for timely repayment of crop loans from one per cent to two per cent for 2010-11. Thus, the effective rate of interest for such farmers will now be five per cent per annum. Necessary provision in the Budget has been made.

**53.** The *fourth element* of the strategy aims at lending a further impetus to the development of food processing sector by providing state-of-the art infrastructure. In addition to the ten mega food park projects already being set up, the Government has decided to set up five more such parks.

**54.** As a part of the farm to market initiative, External Commercial Borrowings will henceforth be available for cold storage or cold room facility, including for farm level pre-cooling, for preservation or storage of agricultural and allied produce, marine products and meat. Changes in the definition of infrastructure under the ECB policy are being made.

#### Infrastructure

**55.** Accelerated development of high quality physical infrastructure, such as roads, ports, airports and railways is essential to sustain economic growth. While addressing the policy gaps in this sector, I propose to maintain the thrust for upgrading infrastructure in both rural and urban areas. In the Budget for 2010-11, I have provided Rs.1,73,552 crore, which accounts for over 46 per cent of the total plan allocations, for infrastructure development in the country.

**56.** To make a visible impact in the road sector, Government has targeted construction of national highways (NHs) at the pace of 20 km per day. To push the pace of implementation, changes have been made in the policy framework, especially in respect of projects being executed through public private partnerships (PPPs). For the year 2010-11, I propose to raise the allocation of road transport by over 13 per cent from Rs.17,520 crore to Rs.19,894 crore.

**57.** Honourable Members have already heard from the Railway Minister about the large investments required to modernise and expand the network. I have provided Rs.16,752 crore in the Budget for 2010-11 for Railways to lend her a helping hand. This is about Rs.950 crore more than last year, when a substantial increase was made in the budgetary support for Railways.

**58.** To complement the dedicated freight corridor, the Delhi-Mumbai Industrial Corridor project has been taken up for integrated regional development. Preparatory activities have been completed for creation of six industrial investment nodes with eco-friendly world class infrastructure.

India Infrastructure Finance Company Limited

**59.** Government established the India Infrastructure Finance Company Limited (IIFCL) to provide long term financial assistance to infrastructure projects. Its disbursements are expected to touch Rs.9,000 crore by end March 2010 and reach around Rs.20,000 crore by March 2011. IIFCL has also been authorised to refinance bank lending to infrastructure projects. It has refinanced Rs.3,000 crore during the current year and is expected to more than double that amount in 2010-11. The take-out financing scheme announced in the last Budget is expected to initially provide finance for about Rs.25,000 crore in the next three years.

#### Energy

**60.** Government accords the highest priority to capacity addition in the power sector. The framework for induction of super critical technology in large capacity power plants of National Thermal Power Corporation is now in place. The Mega Power Policy has been modified and is now consistent with the National Electricity Policy, 2005 and Tariff Policy, 2006. It will help in lowering the cost of generation and the cost of power purchased by distribution utilities. I have more than doubled the plan allocation for power sector from Rs.2,230 crore in 2009-10 to Rs.5,130 crore in 2010-11. This does not include allocations for RGGVY, which is a part of Bharat Nirman.

**61.** Coal is the mainstay of India's energy sector and 75 per cent of the power generation is currently coal based. It is proposed to introduce a competitive bidding process for allocating coal blocks for captive mining to ensure greater transparency and increased participation in production from these blocks.

**62.** Government proposes to take steps to set up a "Coal Regulatory Authority" to create a level playing field in the coal sector. This would facilitate resolution of issues like economic pricing of coal and benchmarking of standards of performance.

**63.** The Jawaharlal Nehru National Solar Mission envisages establishing India as a global leader in solar energy. An ambitious target of 20,000 MW of solar power by the year 2022 has been set under the mission. I propose to increase the plan outlay for the Ministry of New and Renewable Energy by 61 per cent from Rs.620 crore in 2009-10 to Rs.1,000 crore in 2010-11.

**64.** The Ladakh region of Jammu and Kashmir faces an extremely harsh climate and suffers from energy deficiency. To address this problem, it is proposed to set up solar, small hydro and micro power projects at a cost of about Rs.500 crore.

#### Environment and Climate change

**65.** To ameliorate the negative environmental consequences and increased pollution levels associated with industrialisation and urbanisation, I propose to take a number of proactive steps in the Budget 2010-11.

#### National Clean Energy Fund (NCEF)

**66.** There are many areas of the country where pollution levels have reached alarming proportions. While we must ensure that the principle of "polluter pays" remains the basic guiding criteria for pollution management, we must also give a positive thrust to development of clean energy. I propose to establish a National Clean Energy Fund for funding research and innovative projects in clean energy technologies. I shall outline the mode of funding for this initiative in Part B of my speech.

Effluent Treatment Plant, Tirupur

**67.** The textile cluster for knitwear in Tirupur in Tamil Nadu is a major contributor to the country's hosiery exports. I propose to provide a one-time grant of Rs.200 crore to the Government of Tamil Nadu towards the cost of installation of a zero liquid discharge system at Tirupur to sustain this industry, which provides livelihood to lakhs of persons, without undermining the environment.

Special Golden Jubilee Package for Goa

**68.** I propose to provide a sum of Rs.200 crore as a Special Golden Jubilee package for Goa to preserve the natural resources of the State by restoring Goa's beaches which are prone to erosion, and increasing its green cover through sustainable forestry.

National Ganga River Basin Authority (NGRBA)

**69.** The "Mission Clean Ganga 2020" under the National Ganga River Basin Authority (NGRBA) with the objective that no untreated municipal sewage or industrial effluent will be discharged into the national river has already been initiated. I propose to double the allocation for NGRBA in 2010-11 to Rs.500 crore.

**70.** I am happy to inform the Honourable Members that schemes on bank protection works along river Bhagirathi and river Ganga-Padma in parts of Murshidabad and Nadia district of West Bengal have been included in the Centrally Sponsored Flood Management Programme. I also propose to provide budgetary support for drainage scheme of Kaliaghai-Kapaleswari Baghai basin in the district of Purba and Paschim Midnapore, and Master Plan of Kandi sub-division in Murshidabad, West Bengal.

**71.** Recognising the need for developing an alternate port facility in West Bengal, it is proposed to develop a project at Sagar Island. Necessary funds will be provided in due course.

**INCLUSIVE DEVELOPMENT**

**72.** For the UPA Government, inclusive development is an act of faith. In the last five years, our Government has created entitlements backed by legal guarantees for an individual's right to information and her right to work. This has been followed-up with the enactment of the right to education in 2009-10. As the next step, we are now ready with the draft Food Security Bill which will be placed in the public domain very soon. To

fulfil these commitments the spending on social sector has been gradually increased to Rs.1,37,674 crore which now stands at 37 per cent of the total plan outlay in 2010-11. Another 25 per cent of the plan allocations are devoted to the development of rural infrastructure. With growth and the opportunities that it generates, we hope to further strengthen the process of inclusive development.

#### Education

**73.** The Right of Children to Free and Compulsory Education Act, 2009 creates a framework for legal entitlements for all children in the age group of 6 to 14 years to education of good quality, based on principles of equity and non-discrimination. In recent years, Sarva Shiksha Abhiyan (SSA) has made significant contribution in improving enrolment and infrastructure for elementary education. About 98 per cent of habitations are now covered by primary schools. I propose to increase the plan allocation for school education from Rs.26,800 crore in 2009-10 to Rs.31,036 crore in 2010-11. In addition, States will have access to Rs.3,675 crore for elementary education under the Thirteenth Finance Commission grants for 2010-11.

#### Health

**74.** An Annual Health Survey to prepare the District Health Profile of all Districts shall be conducted in 2010-11. The findings of the Survey should be of immense benefit to major public health initiatives particularly the National Rural Health Mission, which has successfully addressed the gaps in the delivery of critical health services in rural areas.

**75.** I propose to increase the plan allocation for the Ministry of Health and Family Welfare, from Rs.19,534 crore to Rs.22,300 crore for 2010-11.

#### Financial Inclusion

**76.** To reach the benefits of banking services to the '*Aam Aadmi*', the Reserve Bank of India had set up a High Level Committee on the Lead Bank Scheme. After careful assessment of the recommendations of this Committee, and in further consultation with the RBI, it has been decided to provide appropriate Banking facilities to habitations having population in excess of 2000 by March, 2012. It is also proposed to extend insurance and other services to the targeted beneficiaries. These services will be provided using the Business Correspondent and other models with appropriate technology back up. By this arrangement, it is proposed to cover 60,000 habitations.

#### Financial Inclusion Fund (FIF) and the Financial Inclusion Technology Fund

**77.** In 2007-08 the Government had set up a Financial Inclusion Fund and a Financial Inclusion Technology Fund in NABARD, to reach banking services to the unbanked areas. To give momentum to the pace of financial inclusion, I propose an augmentation of

Rs.100 crore for each of these funds, which shall be contributed by Government of India, RBI and NABARD.

#### Rural Development

**78.** In the words of Mahatma Gandhi "*Just as the universe is contained in the self, so is India contained in the villages*". For UPA Government, development of rural infrastructure remains a high priority area. For the year 2010-11, I propose to provide Rs.66,100 crore for Rural Development.

**79.** Mahatma Gandhi National Rural Employment Guarantee Scheme has completed four years of implementation during which it has been extended to all districts covering more than 4.5 crore households. The allocation for NREGA has been stepped up to Rs.40,100 crore in 2010-11. Bharat Nirman has made a substantial contribution to the upgradation of rural infrastructure through its various programmes. For the year 2010-11, I propose to allocate an amount of Rs.48,000 crore for these programmes.

**80.** Indira Awas Yojana is a popular rural housing scheme for weaker sections. Taking note of the increase in the cost of construction, I propose to raise the unit cost under this scheme to Rs.45,000 in the plain areas and to Rs.48,500 in the hilly areas. For the year 2010-11, the allocation for this scheme is being increased to Rs.10,000 crore.

**81.** As a part of the strategy to bridge the infrastructure gap in backward districts of the country, the Backward Region Grant Fund has proved to be an effective instrument. I propose to enhance the allocation to this fund by 26 per cent from Rs.5,800 crore in 2009-10 to Rs.7,300 crore in 2010-11. I have also provided an additional central assistance of Rs.1,200 crore for drought mitigation in the Bundelkhand region in the Budget.

#### Urban Development and Housing

**82.** "*Swarna Jayanti Shahari Rozgar Yojana*" designed to provide employment opportunities in urban areas, has been strengthened with focus on community participation, skill development and self employment support structures. For the year 2010-11, I propose to increase the allocation for urban development by more than 75 per cent from Rs.3,060 crore to Rs.5,400 crore. In addition, the allocation for Housing and Urban Poverty Alleviation is also being raised from Rs.850 crore to Rs.1,000 crore in 2010-11.

**83.** While presenting the Union Budget for the year 2009-10, I had announced a Scheme of one per cent interest subvention on housing loans up to Rs.10 lakhs where the cost of the house does not exceed Rs.20 lakhs. I propose to extend this Scheme up to March 31, 2011. Accordingly, I propose to provide a sum of Rs.700 crore for this Scheme for the year 2010-11.

**84.** The *Rajiv Awas Yojana* (RAY) for slum dwellers and urban poor was announced last year to extend support to States that are willing to provide property rights to slum dwellers. This scheme is now ready to take off. I propose to allocate Rs.1,270 crore for 2010-11 as compared to Rs.150 crore last year. This marks an increase of over 700 per cent. The Government's efforts in the implementation of RAY would be to encourage the States to create a slum free India at the earliest.

#### Micro, Small & Medium Enterprises

**85.** Micro, Small and Medium Enterprises (MSMEs) contribute 8 per cent of the country's GDP, 45 per cent of the manufactured output and 40 per cent of our exports. They provide employment to about 6 crore persons through 2.6 crore enterprises. To resolve a number of issues which affect the growth of this sector, Prime Minister constituted a High-Level Task Force which held detailed discussions with all stakeholders and drew up an agenda for action. A High Level Council on Micro and Small Enterprises will monitor the implementation of the recommendations and the agenda for action. I propose to raise the allocation for this sector from Rs.1,794 crore to Rs.2,400 crore for the year 2010-11.

**86.** A loan agreement for US \$ 150 million has been signed between the Government of India and the Asian Development Bank on 22nd December, 2009 for implementing the comprehensive Khadi Reforms Programme. This programme will cover 300 selected Khadi institutions.

#### Micro Finance

**87.** The programme for linking Self Help Groups (SHGs) with the banking system has emerged as the major micro-finance initiative in the country. It was re-designated as the 'Micro-Finance Development and Equity Fund' in 2005-06 with a corpus of Rs.200 crore. The fund corpus is being doubled to Rs.400 crore in 2010-11.

#### Unorganised Sector

##### National Social Security Fund for unorganised sector workers

**88.** Recognising the need for providing social security to the workers in the unorganised sector, and as a follow up to the Unorganised Sector Workers Social Security Act, 2008, it has been decided to set up a National Social Security Fund for unorganised sector workers with an initial allocation of Rs.1,000 crore. This fund will support schemes for weavers, toddy tappers, rickshaw pullers, bidi workers etc.

**89.** The Government had launched *Rashtriya Swasthya Bima Yojana* on October 1, 2007 to provide health insurance cover to below poverty line workers and their families. It became operational on April 1, 2008 and so far more than 1 crore smart cards have

been issued under this scheme. In view of the success of the scheme, it is now proposed to extend its benefits to all such Mahatma Gandhi NREGA beneficiaries who have worked for more than 15 days during the preceding financial year.

**90.** To encourage the people from the unorganised sector to voluntarily save for their retirement and to lower the cost of operations of the New Pension Scheme (NPS) for such subscribers, Government will contribute Rs.1,000 per year to each NPS account opened in the year 2010-11. This initiative, "*Swavalamban*" will be available for persons who join NPS, with a minimum contribution of Rs.1,000 and a maximum contribution of Rs.12,000 per annum during the financial year 2010-11. The scheme will be available for another three years. Accordingly, I am making an allocation of Rs.100 crore for the year 2010-11. It will benefit about 10 lakh NPS subscribers of the unorganised sector. The scheme will be managed by the interim Pension Fund Regulatory and Development Authority.

**91.** I also appeal to the State Governments to contribute a similar amount to the scheme and participate in providing social security to the vulnerable sections of the society.

#### Skill development

**92.** Prime Minister's Council on National Skill Development has laid down the core governing principles for operating strategies for skill development. The Council has a mission of creating 50 crore skilled people by 2022. Of these, the target for the National Skill Development Corporation, which has started functioning from October, 2009, is 15 crore. It has completed a comprehensive skill gap study of 21 high growth sectors and approved three projects worth about Rs.45 crore to create 10 lakh skilled manpower at the rate of one lakh per annum. Other projects are in advanced stages of consideration.

**93.** It is proposed to launch an extensive skill development programme in the textile and garment sector by leveraging the strength of existing institutions and instruments of the Textile Ministry. The resources of the private sector will also be harnessed by incentivising training through an outcome - based approach. Through these instruments, the Ministry of Textiles has set an ambitious target of training 30 lakh persons over 5 years.

#### Social Welfare

**94.** I propose to step up the plan outlay for Women and Child Development by almost 50 per cent. Several new initiatives that were launched in 2009-10 are now ready for implementation. A mission for empowerment of women is being set up. The ICDS platform is being expanded for effective implementation of the Rajiv Gandhi Scheme for Adolescent Girls.

**95.** To further improve female literacy rate, the Government has recast the earlier National Literacy Mission as a new programme "*Saakshar Bharat*". It was launched in September, 2009 with a target of 7 crore non-literate adults which includes 6 crore women.

**96.** A *Mahila Kisan Sashaktikaran Pariyojana* to meet the specific needs of women farmers is being launched. I have provided Rs.100 crore for this initiative as a sub-component of the National Rural Livelihood Mission.

**97.** I am happy to inform the Honourable Members that I propose to enhance the plan outlay of the Ministry of Social Justice and Empowerment to Rs.4500 crore. This amounts to an increase of 80 per cent as compared to 2009-10. This will support the programmes being implemented for the target population groups covering the Scheduled Castes, Other Backward Classes, persons with disabilities, senior citizens and victims of alcoholism and substance abuse. With this enhancement, the Ministry will be able to revise rates of scholarship under its post-matric scholarship schemes for SCs and OBC students, which is long overdue.

**98.** The allocation will also assist in establishing an Indian Sign Language Research and Training Centre for the benefit of the hearing impaired. District Disability Rehabilitation Centres are being set up in 50 additional districts along with two composite regional centres for persons with disabilities.

**99.** I also propose to raise the plan allocation for the Ministry of Minority Affairs from Rs.1,740 crore to Rs.2,600 crore for the year 2010-11. This marks an increase of nearly 50 per cent. I am happy to inform the Honourable Members that we are close to achieving the target of 15 per cent priority sector lending to minorities in the current year. This will be maintained for the next three years.

#### STRENGTHENING TRANSPARENCY & PUBLIC ACCOUNTABILITY

**100.** The UPA Government has made a serious attempt to create an environment that supports transparency and accountability in the working of the public institutions in the country. As Honourable Members are aware, a number of legislative and administrative measures have been taken in this regard.

#### Financial Sector Legislative Reforms Commission

**101.** Most of our legislations governing the financial sector are very old. Large number of amendments to these Acts made at different points of time has also increased ambiguity and complexity. The Government proposes to set up a Financial Sector Legislative Reforms Commission to rewrite and clean up the financial sector laws to bring them in line with the requirements of the sector.



## Administrative Reforms Commission

**102.** The Administrative Reforms Commission constituted by the UPA Government in its first term has submitted 15 reports, of which 10 reports have been examined by the Government. Out of the 800 identified recommendations for implementation so far, 350 recommendations have been implemented and 450 are under implementation.

## Unique Identification Authority of India (UIDAI)

**103.** In my last Budget Speech, I had announced the constitution of the Unique Identification Authority of India, its broad working principles and the timelines for delivery of the first UID numbers. I am happy to report that the Authority has been constituted and it will be able to meet its commitments of issuing the first set of UID numbers in the coming year. It would provide an effective platform for financial inclusion and targeted subsidy payments. Since the UIDAI will now get into the operational phase, I am allocating Rs.1,900 crore to the Authority for 2010-11.

## Technology Advisory Group for Unique Projects (TAGUP)

**104.** An effective tax administration and financial governance system calls for creation of IT projects which are reliable, secure and efficient. IT projects like Tax Information Network, New Pension Scheme, National Treasury Management Agency, Expenditure Information Network, Goods and Service Tax, are in different stages of roll out. To look into various technological and systemic issues, I propose to set up a Technology Advisory Group for Unique Projects under the Chairmanship of Shri Nandan Nilekani.

## Independent Evaluation Office (IEO)

**105.** The Government had announced the setting-up of an Independent Evaluation Office to undertake impartial and objective assessments of the various public programmes and improve the effectiveness of the public interventions. It has been decided that it would be an independent entity under a Governing board chaired by the Deputy Chairman, Planning Commission. The IEO would evaluate the impact of flagship programmes and place the findings in the public domain. It would be funded by the Planning Commission.

## Symbol for Indian Rupee

**106.** In the ensuing year, we intend to formalise a symbol for the Indian Rupee, which reflects and captures the Indian ethos and culture. With this, Indian Rupee will join the select club of currencies such as the US Dollar, British Pound Sterling, Euro and Japanese Yen that have a clear distinguishing identity.

## Security and Justice

**107.** Secure borders and security of life and property fosters development. I propose to increase the allocation for Defence to Rs.1,47,344 crore. This would include Rs.60,000 crore for capital expenditure. Needless to say, any additional requirement for the security of the nation will be provided for.

**108.** In 2009-10, the overall internal security and law and order situation in the country remained largely under control. Several new measures were taken by the Government to strengthen the security apparatus of the country. These include operationalisation of the National Investigation Agency (NIA), establishment of four NSG Hubs, augmentation of the Intelligence Bureau and its Multi-Agency Centre.

**109.** There was decline in violence in Jammu and Kashmir in the year 2009. We have taken a number of confidence building measures. As one more such measure, Government proposes to recruit about 2,000 youth as constables in five Central Para Military Forces in the year 2010.

**110.** To address the development problems of the thirty three left wing extremism affected districts, a Task Force headed by the Cabinet Secretary was formed for promoting coordinated efforts across a range of development and security measures. It has been decided that Planning Commission will prepare an integrated action plan for the affected areas. Adequate funds will be made available to support the action plan. I appeal to the misguided elements to eschew violence and join the development process.

## National Mission for Delivery of Justice and Legal Reforms

**111.** To provide timely delivery of justice to all, the Government has approved the setting up of the National Mission for Delivery of Justice and Legal Reforms. The objective of the mission is to help reduce legal backlog in courts from an average of 15 years at present to 3 years by 2012. It would also help in improving the legal environment for business. The Thirteenth Finance Commission has provided grants amounting to Rs.5,000 crore for the States to improve the delivery of justice, including strengthening of alternate dispute resolution mechanisms.

## Budget Estimates 2010-11

I now turn to the Budget Estimates for 2010-11.

**112.** The Gross Tax Receipts are estimated at Rs.7,46,651 crore. The Non Tax Revenue Receipts are estimated at Rs.1,48,118 crore. The net tax revenue to the Centre as

well as the expenditure provisions in 2010-11 have been estimated with reference to the recommendations of the Thirteenth Finance Commission.

**113.** The total expenditure proposed in the Budget Estimates for 2010-11 is Rs.11,08,749 crore, which is an increase of 8.6 per cent over the total expenditure in BE 2009-10. The Plan and Non Plan expenditures in BE 2010-11 are estimated at Rs.3,73,092 crore and Rs.7,35,657 crore, respectively. While there is a 15 per cent increase in Plan expenditure, the increase in Non Plan expenditure is only 6 per cent over the BE of previous year. With this level of Plan expenditure, I am confident that the total Plan expenditure would be very close to 100 per cent of the expenditure envisaged in the Eleventh Five Year Plan.

**114.** Honourable Members will agree that fiscal policy has to be guided by the required framework for fiscal prudence. In the Medium Term Fiscal Policy Statement presented along with Budget 2009-10, I had laid down a road map for fiscal deficit. I am happy to report that in keeping with my commitment, I have been able to present the Budget for 2010-11 with a fiscal deficit of 5.5 per cent. In the Medium Term Fiscal Policy Statement being presented to the House today, along with other Budget documents, the rolling targets for fiscal deficit are pegged at 4.8 per cent and 4.1 per cent for 2011-12 and 2012-13, respectively. These projections improve upon the recommendations of the Thirteenth Finance Commission.

**115.** While presenting the Budget for 2009-10, I had expressed my concern about the high level of fiscal deficit. I had also stated that the Government will address this issue in right earnest to come back to the path of fiscal consolidation at the earliest. I am happy to report that against a fiscal deficit of 7.8 per cent in 2008-09, inclusive of oil and fertiliser bonds, the comparable fiscal deficit is 6.9 per cent as per the Revised Estimates for 2009-10. Both these deficit figures are based on the revised GDP numbers published by the Central Statistical Organisation and include what were earlier referred to as below the line items. This marks an improvement of about one per cent in fiscal deficit during the current year. I have made a conscious effort to avoid issuing bonds to oil and fertiliser companies. I would like to continue with this practice of extending Government subsidy in cash, thereby bringing all subsidy related liabilities into our fiscal accounting.

**116.** The fiscal deficit of 5.5 per cent of GDP in 2010-11 works out to Rs.3,81,408 crore. Taking into account the various other financing items for fiscal deficit, the actual net market borrowing of the Government in 2010-11 would be of the order of Rs.3,45,010 crore. There will be enough space to meet the credit needs of the private sector. The Government will plan the borrowing programme in consultation with the RBI.

## **PART - B**

Madam Speaker,

I shall now present my tax proposals.

**117.** While formulating them, I have been guided by the principles of sound tax administration as embodied in the following words of Kautilya:

*"Thus, a wise Collector General shall conduct the work of revenue collection.... in a manner that production and consumption should not be injuriously affected.... financial prosperity depends on public prosperity, abundance of harvest and prosperity of commerce among other things."*

**118.** I had stated last year that tax reform is a process and not an event. The process I had outlined in the area of direct taxes was to release a draft Direct Taxes Code along with a Discussion Paper. In the area of indirect taxes, the reform initiative was the introduction of a Goods and Services Tax. I have presented the developments in both reform initiatives in Part 'A' of my Speech.

**119.** We have continued on the path of computerisation in core areas of service delivery in the administration of direct taxes. This will reduce the physical interface between taxpayers and tax administration and speed up procedures and processes. The Centralised Processing Centre at Bengaluru is now fully functional and is processing around 20,000 returns daily. This initiative will be taken forward by setting up two more Centres during the year.

**120.** As a part of Government's initiative to move towards citizen centric governance, the income tax department has introduced "*Sevottam*", a pilot project at Pune, Kochi and Chandigarh through Aayakar Seva Kendras. These provide a single window system for registration of all applications including those for redressal of grievances as well as paper returns. This year the scheme will be extended to four more cities.

**121.** To achieve the roll-out of GST by April 2011, the indirect tax administrations at the Centre and the States need to revamp their internal work processes based on the use of Information Technology. I am happy to inform Honorable Members that project ACES - Automation of Central Excise & Service Tax, has already been rolled out throughout the country this year. This will impart greater transparency in tax administration and improve the delivery of taxpayer services. Similarly, a Mission Mode Project for computerisation of Commercial Taxes in States has been approved recently. With an outlay of Rs.1133 crore of which the Centre's share is Rs.800 crore, the project will lay the foundation for the launch of GST.

**122.** I mentioned last year, that the income tax return forms should be simple and user friendly. The income tax department is now ready to notify SARAL-II form for individual salaried taxpayers for the coming assessment year. This form will enable individuals to enter relevant details in a simple format in only two pages.

**123.** To expeditiously resolve disputes with taxpayers I propose to expand the scope of cases which may be admitted by the Settlement Commission to include proceedings

related to search and seizure cases pending for assessment. I also propose to expand the scope of Settlement Commission in respect of Central Excise and Customs so that certain categories of cases that hitherto fell outside its jurisdiction may be admitted.

**124.** Last year, amendments to the statute enabled Government to enter into tax treaties with specified territories besides sovereign states. We have commenced bi-lateral discussions to enhance the exchange of bank related and other information to effectively track tax evasion and identify undisclosed assets of resident Indians lying abroad.

### **Direct Taxes**

I shall now deal with direct taxes.

**125.** Last year I provided relief to individual taxpayers by enhancing the exemption limit for all taxpayers and withdrawing the surcharge on personal income tax. Taxpayers have responded positively to these concessions by contributing a higher level of taxes. There is a persuasive case for further relief by broadening the current tax slabs which I propose as follows:

Income upto Rs.1.6 lakh	Nil
Income above Rs.1.6 lakh and upto Rs.5 lakh	10 per cent
Income above Rs.5 lakh and upto Rs.8 lakh	20 per cent
Income above Rs.8 lakh	30 per cent

**126.** The proposed broadening of tax slabs will provide substantial relief to a large number of taxpayers.

**127.** To promote savings as well as to ensure their utilisation for the thrust area of infrastructure, I propose to allow a deduction of an additional amount of Rs.20,000 for investment in long-term infrastructure bonds as notified by the Central Government. This would be over and above the existing limit of Rs.1 lakh on tax savings. I am sure that these reliefs will put more money in the hands of individual taxpayers for both consumption as well as saving.

**128.** Besides contributions to health insurance schemes which is currently allowed as a deduction under the Income-tax Act, I propose to allow contributions to the Central Government Health Scheme also as a deduction under the same provision.

**129.** Taking forward my initiative of phasing out surcharge, I propose to reduce the current surcharge of 10 per cent on domestic companies to 7.5 per cent. At the same time, I propose to increase the rate of Minimum Alternate Tax (MAT) from the current rate of 15 per cent to 18 per cent of book profits. This will further promote *inter-se* equity among corporate taxpayers.

**130.** The President, in her address to the Parliament in June 2009, had declared this decade as the Decade of Innovation. Last year, I extended the scope of weighted deduction on expenditure incurred on in-house research and development (R&D) to all manufacturing businesses except for a small negative list. To further encourage R&D across all sectors of the economy, I now propose to enhance the weighted deduction on expenditure incurred on in-house R&D from 150 per cent to 200 per cent. I also propose to enhance the weighted deduction on payments made to National Laboratories, research associations, colleges, universities and other institutions, for scientific research from 125 per cent to 175 per cent.

**131.** Currently, any payment made to an approved scientific research association is eligible for weighted deduction. The income of the approved scientific research association is exempt from tax. I propose that payments made to approved associations engaged in research in social sciences or statistical research would be allowed a weighted deduction of 125 per cent. The income of such approved research associations shall be exempt from tax.

**132.** In my Budget Speech last year, I stated that profit linked deductions are inherently inefficient and liable to misuse. To incentivise businesses in priority sectors, I introduced investment linked deduction as an alternative to profit linked deduction. To give a boost to investment in the tourism sector which has high employment potential, I propose to extend the benefit of investment linked deduction under the Act to new hotels of two-star category and above anywhere in India.

**133.** To provide one time interim relief to the housing and real estate sector which was impacted by the global recession, I propose to allow pending projects to be completed within a period of five years instead of four years for claiming a deduction on their profits. I also propose to relax the norms for built-up area of shops and other commercial establishments in housing projects to enable basic facilities for their residents.

**134.** All businesses with a turnover exceeding Rs.40 lakh are currently required to have their accounts audited. A similar provision also applies to all professions whose receipts exceed Rs.10 lakh. I, as Finance Minister, had introduced these limits in my budget of 1984. It is high time to reduce the compliance burden on small taxpayers. I, therefore, propose to enhance these limits to Rs.60 lakh in the case of businesses and Rs.15 lakh in the case of professions.

**135.** To facilitate the business operations of small taxpayers, I had extended the scope of presumptive taxation to all small businesses with a turnover of up to Rs.40 lakh. To further reduce the compliance burden on small taxpayers, I now propose to enhance this limit to Rs.60 lakh.

**136.** The threshold limits of payments below which tax is not deductible at source have remained unchanged for a long time. I propose to rationalise these thresholds.

**137.** Relaxing the current provisions on disallowance of expenditure, I propose to allow deduction of such expenditure, if tax has been deducted at any time during the financial year and paid before the due date of filing the return. This will allow most deductors additional time up to September of the next financial year. At the same time, I propose to increase the interest charged on tax deducted but not deposited by the specified date, from 12 per cent to 18 per cent per annum.

**138.** Last year, I had provided for the taxation of the newly introduced Limited Liability Partnership (LLP) on the same lines as exists for a general partnership firm. To facilitate the conversion of small companies into LLPs, I propose that this will not be subject to capital gains tax.

**139.** Under the current provisions of the Act, "the advancement of any other object of general public utility" cannot be considered as "charitable purpose" if it involves carrying on of any activity in the nature of trade, commerce or business. I have received representations from many organisations seeking some relaxation in this restriction. I propose that this restriction would not be applicable if the receipts from such activities do not exceed Rs.10 lakh in the year.

**140.** My proposals on direct taxes are estimated to result in a revenue loss of Rs.26,000 crore for the year.

### **Indirect Taxes**

**141.** The major objectives that have guided me in the formulation of my proposals on indirect taxes are the need to achieve some degree of fiscal consolidation without impairing the recovery process and moving forward on the road to GST.

**142.** Unlike the time I presented the last Budget, symptoms of economic recovery are more widespread and clear-cut now. The three fiscal stimulus packages that the Government introduced in quick succession have helped the process of recovery significantly. The improvement in our economic performance encourages a course of fiscal correction even as the global situation warrants caution. Therefore, I propose to partially roll back the rate reduction in Central Excise duties and enhance the standard rate on all non-petroleum products from 8 per cent to 10 per cent *ad valorem*. The specific rates of duty applicable to portland cement and cement clinker are also being adjusted upwards proportionately. Similarly, the *ad valorem* component of excise duty on large cars, multi-utility vehicles and sports-utility vehicles which was reduced as part of the first stimulus package, is being increased by 2 percentage points to 22 per cent.

**143.** In the wake of spiralling petroleum prices, Government provided full exemption from basic customs duty to crude petroleum and proportionately reduced the basic duty on refined petroleum products in June, 2008. Compared to the international price of the Indian crude basket of US\$ 112 per barrel at that time, the prices are much softer at

present. In view of the pressing need to move back to a fiscal consolidation path, I propose to restore the basic duty of 5 per cent on crude petroleum; 7.5 per cent on diesel and petrol and 10 per cent on other refined products. I also propose to enhance the Central Excise duty on petrol and diesel by Re.1 per litre each.

**144.** Since I quit smoking many years ago, I would urge others to also follow suit, as smoking is injurious to health. To this end, I am making some structural changes in the excise duty on cigarettes, cigars and cigarillos coupled with some increase in rates. I also propose to enhance excise duty on all non-smoking tobacco such as scented tobacco, snuff, chewing tobacco etc. In addition, I propose to introduce a compounded levy scheme for chewing tobacco and branded unmanufactured tobacco based on the capacity of pouch packing machines.

**145.** Let me now turn to some much-needed incentives in thrust areas for sustainable growth and development.

#### *Agriculture & Related Sectors*

**146.** In supporting the strategy outlined for development of agriculture earlier in my speech, I propose to address a few key areas that call for focused attention. These are:

- (i) A strong supply chain for perishable farm produce to reach consumption and processing centres promptly;
- (ii) Infrastructure and technology to convert such produce into value-added products; and
- (iii) Infusion of technology to augment agricultural production.

**147.** Similar attention needs to be paid to related sectors such as apiary, horticulture, dairy, poultry, meat, marine and aquaculture.

**148.** For achieving these objectives, I propose to provide:

- project import status with a concessional import duty of 5 per cent for the setting up of mechanised handling systems and pallet racking systems in 'mandis' or warehouses for food grains and sugar as well as full exemption from service tax for the installation and commissioning of such equipment.
- project import status at a concessional customs duty of 5 per cent with full exemption from service tax to the initial setting up and expansion of
  - » Cold storage, cold room including farm pre-coolers for preservation or storage of agriculture and related sectors produce ; and
  - » Processing units for such produce.
- full exemption from customs duty to refrigeration units required for the manufacture of refrigerated vans or trucks.

**149.** I also propose to provide:



- concessional customs duty of 5 per cent to specified agricultural machinery not manufactured in India;
- central excise exemption to specified equipment for preservation, storage and processing of agriculture and related sectors and exemption from service tax to the storage and warehousing of their produce; and
- full exemption from excise duty to trailers and semi-trailers used in agriculture.

**150.** Concessional import duty was provided to specified machinery for use in the plantation sector in the year 2003. This exemption is to lapse in July 2010. The modernization of this labour-intensive sector is yet to reach the expected level. I propose therefore, to extend it up to March 31, 2011 along with a CVD exemption. I hope this will provide sufficient time for the sector to achieve the desired objective.

**151.** One of the prerequisites for agricultural productivity is access to good quality and disease-resistant seeds. I propose to exempt the testing and certification of agricultural seeds from service tax.

**152.** I also propose to exempt the transportation by road of cereals and pulses from service tax. Their transportation by rail would remain exempt.

**153.** I propose two measures under the Central Excise law to ease the cash flow position for small-scale manufacturers hard hit by the economic slowdown. First, they would be permitted to take full credit of Central Excise duty paid on capital goods in a single instalment in the year of their receipt. Secondly, they would be permitted to pay Central Excise duty on a quarterly, rather than monthly basis. These measures that come into effect on the April 1, 2010 should provide them considerable relief.

#### *Environment*

**154.** Harnessing renewable energy sources to reduce dependence on fossil fuels is now recognised as a credible strategy for combating global warming and climate change. To build the corpus of the National Clean Energy Fund announced earlier, I propose to levy a clean energy cess on coal produced in India at a nominal rate of Rs.50 per tonne. This cess will also apply to imported coal.

**155.** In pursuance of Government's resolve to implement the National Solar Mission, I propose to provide a concessional customs duty of 5 per cent to machinery, instruments, equipment and appliances etc. required for the initial setting up of photovoltaic and solar thermal power generating units. I also propose to exempt them from Central Excise duty. Similarly, ground source heat pumps used to tap geo-thermal energy would be exempt from basic customs duty and special additional duty.

**156.** Wind energy has shown promising growth in the country in recent years. As a measure of further relief, I propose to exempt a few more specified inputs required for the manufacture of rotor blades for wind energy generators from Central Excise duty.

**157.** LED lights are staging a debut as a highly energy-efficient source of lighting for streets, homes and offices. Central Excise duty on these is being reduced from 8 per cent to 4 per cent at par with Compact Fluorescent Lamps.

**158.** Full exemption from Central Excise duty was provided to electric cars and vehicles that offer an eco-friendly alternative to petrol or diesel vehicles. The manufacturers of such vehicles have expressed difficulty in neutralising the duty paid on their inputs and components. I propose to remedy this by imposing a nominal duty of 4 per cent on such vehicles. I also propose to exempt some critical parts or sub-assemblies of such vehicles from basic customs duty and special additional duty subject to actual user condition. These parts would also enjoy a concessional CVD of 4 per cent.

**159.** The humble cycle rickshaw is now being acclaimed as an environment-friendly means of transport. CSIR has developed an innovative product called 'soleckshaw' to replace manually-operated rickshaws. It runs on batteries which are charged by solar power. I propose to provide a concessional excise duty of 4 per cent to this product. Its key parts and components are also being exempted from customs duty.

**160.** To encourage the use of bio-degradable materials, I propose to exempt the import of compostable polymer from basic customs duty.

### *Infrastructure*

**161.** Strengthening the public transport system is another means of reducing dependence on fossil fuels. I propose to grant project import status to 'Monorail projects for urban transport' at a concessional basic duty of 5 per cent.

**162.** Full exemption from import duty is available to specified machinery for road construction projects on the condition that the machinery shall not be sold or disposed of for a minimum period of five years. In view of representations that this leads to idling of machinery, I propose to allow resale of such machinery on payment of import duty at depreciated value. It is also being clarified that the importer is free to relocate such machinery to other eligible road construction projects.

**163.** With the subscriber base growing at 14 million per month, India is one of the fastest growing markets for mobile phone connections in the world. Domestic production of mobile phones is now picking up in view of exemptions from basic, CVD and special additional duties granted to their parts, components and accessories. To encourage the domestic manufacture of accessories, these exemptions are now being extended to parts of battery chargers and hands-free headphones. Also, the validity of the exemption from special additional duty is being extended till March 31, 2011.

### *Medical Sector*

**164.** Medical equipment, instruments and appliances are subjected to a very complex import duty regime based on several long lists that describe individual items. Multiple rates coupled with descriptions not aligned with tariff lines, result in disputes and at times prevent state-of-art equipment from getting the benefit of exemption. I propose to prescribe a uniform, concessional basic duty of 5 per cent, CVD of 4 per cent with full exemption from special additional duty on all medical equipment. A concessional basic duty of 5 per cent is being prescribed on parts and accessories for the manufacture of such equipment while they would be exempt from CVD and special additional duty. Full exemption currently available to medical equipment and devices such as assistive devices, rehabilitation aids etc. is being retained. The concession available to Government hospitals or hospitals set up under a statute is also being retained.

**165.** The manufacturers of orthopaedic implants have represented that their inputs attract a higher rate of duty than the finished product. I propose to exempt specified inputs for the manufacture of such implants from import duty.

### *Infotainment*

**166.** India is a nation of movie-goers. The film industry has been experiencing difficulties in importing digital masters of films for duplication or distribution loaded on electronic medium vis-a-vis those imported on cinematographic film, owing to a differential customs duty structure. I propose to rationalise this by charging customs duty only on the value of the carrier medium. The same dispensation would apply to music and gaming software imported for duplication. In keeping with the tradition of Indian cinema, however, I shall provide a surprise ending. In all such cases the value representing the transfer of intellectual rights would be subjected to service tax.

**167.** Cable transmission of infotainment is undergoing a transformation with the adoption of digital technology. The multi-service operators need to invest in "Digital Head End" equipment. To enable this, I propose to provide project import status at a concessional customs duty of 5 per cent with full exemption from special additional duty to the initial setting up of such projects.

### *Precious Metals*

**168.** The prices of precious metals continue to rise. Since the customs duty is levied on these at specific rates, I propose to index the rates as follows:

- On gold and platinum from Rs.200 per 10 grams to Rs.300 per 10 grams.
- On silver from Rs.1,000 per kg to Rs.1,500 per kg.

**169.** Gems and jewellery is a traditional item in our export basket. Rhodium - a precious metal used for polishing jewellery attracts a basic customs duty of 10 per cent. This is being reduced to 2 per cent.

**170.** To encourage domestic refining capacity for gold, I propose to reduce the basic customs duty on gold ore and concentrates from 2 per cent *ad valorem* to a specific duty of Rs.140 per 10 grams of gold content with full exemption from special additional duty. Further, the excise duty on refined gold made from such ore or concentrate is being reduced from 8 per cent to a specific duty of Rs.280 per 10 grams.

#### *Other Proposals*

**171.** Full exemption from import duty is available to specified inputs or raw materials required for the manufacture of sports goods which are assuming importance as an item of export. This is being expanded to cover a few more items.

**172.** In order to incentivise the domestic production of microwave ovens, I propose to reduce the basic customs duty on one of its key components, namely magnetrons from 10 per cent to 5 per cent.

**173.** Presently, there is a value limit of Rs.1 lakh per annum on duty-free import of commercial samples as personal baggage. I propose to enhance this limit to Rs.3 lakh per annum.

**174.** Industry has represented that the exemption from special additional duty of 4 per cent based on refunds leads to substantial blockage of funds. To ease this difficulty, I propose to provide an outright exemption from special additional duty to goods imported in a pre-packaged form for retail sale. This would also cover mobile phones, watches and ready-made garments even when they are not imported in pre-packaged form. The refund-based exemption is also being retained for cases not covered by the new dispensation.

**175.** Toy balloons are a source of joy to millions of children. To bring a smile to their mothers' faces, I propose to fully exempt them from Central Excise duty.

**176.** Some of the other relief measures that I propose are as under:

- Reduction in basic customs duty on long pepper from 70 per cent to 30 per cent;
- Reduction in basic customs duty on asafoetida from 30 per cent to 20 per cent;
- Reduction in central excise duty on replaceable kits for household type water filters other than those based on RO technology to 4 per cent;

- Reduction in central excise duty on corrugated boxes and cartons from 8 per cent to 4 per cent;
- Reduction in central excise duty on latex rubber thread from 8 per cent to 4 per cent; and
- Reduction in excise duty on goods covered under the Medicinal and Toilet Preparations Act from 16 per cent to 10 per cent.

**177.** My proposals relating to customs and central excise are estimated to result in a net revenue gain of Rs.43,500 crore for the year.

### **Service Tax**

**178.** The service sector contributes nearly 60 per cent of the GDP. The service tax to GDP ratio however, is only around 1 per cent. This sector thus, has significant potential to augment revenue.

**179.** To bridge this gap, I had the option to raise the rate of service tax to 12 per cent as it was before I introduced the third stimulus package. I am not resorting to this option to maintain the growth momentum and also to bring about a convergence in the rates of tax on goods and services. I, therefore, propose to retain the rate of tax on services at 10 per cent to pave the way forward for GST.

**180.** I had another option - to bring all services under service tax. I am not opting for this either at this stage. I propose, however, to bring certain services, hitherto untaxed, within the purview of the service tax levy. These are being notified separately.

**181.** I am also proposing certain legislative changes to plug revenue leakages, to remove distortions and to clarify certain doubts that have arisen over a period of time. I do not want to waste the precious time of the House elaborating the details, as they are available in the Finance Bill and other Budget documents.

**182.** Export of services, especially in the area of Information Technology and Business Process Outsourcing, generates substantial employment and brings in foreign exchange. I propose to ease the process of refund of accumulated credit to exporters of services by making necessary changes in the definition of export of services and procedures.

**183.** Accredited news agencies which provide news feed online attract service tax. Acknowledging the yeoman services of such news agencies in disseminating news, I propose to exempt such news agencies that meet certain criteria, from service tax.

**184.** My proposals relating to service tax are estimated to result in a net revenue gain of Rs.3,000 crore for the year.

**185.** 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.

**186.** My proposals on Direct Taxes are estimated to result in a revenue loss of Rs.26,000 crore for the year. Proposals relating to Indirect Taxes are estimated to result in a net revenue gain of Rs.46,500 crore for the year. Taking into account the concessions being given in my tax proposals and measures taken to mobilise additional resources, the net revenue gain is estimated to be Rs.20,500 crore for the year.

**187.** We have emerged from the global slowdown faster than any other nation. I did not hesitate in exercising my judgement on the course of action last year and I have no hesitation in my mind now. Our actions today will determine our tomorrow.

**188.** This Budget belongs to '*Aam Aadmi*'. It belongs to the farmer, the agriculturist, the entrepreneur and the investor. The opportunity is great. The time is right. I have placed my faith in the hands of the people who, I know, can be depended upon to rise to any occasion in national interest. I have placed my faith in the collective conscience of the nation that can be touched to scale undreamt of heights in the coming years.

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