

## Budget 2008-2009

Speech of

P. Chidambaram

Minister of Finance

Mr. Speaker, Sir

I rise to present the Budget for 2008-09. This House and the United Progressive Alliance Government have bestowed upon me the honour of presenting all five Budgets on behalf of a Government - a rare honour that I have the privilege to share with only one of my distinguished predecessors, Dr. Manmohan Singh.

### I. THE ECONOMY: AN OVERVIEW

2. Honourable Members! The India growth story, so far, has been an absorbing and inspiring tale. Beginning January 1, 2005, the economy has recorded a growth rate of over 8 per cent in 12 successive quarters up to December 31, 2007. In the first three years of the UPA Government, the Gross Domestic Product (GDP) increased by 7.5 per cent, 9.4 per cent and 9.6 per cent, resulting in an unprecedented average growth rate of 8.8 per cent. In the current year too, according to the Advance Estimates by the Central Statistical Organisation (CSO), the growth rate will be 8.7 per cent - although I am confident that we will maintain the average of 8.8 per

cent. The drivers of growth continue to be "services" and "manufacturing", which are estimated to grow at 10.7 per cent and 9.4 per cent, respectively.

3. Nevertheless, 2007-08 has been the most challenging of the last four years. At the beginning of the year, the outlook for the global economy was benign. Our economy, thanks to our own policies as well as globalisation, was poised to record another year of high growth: in fact, the first half of 2007-08 returned a growth of 9.1 per cent. However, since August 2007, the financial markets in the developed countries have witnessed considerable turbulence that has not yet abated. The consequences for developing countries are also not yet clear.

4. Moreover, agriculture has struck a disappointing note. Despite a fine start in the first half of 2007-08, the growth rate for the whole year in agriculture is estimated at only 2.6 per cent.

5. There are other downside risks too. World prices of crude oil, commodities and food grains have risen sharply in the period April 2007 to January 2008. The position of crude oil is well known to this House. Among commodities, the prices of iron ore, copper, lead, tin, urea etc are elevated. The prices of wheat and rice have increased in the world market by 88 per cent and 15 per cent, respectively. All these trends are inflationary, and there is pressure on domestic prices, especially on the prices of food articles. Consequently, the management of the supply side of food articles will be the most crucial task in the ensuing year.

6. We have also witnessed capital inflows that are far in excess of the current account deficit. This poses a challenge to monetary management. The solution lies in increasing the absorptive capacity of the economy in the medium term. In the short term, it is our responsibility to manage the flows more actively. Government will, in consultation with the RBI, continue to monitor the situation closely and take such temporary measures as may be necessary to moderate the capital flows consistent with the objective of monetary and financial stability.

7. Keeping inflation under check is one of the cornerstones of our policy. Recently, the Prime Minister declared, "I think no Government in our country can be oblivious to the objective of ensuring reasonable price stability without hurting the growth process." There can be no clearer enunciation of policy. However, since the downside risks have increased worldwide, we must be vigilant and prepared to make swift adjustments in our policies to achieve the goal of growth with price stability.

8. Let me first deal with agriculture, briefly for the present, and at some length later. The Ministry of Agriculture has estimated that the total output of food grains in 2007-08 will be

219.32 million tonnes and that will be an all time record. In particular, production of rice is estimated at 94.08 million tonnes; maize at 16.78 million tonnes; soya bean at 9.45 million tonnes; and cotton at 23.38 million bales (of 170 kg each) - and each of these will be an all time record. Government is conscious that while a lot has been done, a lot more needs to be done. Since the last Budget, Government has formulated and announced the National Policy for Farmers. Besides, Government has launched the Rashtriya Krishi Vikas Yojana with an outlay of Rs.25,000 crore and the National Food Security Mission with an outlay of Rs.4,882 crore. Both schemes will be implemented during the Eleventh Five Year Plan period. We are determined to become self-sufficient in food grains. Presently, I shall place before this House a number of new initiatives in the agriculture sector.

#### The Growth Story: Faster and more inclusive

9. To return to the India growth story, I am of the firm belief that we owe our sustained progress to the policy of economic reforms first ushered in by a Congress Government and now carried forward by the UPA Government.

10. If 1984 and 1991 were turning points in the history of India's economy, 2004 was another turning point. Confident that high growth was sustainable, the UPA Government had declared in the National Common Minimum Programme its intention to make growth more inclusive. Sir, I ask this House, respectfully, to judge our record on inclusive growth from the following sample of facts:

- agricultural credit doubled in the first two years of this Government and is poised to reach a level of Rs.240,000 crore by March 2008.

- the National Rural Employment Guarantee Scheme has proved to be a historic measure of empowerment of Scheduled Castes and Scheduled Tribes and, especially, of women.

- the Mid Day Meal Scheme is the largest school lunch programme in the world covering 11.4 crore children.

- the National Rural Health Mission has taken improved health care to rural India by strengthening the primary health centres of which 8,756 have been made 24 x 7.
- the Kasturba Gandhi Balika Vidyalaya Scheme has enrolled 182,000 girls in residential schools, thus helping to bridge the gender gap in education.

## Bharat Nirman

11. Bharat Nirman has made impressive progress in 2007-08. This ambitious programme is now over 1,000 days old. At the current pace, on each day of the year 290 habitations are provided with drinking water and 17 habitations are connected through an all weather road. On each day of the year 52 villages are provided with telephones and 42 villages are electrified. On each day of the year 4,113 rural houses are completed.

12. Mr. Speaker, just as I sat down to write this speech, I received a slim volume titled "Indira Gandhi - Selected Sayings". Within minutes, I found this gem and I quote, "The more one does, the more one attempts, the more one is capable of doing". What I have narrated so far is indeed proof of more inclusive growth, but if you ask me "can we do better?", my answer would be "we can and we should." Budget 2008-09 is about raising our sights and doing more and doing better.

## II. THE ELEVENTH FIVE YEAR PLAN:

### THE CRUCIAL SECOND YEAR

13. The Eleventh Plan has started on a note of robust growth. Never before did we start a Plan with a first year growth rate of 8.7 per cent. Government regards the second year of the Plan as extremely critical to the success of the Plan. 2008-09 should be a year of consolidation; of securing the ongoing programmes on firm financial foundations; of close monitoring of implementation and enforcing accountability; and of measuring the outcomes in terms of the

targets achieved as well as their quality. The Plan documents assumed that the Gross Budgetary Support (GBS) in the second year would be Rs.228,725 crore. In our view, that will not be enough. Hence, I propose to increase the GBS to Rs.243,386 crore, which will represent an increase of Rs.38,286 crore over the allocation in 2007-08.

14. Out of the GBS, the allocation for the Central Plan will be Rs.179,954 crore, marking an increase of 16 per cent over 2007-08.

15. Let me assure the House that all ongoing programmes will receive ample funds.

16. For Bharat Nirman, I propose to provide Rs.31,280 crore [including the North Eastern Region (NER) component] as against Rs.24,603 crore in 2007-08.

#### Education: Sarva Shiksha Abhiyan

17. Education and health are the twin pillars on which rests the edifice of social sector reforms. The total allocation for the education sector (including NER) will be increased by 20 per cent from Rs.28,674 crore in 2007-08 to Rs.34,400 crore in 2008-09.

18. Of this, Sarva Shiksha Abhiyan (SSA) will be provided Rs.13,100 crore; the Mid-day Meal Scheme will be provided Rs.8,000 crore; and secondary education will be provided Rs.4,554 crore.

19. The focus of SSA will shift from access and infrastructure at the primary level to enhancing retention; improving quality of learning; and ensuring access to upper primary classes.

20. A Model School programme, with the aim of establishing 6,000 high quality model schools, will be started in 2008-09. I propose to provide Rs.650 crore for the new scheme.

## Jawahar Navodaya Vidyalaya

21. Jawahar Navodaya Vidyalayas are quality schools. In order to make such schools more accessible to SC and ST students, Government plans to establish Navodaya Vidyalayas in 20 districts that have a large concentration of Scheduled Castes and Scheduled Tribes. I propose to set apart Rs.130 crore in 2008-09 for this purpose.

## Kasturba Gandhi Balika Vidyalaya

22. Kasturba Gandhi Balika Vidyalayas were set up to address the issue of equity in the education of girls belonging to SC, ST, OBC and minority communities. So far, 1,754 vidyalayas have been started, and I propose to allocate funds (as part of SSA) to set up an additional 410 vidyalayas in educationally backward blocks. I also propose to provide a sum of Rs.80 crore to set up new or upgrade existing hostels attached to the Balika Vidyalayas.

## National Means-cum-Merit Scholarship

23. Last year, I had announced the National Means-cum-Merit Scholarship Scheme to enable students to continue their education beyond class VIII and up to class XII. I had provided Rs.750 crore with the promise to add a like amount every year for three more years. The Scheme will be implemented by award of 100,000 scholarships beginning 2008-09. I intend to keep my promise and earmark another sum of Rs.750 crore so that a corpus of Rs.3,000 crore will be built up in four years.

## Nehru Yuva Kendra

24. 123 districts do not have a Nehru Yuva Kendra. I propose to allocate Rs.10 crore in 2008-09 to set up a Kendra in each of these districts and to cover the recurring expenditure in the first year.

#### Mid-day Meal Scheme

25. The Mid-day Meal Scheme has been extended to upper primary classes in 3,479 educationally backward blocks. The scheme will now be extended to upper primary classes in Government and Government-aided schools in all blocks in the country. This will benefit an additional 2.5 crore children, taking the total number of children covered under the Scheme to 13.9 crore.

#### Institutes of Higher Education

26. Knowledge is power. It is knowledge that will drive success in the 21st century. India has the opportunity to become a knowledge society. Following the Prime Minister's announcement, an IIM at Shillong; three IISERs at Mohali, Pune and Kolkata; and an IIIT at Kanchipuram have started functioning. Government will establish one Central University in each of the hitherto uncovered States. We propose to make a beginning in 2008-09 by establishing 16 Central Universities. Besides, we propose to set up three IITs in Andhra Pradesh, Bihar and Rajasthan; two IISERs at Bhopal and Tiruvananthapuram; and two Schools of Planning and Architecture at Bhopal and Vijayawada. More institutes of higher education, as promised by the Prime Minister, will be established during the Eleventh Plan period.

27. I also propose to make a grant of Rs.5 crore to the Deccan College Post-Graduate and Research Institute, Pune which is one of the oldest institutions of modern learning in India.

## Science and Technology

28. We must encourage our children to take to careers in science and research and development. Ministry of Science and Technology will introduce a scheme called Innovation in Science Pursuit for Inspired Research (INSPIRE) that will include scholarships for young learners (10-17 years), scholarships for continuing science education (17-22 years) and opportunities for research careers (22-32 years). I propose to provide Rs.85 crore in 2008-09 for this inspired contribution to building a knowledge society.

29. The recommendations of the National Knowledge Commission, submitted from time to time, are under active consideration. Some of them have been incorporated in the Eleventh Plan. Government has accepted an important recommendation to inter-connect all knowledge institutions through an electronic digital broadband network. This will encourage sharing of resources and collaborative research. I propose to provide Rs. 100 crore to the Ministry of Information and Technology for establishing the National Knowledge Network.

## Health

30. Turning to the health sector, I propose to allocate Rs.16,534 crore for the sector (including NER). This will mark an increase of 15 per cent over the allocation in 2007-08.

## National Rural Health Mission

31. The National Rural Health Mission (NRHM) is the key instrument of intervention by the Central Government. The goal is to establish a fully functional, community owned, decentralised health delivery system. 462,000 Associated Social Health Activists (ASHAs) and link workers have been trained and are in place. 177,924 Village Health and Sanitation Committees are functional. 323 district hospitals have been taken up for upgradation. Ambitious goals have been set for 2008-09, and I propose to increase the allocation for NRHM to Rs.12,050 crore .



## HIV/AIDS

32. The National Aids Control Programme will be provided Rs.993 crore. Studies have shown that the prevalence rate of HIV/AIDS has come down from 0.9 per cent to 0.36 per cent, which is a matter of some satisfaction.

## Polio

33. The drive to eradicate polio continues with a revised strategy and a focus on the high risk districts in Uttar Pradesh and Bihar. I propose to provide Rs.1,042 crore in 2008-09 for this purpose.

## Rashtriya Swasthya Bima Yojana

34. Two major interventions are planned to be started in 2008-09. The first is the Rashtriya Swasthya Bima Yojana that will provide a health cover of Rs.30,000 for every worker in the unorganised sector falling under the BPL category and his/her family. I am happy to report that most of the States have agreed to join the Yojana and it will be launched in Delhi and in the States of Haryana and Rajasthan on April 1, 2008. I propose to provide Rs.205 crore as the Centre's share of the premia in 2008-09.

## National Programme for the Elderly

35. The other major intervention will be for the elderly. A National Programme for the Elderly with a Plan outlay of Rs.400 crore will be started in 2008-09. Among other measures, we will establish, during the Eleventh Plan period, two National Institutes of Ageing, eight regional centres, and a department for geriatric medical care in one medical college/tertiary level hospital in each State.

### Integrated Child Development Services

36. The universalization of the Integrated Child Development Services (ICDS) Scheme is underway. At the end of December 2007, 5,959 ICDS projects and 932,000 Anganwadi and mini-Anganwadi centres were functional. The beneficiary count had increased to 629 lakh children and 132 lakh pregnant and lactating mothers. I propose to enhance the allocation for ICDS from Rs.5,293 crore in 2007-08 to Rs.6,300 crore in 2008-09.

37. I am also happy to announce that the remuneration of Anganwadi workers will be increased from Rs.1,000 per month to Rs.1,500 per month. Likewise, the remuneration of Anganwadi Helpers will be increased from Rs.500 per month to Rs.750 per month. Over 18 lakh Anganwadi workers and helpers will benefit from the increase.

### Flagship Programmes

38. As Honourable Members are aware, there are eight flagship programmes of the UPA Government. I have dealt with two in the education sector (SSA & MMS) and two in the health sector (NRHM & ICDS). Let me now refer to the allocations that I propose to make for the other four flagship programmes:

- The National Rural Employment Guarantee Scheme (NREGS) will be rolled out to all 596 rural districts in India. Initially, we will provide Rs.16,000 crore. Let there be no apprehension in

anyone's mind: as demand rises, more money will be provided to meet the legal guarantee of employment.

- The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) is the main vehicle for improving urban infrastructure. It has also succeeded in driving reforms in urban governance and urban-related laws. I propose to increase the allocation from Rs.5,482 crore in 2007-08 to Rs.6,866 crore in 2008-09.

- The goal of the Rajiv Gandhi Drinking Water Mission is to supply safe drinking water to uncovered habitations and slipped back habitations as well as to address issues of quality. I propose to enhance the allocation to Rs.7,300 crore in 2008-09 as against Rs.6,500 crore in 2007-08.

The Mission does not yet have a separate component for school children in water-deficient habitations. Our children should have good, clean drinking water. Hence, I propose to allocate funds to the Mission under a separate sub-head in order to install a standalone system to provide potable water to each school in water-deficient habitations. The cost of each system, depending on the technology and design, is estimated to be between Rs.15,000 to Rs.30,000. While a detailed plan for four years will be drawn up, I propose to make an initial allocation of Rs.200 crore in 2008-09.

- The Total Sanitation Campaign is all about changing habits and mindsets, and it is a continuous process. I propose to provide Rs.1,200 crore in 2008-09.

## Desalination Plant

39. Honourable Members will recall that I had in July 2004 announced support for a desalination plant to be installed near Chennai. A proposal has now been received from the Government of Tamil Nadu to establish a plant under public private partnership. While the proposal will be examined for approval, I propose to signal the Government's support to the project by setting apart Rs.300 crore in 2008-09.

## North Eastern Region

40. The North Eastern Region (NER) will continue to receive special attention and enhanced allocations. I propose to provide Rs.1,455 crore to the Ministry of Development of North Eastern Region (DONER). Including that amount, the total Budget allocation for NER, spread over different ministries/departments, will increase from Rs.14,365 crore in 2007-08 to Rs.16,447 crore in 2008-09.

41. The North Eastern Region and, especially, Arunachal Pradesh and the border areas face special problems that cannot be tackled in the usual course or through normal schemes. Hence, Government proposes to identify the urgent needs of these areas and address them through a special mechanism. In order to jumpstart the process, I propose to set apart a sum of Rs.500 crore in a fund dedicated for the purpose.

## SC, ST, OBC and Minorities

42. Scheduled Castes, Scheduled Tribes, socially and educationally backward classes, and minorities will continue to receive special attention.

## Development and Finance Corporations

43. Development and Finance Corporations have been set up for certain disadvantaged groups. I propose to contribute additional equity to these corporations in the following manner:

Rs. Crore

1

National Minorities Development and Finance Corporation

75.00

2

Three National Finance and Development Corporations for Weaker Sections comprising

(i) Safai Karamcharis

(ii) Scheduled Castes

(iii) Backward Classes

106.50

3

National/State Scheduled Tribes Finance and Development Corporations

50.00

4

National Handicapped Development Corporation

9.00

Scholarships

44. In previous Budgets, we had announced a slew of pre- and post-matric scholarship programmes for SC, ST, OBC and minorities. All of them will be continued in 2008-09 with adequate funds as summarised below:

Scheduled Castes	Rs.804 crore
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Scheduled Tribes                      Rs.195 crore

Other Backward Classes        Rs.164 crore

Minorities (post-matric)        Rs.100 crore

45. I propose to allocate a sum of Rs.75 crore in 2008-09 to the Rajiv Gandhi National Fellowship Programme. As Honourable Members are aware, this programme supports SC and ST students pursuing M.Phil and PhD courses.

#### Scheduled Castes and Scheduled Tribes

46. Following the practice initiated in 2005-06, I have included in the Budget documents a statement on the schemes for the welfare of SCs and STs. I have provided Rs.3,966 crore for schemes benefiting SCs and STs exclusively and Rs.18,983 crore for schemes where at least 20 per cent of the benefits are earmarked for SCs and STs.

#### Minorities

47. The allocation to the Ministry of Minority Affairs will be increased from Rs.500 crore in 2007-08 to Rs.1,000 crore in 2008-09. Government has taken up the report of the Justice Rajindar Sachar Committee for speedy implementation. Apart from the schemes commenced in 2007-08, it is proposed to implement the following schemes/measures in 2008-09:

- a multi-sectoral development plan for each of the 90 minority concentration districts will be drawn up at a cost of Rs.3,780 crore. The allocation in 2008-09 will be Rs.540 crore;

- a pre-matric scholarship scheme with an allocation of Rs.80 crore next year;
- a scheme for modernising Madrassa education for which a provision of Rs.45.45 crore has been made in 2008-09;
- 256 branches of public sector banks have been opened this year until December 2007 in districts with substantial minority population. 288 more will be opened by March 2008 and many more in 2008-09; and
- continuing the exercise started this year, more candidates belonging to the minority communities will be recruited to the Central Para-Military Forces.

48. I also propose to provide Rs.60 crore to enhance the corpus fund of the Maulana Azad Education Foundation.

## Women and Children

49. I confess that policy makers often tend to forget that one-half of the population is constituted by women and they are entitled to an equal share - and an equal say - in all programmes and schemes. Gender Budgeting has gained wider acceptance and credibility. Four more ministries/departments have set up gender budgeting cells taking the total number to 54. Honourable Members will find in the Budget documents a statement embracing 33 demands for grants contributed by 27 ministries/departments and 5 Union Territories. According to the statement, Rs.11,460 crore has been provided for 100 per cent women-specific schemes and Rs.16,202 crore for schemes where at least 30 per cent is for women-specific programmes.

50. We will score another 'first' this year. A statement on child related schemes is included in the budget documents and Honourable Members will be happy to note that the total expenditure on these schemes is of the order of Rs.33,434 crore.

51. I propose to allocate Rs.7,200 crore in 2008-09 to the Ministry of Women and Child Development. This represents an increase of 24 per cent over the allocation in 2007-08.

### Self Help Groups

52. The Life Insurance Corporation of India (LIC) runs the Janashree Bima Yojana and offers life and permanent disability cover to people in 44 categories. One of the categories is Self Help Groups, but only 35,000 SHGs have been covered so far. Considering the fact that there are over 30 lakh SHGs credit-linked to banks, I propose to single out this category for special attention. I propose to ask LIC to rapidly scale up the scheme and cover all women SHGs that are credit-linked to banks. Since one-half of the premium is subsidized through the Social Security Fund, I propose to contribute Rs.500 crore to the corpus of the fund with the assurance that annual contributions will be made as the scheme is scaled up. This scheme, together with the Rashtriya Swasthya Bima Yojana, will mark the beginning of a new deal for women by providing them life and health cover.

### Supplement to GBS

53. Honourable Members will note that the allocations to various sectors and schemes are generous. I hasten to add that more can be done and more will be done subject, however, to one condition: the condition of performance. In the last Budget, I had announced a Plan 'B' and I was able to provide additional Plan funds of Rs.8,365 crore in cash through two supplementaries - and a third one will follow shortly. The nub of the problem lies in implementation - and implementation mostly is in the hands of State Governments. This year too, I intend to mobilise additional resources to the tune of Rs.10,000 crore to be used for Plan capital expenditure. This money - under Plan 'B' - will be available to ministries/departments of the Central Government and to State Governments that achieve the physical and quality targets set under different Plan schemes.



### III. AGRICULTURE

54. I shall now return to the subject of agriculture.

55. I have already referred to the Rashtriya Krishi Vikas Yojana and the National Food Security Mission.

#### Agricultural Credit

56. Notwithstanding some shortcomings, the growth of agricultural credit has been impressive and for this I have to thank our scheduled commercial banks and Regional Rural Banks. Between them, they account for about 75-79 per cent of agricultural credit disbursed during any year. We will exceed the target set for 2007-08. For 2008-09, I propose to set a target of Rs.280,000 crore.

57. Short-term crop loans will continue to be disbursed at 7 per cent per annum and I am making an initial provision of Rs.1,600 crore for interest subvention in 2008-09.

#### Investment in Agriculture

58. What ails agriculture, among other things, is the fall in investment. However, there seems to be a turnaround. Gross Capital Formation (GCF) in agriculture as a proportion of GDP in the agriculture sector has improved from a low of 10.2 per cent in 2003-04 to 12.5 per cent in 2006-07. This, however, needs to be raised to 16 per cent during the Eleventh Plan to achieve the target growth rate of 4 per cent.

## Water Resources

59. Government is investing heavily in the Accelerated Irrigation Benefit Programme (AIBP) and the Rainfed Area Development Programme and in the management and augmentation of water resources. Under AIBP, 24 major and medium irrigation projects and 753 minor irrigation schemes will be completed in this financial year, creating additional irrigation potential of 500,000 hectare. The outlay for 2007-08 was Rs.11,000 crore with a grant component of Rs.3,580 crore. These are being increased in 2008-09, and the estimated outlay is Rs.20,000 crore with a grant component of Rs.5,550 crore.

60. The Rainfed Area Development Programme has been finalised and will be implemented in 2008-09 with an allocation of Rs.348 crore. Priority will be given to those areas that have not been the beneficiaries of watershed development schemes.

61. The centrally sponsored scheme on micro irrigation launched in January 2006 has brought an area of 548,000 hectare under drip and sprinkler irrigation within two years. I propose to allocate Rs.500 crore for the scheme in 2008-09 with a target of covering another 400,000 hectare.

62. Agreements have been signed with the World Bank by the Governments of Tamil Nadu, Andhra Pradesh and Karnataka under the project to repair, renovate and restore water bodies. The three agreements are for a total sum of US\$738 million that will benefit a command area of 900,000 hectare. I am confident that similar agreements will be signed soon between the World Bank and the Governments of Orissa, West Bengal and some other States.

## Irrigation and Water Resources Finance Corporation

63. While these ongoing programmes will raise the level of investment in agriculture, I think that we need an ambitious scheme of a much larger proportion. Government is of the view that massive investments are required to be made in irrigation projects. Recently, Government has approved 14 projects that satisfy certain criteria as national projects and three of them alone would require Rs.7,000 crore during the Eleventh Plan period. Having regard to the magnitude of the challenge, I propose to establish the Irrigation and Water Resources Finance Corporation

(IWRFC) with an initial capital of Rs.100 crore contributed by the Central Government. State Governments and other financial institutions will be invited to contribute to the equity. It is our intention to mobilise the very large resources that will be required to fund major and medium irrigation projects. I hope to be able to incorporate IWRFC as a company before March 31, 2008.

## National Horticulture Mission

64. The National Horticulture Mission (NHM) now covers 340 districts in 18 States and two Union Territories. An area of 276,000 hectare has been brought under horticulture crops and an area of 56,000 hectare of old plantations has been rejuvenated. Special thrust is being given to the revival of crops such as coconut, cashew and pepper. NHM will be provided Rs.1,100 crore in 2008-09.

65. 500 soil testing laboratories will be set up in the public and private sectors during the Eleventh Plan period with Government assistance of Rs.30 lakh per laboratory. In addition, I propose to make a one-time allocation of Rs.75 crore to the Ministry of Agriculture in order to provide one fully-fitted mobile soil testing laboratory each to 250 districts of the country before March 2009.

## Plantation Crops

66. The Special Purpose Tea Fund set up last year for re-plantation and rejuvenation will be provided Rs.40 crore in 2008-09. I propose to provide funds for similar support to other plantation crops such as cardamom (Rs.10.68 crore), rubber (Rs.19.41 crore) and coffee (Rs.18 crore). A crop insurance scheme for tea, rubber, tobacco, chilli, ginger, turmeric, pepper and cardamom will be introduced next year.

67. In order to promote research on matters concerning the plantation sector, I propose to make a one-time grant of Rs.5 crore to the Centre for Development Studies, Tiruvananthapuram. The Tocklai Experimental Station at Jorhat of the Tea Research Association will celebrate its

centenary in 2010. It is in the process of upgrading its facilities and expanding its activities to cover other North Eastern States, North Bengal and Darjeeling. I propose to make a special centenary grant of Rs.20 crore to the Tea Research Association.

68. The National Plant Protection Training Institute at Hyderabad will be converted and upgraded into an autonomous National Institute of Plant Health Management with budgetary support of Rs.29.4 crore.

### Crop Insurance

69. Pending a decision on an alternative crop insurance scheme that is acceptable to the farmers as well as viable to the insurer, the National Agriculture Insurance Scheme (NAIS) will be continued in its present form for Kharif and Rabi 2008-09. I propose to provide Rs.644 crore for the scheme.

70. In addition, the Weather Based Crop Insurance Scheme that is being implemented as a pilot scheme in selected areas of five States will be continued. I intend to provide Rs.50 crore for this purpose in 2008-09.

71. Government will continue to provide fertilisers to farmers at subsidized prices. Government is examining proposals to move to a nutrient based subsidy regime and alternative methods of delivering the subsidy.

### Cooperative Credit Structure

72. The Prof. Vaidyanathan Committee's report on reviving the short-term cooperative credit structure is under implementation in 17 States. So far, a sum of Rs.1,185 crore has been released by the Central Government to four States. I am happy to report that the Central Government and the State Governments have reached an agreement on the content of the package to implement

the Prof. Vaidyanathan Committee's report on reviving the long-term cooperative credit structure. The cost of the package is estimated at Rs.3,074 crore, of which the Central Government's share will be Rs.2,642 crore or 86 per cent of the total burden.

### Debt Waiver and Debt Relief

73. Sir, while I am confident that the schemes and measures that I have listed above will give a boost to the agriculture sector, the question that still looms large is what we should do about the indebtedness of farmers. Honourable members will recall that Government had appointed a Committee under Dr. R. Radhakrishna to examine all aspects of agricultural indebtedness. The Committee has since submitted its report and it is in the public domain. The Committee had made a number of recommendations but stopped short of recommending waiver of agricultural loans. However, Government is conscious of the dimensions of the problem and is sensitive to the difficulties of the farming community, especially the small and marginal farmers. Having carefully weighed the pros and cons of debt waiver and having taken into account the resource position, I place before this House a scheme of debt waiver and debt relief for farmers:

(i) All agricultural loans disbursed by scheduled commercial banks, regional rural banks and cooperative credit institutions up to March 31, 2007 and overdue as on December 31, 2007 will be covered under the scheme.

(ii) For marginal farmers (i.e., holding upto 1 hectare) and small farmers (1-2 hectare), there will be a complete waiver of all loans that were overdue on December 31, 2007 and which remained unpaid until February 29, 2008. In respect of other farmers, there will be a one time settlement (OTS) scheme for all loans that were overdue on December 31, 2007 and which remained unpaid until February 29, 2008. Under the OTS, a rebate of 25 per cent will be given against payment of the balance of 75 per cent.

(iii) Agricultural loans were restructured and rescheduled by banks in 2004 and 2006 through special packages. These rescheduled loans, and other loans rescheduled in the normal course as per RBI guidelines, will also be eligible either for a waiver or an OTS on the same pattern.

(iv) The implementation of the debt waiver and debt relief scheme will be completed by June 30, 2008. Upon being granted debt waiver or signing an agreement for debt relief under the OTS, the

farmer would be entitled to fresh agricultural loans from the banks in accordance with normal rules.

(v) Government estimates that about three crore small and marginal farmers and about one crore other farmers will benefit from the scheme. The total value of overdue loans being waived is estimated at Rs.50,000 crore and the OTS relief on the overdue loans is estimated at Rs.10,000 crore.

I appeal to Honourable Members - as well as to the people of India - to give their unqualified support to the scheme and help Government implement this momentous decision.

#### IV. INVESTMENT, INFRASTRUCTURE, INDUSTRY AND TRADE

74. Since 2005-06, there has been an unmistakable boom in investment. Two indicators tell the story. The saving rate and the investment rate in 2003-04 were 29.8 per cent and 28.2 per cent, respectively. According to estimates made by the Economic Advisory Council to the Prime Minister, they will be 35.6 per cent and 36.3 per cent, respectively, by the end of 2007-08. The trend is reflected on the foreign investment side too. During the period April-December 2007-08, foreign direct investment amounted to US\$12.7 billion and foreign institutional investment to US\$18 billion. Our policy is to encourage all sources of investment, domestic and foreign, private and public.

75. In 2008-09, Government will provide Rs.16,436 crore as equity support and Rs.3,003 crore as loans to Central Public Sector Enterprises (CPSEs). 44 CPSEs are listed today. It is the policy of the Government to list more CPSEs in order to unlock their true value and improve corporate governance.

Rural Infrastructure Development Fund

76. The Rural Infrastructure Development Fund (RIDF) is the main instrument to channelize bank funds for financing rural infrastructure, and it is quite popular among State Governments. Therefore, I propose to raise the corpus of RIDF-XIV in 2008-09 to Rs.14,000 crore. I also propose to operate a separate window under RIDF-XIV for rural roads with a corpus of Rs.4,000 crore.

## Manufacturing Sector

77. There has been some moderation in the index of production of the six core infrastructure industries as well as in the overall index of industrial production for the period April-December 2007-08. The decline has been somewhat sharp in the case of consumer goods, especially consumer durables. The silver lining is that the growth in capital goods is still very high at 20.2 per cent, indicating that industry continues to make huge capital investments and has a positive outlook about the future. Manufacturing industries that have grown more slowly than the average include food products, cotton textiles, textile products including apparel, paper and transport equipment. Among the reasons for the moderation are a rise in interest rates and the appreciation of the Rupee. There are limits to monetary policy accommodation, especially when the need is to maintain price stability. However, some steps can be taken on the fiscal side and I shall, presently, place before the House some proposals in order to stimulate industrial growth. Our goal is to take the manufacturing growth rate to a double digit. This will also call for more reforms in the coal and electricity sectors as well as confronting oligopolistic tendencies in the cement and steel sectors.

## Power

78. The Eleventh Plan target for additional power generation capacity is 78,577 MW which is more than the total capacity added in the previous three Plans. By end March 2008, we will achieve Commercial Operation Date (COD) on about 10,000 MW, marking the best first year in any Plan period. Government will redouble its efforts to ensure that the ambitious target for the Eleventh Plan is achieved.

79. The fourth Ultra Mega Power Project (UMPP) at Talaiya will be awarded shortly. It is possible to bring five more UMPPs in Chhattisgarh, Karnataka, Maharashtra, Orissa and Tamilnadu to the bidding stage provided the States extend the required support. I urge them to do so.

80. Government has approved the continuation of the Rajiv Gandhi Grameen Vidyutikaran Yojana during the Eleventh Plan period with a capital subsidy of Rs.28,000 crore. I propose to allocate Rs.5,500 crore in 2008-09 for the Yojana (including NER).

81. I propose to provide Rs.800 crore in 2008-09 for the Accelerated Power Development and Reforms Project. However, it is the poor state of transmission and distribution (T&D) that is a drag on the sector. Huge investments are required to be made in T&D, but linked to fundamental reforms. Hence, I propose to create a national fund for transmission and distribution reform. The details of the scheme will be worked out and announced very soon.

## Roads

82. All phases of the National Highway Development Programme continue to make progress. The completion ratio in the Golden Quadrilateral is 96.48 per cent and in the North South, East West Corridor project is 23.36 per cent. Special attention is being paid to SARDP-NE, a programme devised for the North Eastern region. 180 kms of roads were completed in 2007-08 and the target for 2008-09 is 300 kms. I propose to enhance the allocation for the NHDP from Rs.10,867 crore in 2007-08 to Rs.12,966 crore next year.

## Oil and Gas

83. The 7th round of bidding under the New Exploration Licensing Policy (NELP) was launched in December 2007 and bids have been invited for 57 exploration blocks. It is estimated that the round will attract investment of the order of US\$3.5 billion to US\$8 billion for exploration and discovery.



## Coal

84. 53 coal blocks with reserves of 13,842 million tonnes have been allotted during April-January 2007-08 to Government and private sector companies. A new Coal Distribution Policy was notified in October 2007. A coal regulator will be appointed.

## Information Technology

85. Government's forward looking policy is driving the growth of Information Technology and Information Technology Enabled Services. I propose to enhance the allocation to the Department of Information Technology from Rs.1,500 crore in 2007-08 to Rs.1,680 crore in 2008-09. A scheme for establishing 100,000 broadband internet-enabled Common Service Centres in rural areas and a scheme for establishing State Wide Area Networks (SWAN) with Central assistance are under implementation. A new scheme for State Data Centres has also been approved. I propose to provide Rs.75 crore for the common service centres, Rs.450 crore for SWAN and Rs.275 crore for the State Data Centres.

## Textiles

86. The two principal schemes of the Ministry of Textiles - the Scheme for Integrated Textile Parks (SITP) and the Technology Upgradation Fund (TUF) - will be continued in the Eleventh Plan period. All 30 integrated textile parks have been approved and 20 units in four parks have commenced production. I propose to maintain the provision for SITP at Rs.450 crore in 2008-09. The provision for TUF will be increased from Rs.911 crore in the current year to Rs.1,090 crore in 2008-09.

87. The cluster approach to the development of the handloom sector has made rapid progress. 250 clusters are being developed. 443 yarn banks have been established. By March 2008, over 17 lakh families of weavers will be covered under the health insurance scheme. I propose to increase the allocation to Rs.340 crore in 2008-09.

88. In order to scale up both infrastructure and production, it is proposed to take up six centres for development as mega-clusters. Varanasi and Sibsagar will be taken up for handlooms, Bhiwandi and Erode for powerlooms, and Narsapur and Moradabad for handicrafts. Each mega-cluster will require about Rs.70 crore. I propose to start the process with an initial provision of Rs.100 crore in 2008-09.

#### Micro, Small and Medium Enterprises

89. Micro, small and medium enterprises will continue to receive support from the Government. I wish to remove certain wrong perceptions about the sector. In the four years ending 2006-07, for which figures are available, there has been a secular rise in the number of registered units, the number of unregistered units, production, employment and exports. In order to give a fillip to the sector, I propose to create a risk capital fund in the Small Industries and Development Bank of India (SIDBI). As on January 31, 2008, the Credit Guarantee Trust with SIDBI had extended guarantees to 89,129 units for an amount of Rs.2,479 crore. SIDBI will reduce the guarantee fee from 1.5 per cent to 1 per cent and the annual service fee from 0.75 per cent to 0.5 per cent for loans up to Rs.5 lakh.

#### Foreign Trade

90. Merchandise exports have come under some pressure due to the appreciation of the Rupee and may fall just short of the target of US\$ 160 billion, although the growth rate was strong at 21.8 per cent during April-December 2007-08. Relief was given to exporters in three tranches amounting to over Rs.8,000 crore. I may note that the interest cost of sterilization through market stabilization bonds (MSS), estimated at Rs.8,351 crore for the whole year is, in a sense, subsidy to the export sector. Government is sensitive to the needs of the export sector and will continue to respond sympathetically as the situation demands.

## V. FINANCIAL SECTOR

91. Government's policy of a careful and calibrated opening of the financial sector has proved successful. We shall continue to take measured steps.

92. The final report of the Committee on Financial Inclusion has been received. To begin with, I propose to accept two recommendations:

- to advise commercial banks, including RRBs, to add at least 250 rural household accounts every year at each of their rural and semi-urban branches; and
- to allow individuals such as retired bank officers, ex-servicemen etc to be appointed as business facilitator or business correspondent or credit counsellor.

93. Banks will be encouraged to embrace the concept of Total Financial Inclusion. Government will request all scheduled commercial banks to follow the example set by some public sector banks and meet the entire credit requirements of SHG members, namely, (a) income generation activities, (b) social needs like housing, education, marriage etc and (c) debt swapping.

### NABARD, SIDBI and NHB

94. Financial inclusion can be taken forward by expanding the reach of NABARD, SIDBI and NHB. Hence, in order to increase the resource base of these three banks, I propose to tap into the resources of scheduled commercial banks to the extent that they fall short of their obligation to lend to the priority sector. Accordingly, it is proposed to create the following funds:

(i) a fund of Rs.5,000 crore in NABARD to enhance its refinance operations to short term cooperative credit institutions;

(ii) two funds of Rs.2,000 crore each in SIDBI - one for risk capital financing and the other for enhancing refinance capability to the MSME sector; and

(iii) a fund of Rs.1,200 crore in NHB to enhance its refinance operations in the rural housing sector.

Each of these funds will be governed by the general guidelines that are now applicable to RIDF with some modifications.

95. Last year, I enhanced the limit of the loan that could be extended under the Differential Rate of Interest (DRI) scheme to the weaker sections of the community engaged in gainful occupations. However, I did not enhance the eligibility criteria which still stand at levels fixed in 1986. This needs to be corrected. Hence, I propose to fix the borrower's eligibility criteria as annual family income of Rs.18,000 in rural areas and Rs.24,000 in urban areas.

## Capital Markets

96. In my Budget Speech of 2006, I had informed the House that, on the basis of the R.H. Patil Committee Report, we shall take steps to create an exchange-traded market for corporate bonds. Both Bombay Stock Exchange and National Stock Exchange have created platforms for trading in corporate bonds.

97. I intend to move forward by taking some more measures to expand the market for corporate bonds. Hence, I propose to:

- take measures to develop the bond, currency and derivatives markets that will include launching exchange-traded currency and interest rate futures and developing a transparent credit derivatives market with appropriate safeguards;

- enhance the tradability of domestic convertible bonds by putting in place a mechanism that will enable investors to separate the embedded equity option from the convertible bond and trade it separately; and
- encourage the development of a market-based system for classifying financial instruments based on their complexity and implicit risks.

98. The fear of the Permanent Account Number (PAN) has virtually disappeared. PAN is now the sole identification number for all participants in the securities market. I propose to extend the requirement of PAN to all transactions in the financial market subject, however, to suitable threshold exemption limits.

99. Our stock exchanges provide national electronic trading platforms for securities transactions. Yet, we do not have a seamless national market for securities because of differences among States on the scope and applicability of rates of stamp duty. Hence, I propose to request the Empowered Committee of State Finance Ministers to work with the Central Government to create a truly pan Indian market for securities that will expand the market base and enhance the revenues of the State Governments.

## VI. OTHER PROPOSALS

100. India is poised to reap a 'demographic dividend' because the size of its working age population will increase from about 77.5 crore in 2008 to a likely peak of 95 crore in 2026. The 'dividend' can prove illusory if the workforce does not acquire the skills to support a knowledge and technology driven economy.

Skill Development Mission

101. Today, skill development programmes are diffused and administered by a number of ministries/departments. I have no intention of interfering with these sector-specific programmes. However, there is a compelling need to launch a world-class skill development programme, in mission mode, that will address the challenge of imparting the skills required by a growing economy. Both the structure and the leadership of the mission must be such that the programme can be scaled up quickly to cover the whole country. Hence, I propose to establish a non-profit corporation and entrust the mission to that corporation. It is my intention to garner about Rs.15,000 crore as capital from Governments, the public and private sector, and bilateral and multilateral sources. I shall begin by putting Rs.1,000 crore as Government's equity in the proposed non-profit corporation.

#### Industrial Training Institutes

102. The upgradation of ITIs is proceeding apace. Under the World Bank assisted scheme, 238 ITIs are undergoing upgradation. Under the PPP scheme, 309 ITIs in 29 States have been identified with corresponding industry partners and agreements have been signed in 244 cases. In anticipation of upgrading 300 more ITIs in 2008-09, I have set apart Rs.750 crore.

#### Sainik Schools

103. I am concerned by the rate of attrition in the defence forces, especially at the officer level. Sainik Schools have played a unique role as recruiting and training ground of future leaders of the defence forces. I propose to make an allocation of Rs.44 crore at the rate of Rs.2 crore each to the 22 Sainik Schools for immediate improvement of infrastructure including classrooms, laboratories, libraries and facilities for physical education.

#### Public Distribution System

104. A sum of Rs.32,667 crore is being provided next year for food subsidy under the Public Distribution System (PDS) and other welfare programmes. Strengthening the PDS would mean adequate supplies, reasonable subsidies and efficient delivery of the subsidized food. An idea that has been growing is to deliver subsidies to the target group through smart cards. Finally, I have found two willing partners - the State of Haryana and the Union Territory of Chandigarh. They will introduce, on a pilot basis, a smart card based delivery system to deliver food grains under the PDS in Haryana and Chandigarh, respectively. I thank the Chief Minister of Haryana and the Administrator of Chandigarh and promise them full support and cooperation in making a success of the pilot scheme.

#### Unorganised Sector Workers

105. The Unorganised Sector Workers' Social Security Bill, 2007 is before Parliament. In anticipation of the Bill being made into law, Government has introduced three schemes that are designed to provide social security to workers in the unorganised sector in a phased manner. These are:

- the Aam Admi Bima Yojana that will provide insurance cover to poor households. I am happy to announce that, in the first year of the Yojana, LIC will cover one crore landless households by September 30, 2008. I have already placed Rs.1,500 crore with LIC. In order to cover another one crore poor households in the second year, I propose to place an additional sum of Rs.1,000 crore with LIC in 2008-09;
- the Rashtriya Swasthya Bima Yojana that will be implemented with effect from April 1, 2008; and
- the Indira Gandhi National Old Age Pension Scheme that was enlarged with effect from November 19, 2007 to include all persons over 65 years falling under the BPL category. Consequently, the coverage has expanded from 87 lakh to 157 lakh beneficiaries. I propose to allocate Rs.3,443 crore in 2008-09 as against Rs.2,392 crore in 2007-08.

## Housing for the Poor

106. Housing for the poor is one of the six elements of Bharat Nirman and is implemented through the Indira Awas Yojana (IAY). Against a target of 60 lakh houses, 41.13 lakh houses have been constructed up to December 2007 and the cumulative number will be 51.77 lakh houses by end March 2008. Reflecting the higher cost of construction, I propose to enhance the subsidy per unit in respect of new houses sanctioned after April 1, 2008 from Rs.25,000 to Rs.35,000 in plain areas and from Rs.27,500 to Rs.38,500 in hill/difficult areas. The subsidy for upgradation of houses will be increased from Rs.12,500 per unit to Rs.15,000. A beneficiary will still need own funds to complete the house. Public sector banks will be advised to include IAY houses under the differential rate of interest (DRI) scheme and lend up to Rs.20,000 per unit at an interest rate of 4 per cent.

## Defence

107. I propose to increase the allocation for Defence by 10 per cent from Rs.96,000 crore to Rs.105,600 crore. I have assured the Raksha Mantri that any further amount needed for the Defence Forces, especially for capital expenditure, will be provided.

## Backward Regions Grant Fund

108. The Backward Regions Grant Fund was given Rs.5,800 crore in the current year. Having regard to the pace of expenditure, I propose to keep the allocation for the next year at the same level. I may add that nearly 45 per cent of the amount is likely to be allocated to the States of Bihar, Orissa and Uttar Pradesh.

## Climate Change



109. In the Budget Speech last year I had announced the decision of the Government to appoint an expert committee to study the impact of climate change on India and identify the measures that we may have to take in the future. Work is in progress. Even while adhering to the principle of "common but differentiated responsibility" we can - and we must - do a number of things in our self-interest. We can promote clean technology products; we can review fuel emission and efficiency regulations; we can replace wood by solar as the fuel of common use; we can encourage the use of gas which is the most benign hydrocarbon; we can set up a trading platform for carbon emissions; we can build sustainable greenfield cities; and we can do more. In order to explore and implement these and other ideas, Government proposes to establish a permanent institutional mechanism that will play a development and coordination role. Details of the institutional mechanism will be announced shortly.

#### Sixth Central Pay Commission

110. I have been informed that the Sixth Central Pay Commission will submit its report by March 31, 2008. I am confident that the report will meet the legitimate expectations of Government employees.

#### Commonwealth Games

111. The Commonwealth Games are only 947 days away. As promised, we shall provide Rs.624 crore in 2008-09. I would urge the authorities concerned to adhere to the strict timelines and the quality standards.

#### Institutions of Excellence

112. For the fourth year in succession, I propose to make a special grant of Rs.100 crore each to three institutions of excellence. The awards for 2008-09 go to: (i) Mahatma Phule Krishi Vidyapeeth, Rahuri, Maharashtra; (ii) University of Mysore, Mysore; and (iii) Delhi University, Delhi.

#### India's Soft Power

113. India's music, literature, dance, art, cuisine and especially films are attracting huge interest around the world. This is the 'soft power' of India, and it must be projected in a sophisticated and subtle manner. I propose to provide Rs.75 crore to the Indian Council of Cultural Relations to design and implement a programme to achieve this objective.

#### Tiger Protection

114. The number 1,411 should ring the alarm bells. That is the number of tigers in India. The tiger is under grave threat. In order to redouble our effort to protect the tiger, I propose to make a one time grant of Rs.50 crore to the National Tiger Conservation Authority. The bulk of the grant will be used to raise, arm and deploy a special Tiger Protection Force.

#### Monitoring and Evaluation

115. Robust economic growth has thrown up many new challenges, among them the need to put in place effective monitoring, evaluation and accounting systems for the large sums of money that are disbursed by the Central Government to State Governments, district level agencies and other implementing agencies. I think we do not pay enough attention to outcomes as we do to outlays; or to physical targets as we do to financial targets; or to quality as we do to quantity. Government therefore proposes to put in place a Central Plan Schemes Monitoring System

(CPSMS) that will be implemented as a Plan scheme of the Planning Commission. A comprehensive Decision Support System and Management Information System will also be established. The intended outcome is to generate and monitor scheme-wise and State-wise releases for about 1,000 Central Plan and centrally sponsored schemes in 2008-09.

116. Government also intends to strengthen evaluation. Some ministries have started concurrent evaluation. This needs to be supplemented by independent evaluations conducted by research institutions. The Planning Commission will authorise such evaluations of the major schemes and complete the task by the time of the mid-term review of the Eleventh Plan.

## VII. BUDGET ESTIMATES

117. I shall now turn to the Budget Estimates for 2008-09.

118. The estimate of Plan Expenditure is placed at Rs.243,386 crore. As a proportion of total expenditure, it will be 32.4 per cent.

119. Non-Plan Expenditure is estimated at Rs.507,498 crore.

### Revenue Deficit and Fiscal Deficit

120. It is widely acknowledged that the fiscal position of the country has improved tremendously. I am happy to report that the revenue deficit for the current year will be 1.4 per cent (against a BE of 1.5 per cent) and the fiscal deficit will be 3.1 per cent (against a BE of 3.3 per cent).

121. Further progress will be made in 2008-09. The revenue receipts of the Central Government for 2008-09 are projected at Rs.602,935 crore and the revenue expenditure at Rs.658,119 crore.

Consequently, the revenue deficit is estimated at Rs.55,184 crore, which amounts to 1.0 per cent of GDP. The fiscal deficit is estimated at Rs.133,287 crore which is 2.5 per cent of GDP. Honourable Members will note that not only will I achieve the target for fiscal deficit under the FRBM Act, I have also left for myself some headroom. In the case of revenue deficit, I will meet the target of annual reduction of 0.5 per cent. However, because of the conscious shift in expenditure in favour of health, education and the social sector, we may need one more year to eliminate the revenue deficit. In my view, this is an entirely acceptable deferment.

### Revisiting the Roadmap for Fiscal Adjustment

122. I acknowledge that significant liabilities of the Government on account of oil, food and fertilizer bonds are currently below the line. This accounting arrangement is consistent with past practice. Nevertheless, our fiscal and revenue deficits are understated to that extent. There is a need to bring these liabilities into our fiscal accounting. As a first step, I have shown these liabilities clearly in 'Budget at a Glance'. After the obligations on account of the Sixth Central Pay Commission become clear, I intend to request the Thirteenth Finance Commission to revisit the roadmap for fiscal adjustment and suggest a suitably revised roadmap.

## PART - B

### VIII. TAX PROPOSALS

123. Mr. Speaker, I shall now present my tax proposals.

124. Many people are surprised by the buoyancy in tax revenues, especially in direct taxes. I am not. I have always maintained that moderate and stable tax rates coupled with a tax administration that shows no fear or favour will bring high revenues to the exchequer.

125. The UPA Government inherited a tax to GDP ratio of 9.2 per cent in 2003-04. At the end of 2007-08, that ratio would have risen to 12.5 per cent.

126. High growth rates have helped. Changes in attitude have also helped. Above all, information systems and technology have helped most. And, if I may add in a lighter vein, having a lucky Finance Minister may have also helped! We are on course to achieve the Budget Estimates of indirect taxes and exceed the Budget Estimates of direct taxes. I take this opportunity to thank all tax payers and I promise them an efficient and tax payer-friendly administration.

#### Indirect Taxes

127. I shall begin with customs duties.

128. The peak rate for non-agricultural products was 20 per cent in January 2004 and now stands at 10 per cent. The collection rate is the closest approximation to the level of protection to domestic industry, and that rate for all imports stood at 10 per cent in 2006-07. Since April 2007, the Rupee has appreciated against the Dollar by 9.8 per cent. Consequently, the case for reducing the peak rate at this stage is very weak. Hence, I propose to make no change in the peak rate of customs duty.

129. However, I find that in some cases it is necessary to reduce the customs duty in order to provide a fillip to that industry or to promote value addition or to remove inversion or any other anomaly. I shall refer to a few such cases.

130. I propose to reduce the customs duty on Project Imports from 7.5 per cent to 5 per cent. However, I also propose to impose the 4 per cent special CVD on a few specified projects in the power sector.

131. In order to improve the supply of raw material, I propose to reduce the duty on steel melting scrap and aluminium scrap from 5 per cent to nil.

132. On certain specified life saving drugs and on the bulk drugs used for the manufacture of such drugs, I propose to reduce the customs duty from 10 per cent to 5 per cent as well as to totally exempt them from excise duty or countervailing duty.

133. In order to reduce the cost of manufacture of cattle and poultry feeds, I propose to reduce the duty on vitamin premixes and mineral mixtures from 30 per cent to 20 per cent and on phosphoric acid from 7.5 per cent to 5 per cent.

134. The duty on bactofuges will be reduced from 7.5 per cent to nil. This will increase the shelf life of milk and benefit the dairy industry.

135. I propose to fully exempt from duty specified parts of set top boxes and specified raw materials for use in the IT/electronic hardware industry.

136. To establish parity between devices used in the information/ communication sector and the entertainment sector, I propose to reduce the duty on convergence products from 10 per cent to 5 per cent.

137. To provide a fillip to the manufacture of sports goods, I propose to reduce the duty on specified machinery from 7.5 per cent to 5 per cent. I also propose to exempt from duty specified raw materials for sports goods.

138. The gem and jewellery industry has responded well to the duty reductions made last year. In order to encourage value addition and exports, I propose to exempt from duty rough cubic zirconia and to reduce the duty on polished cubic zirconia from 10 per cent to 5 per cent. Similarly, the duty on rough coral will be reduced from 10 per cent to 5 per cent.

139. To facilitate training of helicopter pilots, I propose to remove the duty on helicopter simulators.

140. In order to support domestic fertiliser production, I propose to reduce the customs duty on crude and unrefined sulphur from 5 per cent to 2 per cent.

141. Thanks to a complex regime of export benefits and duty exemptions, naphtha is exported from refineries and naphtha is imported by manufacturers of polymers, leading to price distortions and revenue losses. I propose to correct the situation by withdrawing the duty exemption on naphtha for use in the manufacture of polymers and subject it to the normal rate of 5 per cent. However, naphtha imported for the production of fertilisers will continue to be exempt from import duty.

142. Finally, in order to conserve chrome ore and make it available for value added manufacture in India, I propose to increase the export duty from Rs.2,000 per metric tonne to Rs.3,000 per metric tonne.

143. I shall now deal with excise duties.

144. The manufacturing sector is the backbone of any economy. It is consumption that drives production and it is production that drives investment. Having carefully studied current trends of production and consumption, I believe there is a need to give a stimulus to the manufacturing sector. Hence, I propose to reduce the general CENVAT rate on all goods from 16 per cent to 14 per cent.

145. I have looked at specific sectors where growth is flagging. These sectors are important because they are growth and employment drivers. Some of them also have large externalities. Therefore, I propose to:

- reduce the excise duty on all goods produced in the pharmaceutical sector from 16 per cent to 8 per cent;
- reduce the excise duty on buses and their chassis from 16 per cent to 12 per cent;
- reduce the excise duty on small cars from 16 per cent to 12 per cent and on hybrid cars from 24 per cent to the general revised rate of 14 per cent;
- reduce the excise duty on two wheelers and three wheelers from 16 per cent to 12 per cent; and

- reduce the excise duty on paper, paper board and articles made therefrom manufactured out of non-conventional raw materials by units not having an attached bamboo/wood pulp making plant from 12 per cent to 8 per cent with a further reduction on clearances up to 3,500 MT from 8 per cent to nil. Furthermore, excise duty on certain varieties of writing, printing and packing paper will be reduced from 12 per cent to 8 per cent.

146. There are a number of products which are goods of mass consumption. There is also the need to have tax parity on similar goods. Taking into account requests from a number of industries, I propose to reduce the excise duty from 16 per cent to nil on a few items including composting machines, wireless data cards, packaged coconut water, tea and coffee mixes, and puffed rice.

147. Further, I propose to reduce the excise duty from 16 per cent to 8 per cent on a few items including water purification devices, veneers and flush doors, sterile dressing pads, specified packaging material, and breakfast cereals.

148. I propose to totally exempt from excise duty the anti AIDS drug, Atazanavir, as well as bulk drugs for its manufacture.

149. To further encourage cold chain facilities, I propose to exempt from excise duty, on end-use basis, refrigeration equipment (consisting of compressor, condenser units, evaporator etc) above 2 TR (tonne refrigeration) utilising power of 50 KW and above.

150. I propose to bring parity in the excise duty rates on bulk cement and packaged cement. Accordingly, bulk cement will now attract excise duty of Rs.400 per Metric Tonne or 14 per cent ad valorem, whichever is higher. Cement clinkers will be liable to excise duty of Rs.450 per Metric Tonne.

151. Similarly, I propose to increase the excise duty on packaged software from 8 per cent to 12 per cent to bring it on par with customised software which will attract a service tax of 12 per cent.



152. Non-filter cigarettes are more toxic than filter cigarettes, yet they enjoy a favourable tax regime, which is iniquitous. I propose to tax both filter and non-filter cigarettes on par by applying - as Honourable Members may have guessed - the higher rates.

153. In order to remove a source of misinformation, I propose to abolish the ad valorem part of the excise duty on unbranded petrol and unbranded diesel and replace the same by an equivalent specific duty of Rs.1.35 per litre. Henceforth, there will be only a specific duty of Rs.14.35 per litre on unbranded petrol and Rs.4.60 per litre on unbranded diesel. There will be no impact on retail prices.

154. An excise duty of 1 per cent called NCCD is now imposed on polyester filament yarn, which is the only yarn suffering this excise duty. I propose to remove that duty and shift the levy to cellular mobile phones.

155. Finally, I turn to my proposals on service tax.

156. 55 per cent of the GDP is contributed by the services sector, which is a growing sector that must contribute its legitimate share to the exchequer. I propose to bring under the service tax net four services. They are:-

(i) asset management service provided under ULIP, to bring it on par with asset management service provided under mutual funds;

(ii) services provided by stock/commodity exchanges and clearing houses;

(iii) right to use goods, in cases where VAT is not payable; and

(iv) customised software, to bring it on par with packaged software and other IT services

157. I also propose to remove unwarranted doubts raised in respect of certain services and clarify that they are liable to service tax. These include money changers, persons running games of chance, and tour operators using contract carriage vehicles.

158. There are some miscellaneous changes but I do not wish to burden the House with the same.

159. Finally, I am happy to announce that the threshold limit of exemption for small service providers will be increased from Rs.8 lakhs per year to Rs.10 lakh per year. As a result, about 65,000 small service providers will go out of the tax net.

## Direct Taxes

160. I shall now deal with direct taxes.

161. I recall the Budget Speech of 1997. I believe that boldness pays. I also believe that trust will beget trust, moderation will beget revenues and fairness will beget compliance. Income tax payers have made out a persuasive case for some relief. Accordingly, I propose to make some changes in the slabs for personal income tax. I propose to increase the threshold limit of exemption:

- in the case of all assesses, from Rs.110,000 to Rs.150,000, thus giving every assessee a relief at a minimum of Rs.4,000. Consequently, the four slabs and rates will be as follows:

Up to Rs.150,000 NIL

Rs.150,001 to Rs.300,000 10 per cent

Rs.300,001 to Rs.500,000 20 per cent

Rs.500,001 and above 30 per cent

- in the case of a woman assessee, from Rs.145,000 to Rs.180,000;

- in the case of a senior citizen, from Rs.195,000 to Rs.225,000.

162. I do not propose to make any change in the corporate income tax rates.

163. No change is proposed in the rate of surcharge.

164. I propose to add the Senior Citizens Savings Scheme 2004 and the Post Office Time Deposit Account to the basket of saving instruments under Section 80C of the Income Tax Act.

165. I propose to allow an additional deduction of Rs.15,000 under Section 80D to an individual who pays medical insurance premium for his/her parent or parents.

166. The Reverse Mortgage Scheme was notified by the National Housing Bank in the current financial year. In order to clarify the tax issues arising out of the scheme, I propose to amend the Income Tax Act to provide that:

(i) reverse mortgage would not amount to "transfer"; and

(ii) the stream of revenue received by the senior citizen would not be "income";

167. Agricultural income is exempt from income tax. However, courts have ruled that growing saplings or seedlings on land is agriculture but growing them in pots is not agriculture. This does not seem fair. Hence, I propose to exempt from tax income arising from saplings or seedlings grown in a nursery.

168. Companies engaged in certain businesses are allowed a weighted deduction of 150 per cent on any expenditure on in-house scientific research. I propose to add the business of production of seeds and manufacture of agricultural implements to this list.

169. In order to promote outsourcing of research, I propose to allow a weighted deduction of 125 per cent on any payment made to companies engaged in research and development.

170. I propose to extend the benefit of amortisation of certain preliminary expenses under Section 35D to assesses in the services sector.

171. To supplement measures that I announced earlier in respect of the corporate debt market, I propose to exempt from TDS corporate debt instruments issued in demat form and listed on recognised stock exchanges.

172. I propose to make some changes in the provisions of law pertaining to Fringe Benefit Tax (FBT) that will give some relief to corporates and firms. Crèche facilities, sponsorship of an employee-sportsperson, organising sports events for employees, and guest houses will be excluded from the purview of FBT.

173. At present, a domestic company is liable to pay Dividend Distribution Tax (DDT). As a result, the distributed dividend is sometimes taxed twice in the hands of a subsidiary company and its parent company, causing hardship. In order to remove the hardship, I propose to allow a parent company to set off the dividend received from its subsidiary company against dividend distributed by the parent company, provided that the dividend received has suffered DDT and the parent company is not a subsidiary of another company.

174. I propose to insert a new sub-section (11C) in Section 80-IB to grant a five year tax holiday to encourage hospitals to be set up anywhere in India, except certain specified urban agglomerations, and especially in tier-2 and tier-3 towns in order to serve the rural hinterland. This window will be open for the period April 1, 2008 to March 31, 2013, during which the hospital must commence operations.

175. Having regard to the significant rise in tourist arrivals, especially for cultural tourism, I propose to grant a five year holiday from income tax to two, three or four star hotels that are established in specified districts which have UNESCO-declared 'World Heritage Sites'. The hotel should be constructed and start functioning during the period April 1, 2008 to March 31, 2013.

176. I am happy to announce that the Coir Board will be included in Section 10(29A) and exempt from income tax.

177. Dividends that are distributed attract a tax of 15 per cent. Short term capital gains attract a tax of 10 per cent under Section 111A. There is merit in equating the rates and hence I propose to

increase the rate of tax on short term capital gains under Section 111A and Section 115AD to 15 per cent. This will also encourage investors to stay invested for a longer term.

178. At present, Securities Transaction Tax (STT) paid is allowed as a rebate against tax liability. Further, STT on options is levied on the aggregate of the strike price and the option premium and is borne by the seller. I propose to make some changes. Henceforth, STT paid will be treated like any other deductible expenditure against business income. Further, the levy of STT, in the case of options, will be only on the option premium where the option is not exercised, and the liability will be on the seller. In a case where the option is exercised, the levy will be on the settlement price and the liability will be on the buyer. There will be no change in the present rates.

179. Transactions in commodity futures have come of age. Hence, I propose to introduce the Commodities Transaction Tax (CTT) on the same lines as STT on options and futures.

180. "Charitable purpose" includes relief of the poor, education, medical relief and any other object of general public utility. These activities are tax exempt, as they should be. However, some entities carrying on regular trade, commerce or business or providing services in relation to any trade, commerce or business and earning incomes have sought to claim that their purposes would also fall under "charitable purpose". Obviously, this was not the intention of Parliament and, hence, I propose to amend the law to exclude the aforesaid cases. Genuine charitable organisations will not in any way be affected.

181. The Banking Cash Transaction Tax (BCTT) has served a very useful purpose in enlarging the information system of the Income Tax Department. Since the information is also being gathered through other instruments introduced in the last few years, I propose to withdraw this tax with effect from April 1, 2009.

182. My tax proposals on direct taxes are revenue neutral. On the indirect taxes side, the proposals are estimated to result in a loss of Rs.5,900 crore.

CST and a Roadmap towards GST

183. Following an agreement between the Central Government and the State Governments, the rate of Central Sales Tax was reduced from 4 per cent to 3 per cent in this financial year. It is now proposed to reduce the rate to 2 per cent from April 1, 2008. Consultations are underway on the compensation for losses, if any, and once agreement is reached the new rate will be notified. I am also happy to report that there is considerable progress in preparing a roadmap for introducing the Goods and Services Tax with effect from April 1, 2010.

## IX. CONCLUSION

184. Mr. Speaker, Sir, once upon a time India, together with China, accounted for 50 per cent of the world's output. We must regain our position and it is within our capacity to do so.

185. Our work in Government is, every day and every hour, a discovery of the path to reach our goals: full employment, abolition of poverty and elimination of inequality. "These goals can only be achieved by a considerable increase in national income and our economic policy must, therefore, aim at plenty and equitable distribution. We must produce wealth, and then divide it equitably. How can we have a welfare state without wealth?" Those are not my words; they were uttered in 1955 by Pandit Jawaharlal Nehru. Although Jawaharlal Nehru did not use the phrase inclusive growth, he actually spelt out the conditions for inclusive growth.

186. Those words will guide the UPA Government. As always, I turned to my muse, Saint Tiruvalluvar, for guidance and reassurance. 2,000 years ago he set the benchmark for good governance in the following immortal words:

"Kodai Ali Sengol Kudi Ombal Nangum

Udaiyanam Vendharkku Oli"

[Generous grants, compassion, righteous rule

and succour to the downtrodden

Are the hallmarks of good governance]

We have tried to remain true to this philosophy. The four years to 2007-08 have been the best years so far but, may I say with humility, that the best is yet to come.

187. Sir, with these words I commend the Budget to the House.