

Interim Budget 2014-2015

Speech of

P. Chidambaram

Minister of Finance

February 17, 2014

Madam Speaker,

INTRODUCTION

I rise to present the Interim Budget for 2014-15.

The Current Economic Situation

2. As I prepared to write this speech, I found that whether it is a regular Budget for the full year or an interim Budget, some things remain the same. For example, our goals are the same and the global context is the same. As I said last year, we are not unaffected by what happens in the rest of the world. Since September 2008, the state of the world economy has been the most decisive factor impacting the fortunes of every developing country. Hence, it is pertinent to say a few words on the global economy as well as on the global risks.

3. World economic growth was 3.9 percent in 2011, 3.1 percent in 2012 and 3.0 percent in 2013. Those numbers tell the story. Among India's major trading partners, who are also the major sources of our foreign capital inflows, the United States has just recovered from a long recession; Japan's economy is responding to the stimulus; the Eurozone, as a whole, is reporting a growth of 0.2 percent; and China's growth has slowed from 9.3 percent in 2011 to 7.7 percent in 2013.

4. The *Global Risks 2014* report has mapped 31 global risks. Of highest concern are ten risks that include fiscal crisis, structurally high unemployment or underemployment, income disparity, governance failure, food crisis, and political and social instability. The challenges that we face are common to all emerging economies. 2012 and 2013 were years of turbulence. Only a handful of countries were able to keep their head above the water, and among them was India. I shall presently give you an account of how we navigated the Indian economy through this turbulent period.

Challenges and Goals

5. Within days of my return to the Ministry of Finance, I had declared that our objectives were fiscal consolidation, price stability, self-sufficiency in food, reviving the growth cycle, enhancing investments, promoting manufacturing, encouraging exports, quickening the pace

of implementation of projects, and finding practical solutions to certain stressed sectors such as petroleum, power, coal, highways and textiles.

STATE OF THE ECONOMY

The Twin Deficits and Inflation

6. Let me begin with the good news. The fiscal deficit for 2013-14 will be contained at 4.6 percent of GDP, well below the red line that I had drawn last year. More importantly, the Current Account Deficit, that threatened to exceed last year's CAD of USD 88 billion, will be contained at USD 45 billion, and I am happy to inform the House that we expect to add about USD 15 billion to the foreign exchange reserves by the end of the financial year. Analysts and rating agencies had acknowledged our efforts some months ago and no longer speak about a downgrade. I hope that domestic experts will now agree that the UPA Government meant what it said when it put fiscal stability at the top of the agenda. Going forward, I appeal to all political parties to join me in the pledge that we shall not – we shall never – do anything that will affect the stability of the foundations of India's economy.

7. Last year, when I read the Budget speech, WPI headline inflation stood at 7.3 percent and core inflation at 4.2 percent. Through the year, inflation saw its ups and downs. At the end of January 2014, WPI inflation was 5.05 percent and core inflation 3.0 percent. Both the Government and the RBI have acted in tandem. While our efforts have not been in vain, there is still some distance to go. Food inflation is still the main worry, although it has declined sharply from a high of 13.6 percent to 6.2 percent.

Agriculture

8. We are proud of the stellar performance of the agriculture sector. Foodgrain production in 2012-13 was 255.36 million tonnes and the estimate for the current year is 263 million tonnes. Estimates of production of sugarcane, cotton, pulses, oilseeds and quality seeds point to new records. Agriculture exports in 2012-13 stood at USD 41 billion *versus* imports of USD 20 billion. In 2013-14, agriculture exports are likely to cross USD 45 billion. Agricultural credit is likely to touch ₹735,000 crore, exceeding the target of ₹700,000 crore. Agricultural GDP growth increased to 3.1 percent in the five year period of UPA-I and further to 4.0 percent in the first four years of UPA-II. In the current year, agricultural GDP growth is estimated at 4.6 percent.

Investment

9. Even after the slowdown, the savings rate was 31.3 percent in 2011-12 and 30.1 percent in 2012-13. The corresponding investment rate was 35.5 percent and 34.8 percent, respectively, indicating there was no steep decline in investment, except in mining and manufacturing. If the incremental capital output ratio (ICOR) had remained more or less the same, the outcome should have been a growth rate higher than the 6.7 percent and the 4.5 percent reported so far by the CSO for the two years, but that did not happen. It was obvious that projects were not achieving commercial operation date (COD) and there were too many obstacles on the path of implementation. At a time when it appeared that a number of projects would fail because of the logjam, Government took the bold step to set up the Cabinet Committee on Investment and the Project Monitoring Group. Thanks to the swift decisions taken by them, by the end of January, 2014, the way was cleared for completing 296 projects with an estimated project cost of ₹660,000 crore.

Foreign Trade

10. Exports have recovered sharply, and the recovery must be seen in the context of growth of global trade declining from 6.1 percent in 2011 to 2.7 percent in 2013. India's merchandise exports reached a level of USD 300.4 billion in 2012-13 registering a negative growth of 1.8 percent over the previous year. Though 2013-14 began on a pessimistic note, I am happy to inform the House that the year will end with estimated merchandise exports of USD 326 billion, indicating a growth rate of 6.3 percent. However, imports are down, and this does not augur well for either manufacturing or domestic trade. Our aim must be robust growth in both exports and imports, with trade in balance over a period of time.

Manufacturing

11. Manufacturing is the Achilles' heel of the Indian economy. The deceleration in investment in manufacturing is particularly worrying. Consequently, there is no uptick yet in manufacturing. The National Manufacturing Policy has set the goal of increasing the share of manufacturing in GDP to 25 percent and to create 100 million jobs over a decade. Eight National Investment and Manufacturing Zones (NIMZ) have been announced along the Delhi-Mumbai Industrial Corridor and nine projects have been approved by the DMIC Trust. Five NIMZs outside DMIC have also been given in-principle approval. Three more corridors connecting Chennai and Bengaluru, Bengaluru and Mumbai, and Amritsar and Kolkata are under different stages of preparatory work. Additional capacities are being installed in major manufacturing industries such as steel, cement, refinery, power and electronics. Several measures have been taken to promote micro, small and medium enterprises including notifying a public procurement policy, establishing technology centres and common facility centres, and launching the Khadi mark.

Infrastructure

12. We have given a big push to infrastructure and capacity addition in infrastructure industries. In 2012-13 and in the nine months of the current financial year, we have added 29,350 megawatts of power capacity, 3,928 kilometres of national highways, 39,144 kilometres of rural roads under PMGSY, 3,343 kilometres of new railway track, and 217.5 million tonnes of capacity per annum in our ports. Besides, 19 oil and gas blocks were given out for exploration and 7 new airports are under construction. We have also facilitated Infrastructure Debt Funds to provide take-out finance for infrastructure projects and ease the pressure on the banking system.

Exchange Rate

13. Risks to capital flows were accentuated due to volatile global conditions and the indication, in May 2013, of a reduction in asset purchases by the US Federal Reserve. The rupee came under pressure. Government, RBI and SEBI undertook a number of measures to facilitate capital inflows and stabilise the foreign exchange market. Among emerging economy currencies, the rupee was affected least when the actual reduction took place in December 2013 and January 2014.

GDP Growth – Decline and Rise

14. Hon'ble Members will recall that the slowdown began in 2011-12. In nine quarters, the GDP growth rate declined from 7.5 percent in Q1 of 2011-12 to 4.4 percent in Q1 of

2013-14. Thanks to the numerous measures that I have narrated, I was confident that the decline will be arrested and the growth cycle will turn in the second quarter. I believe I have been vindicated. Growth in Q2 of 2013-14 has been placed at 4.8 percent and growth for the whole year has been estimated at 4.9 percent. This means that growth in Q3 and Q4 of 2013-14 will be at least 5.2 percent.

15. I can confidently assert that the economy is more stable today than what it was two years ago. The fiscal deficit is declining, the current account deficit has been contained, inflation has moderated, the quarterly growth rate is on the rise, the exchange rate is stable, exports have increased, and hundreds of projects have been unblocked.

16. Madam Speaker, all this is the result of hard work. I may add, among other mentors, my mother and Harvard taught me the value of hard work.

UPA's Record of Growth

17. Over the last ten years, the UPA Governments have gently nudged India and Indians into accepting that growth is an imperative; that it must be made more inclusive and converted into development; and that the growth model, in order to be sustainable, must address other concerns such as environment, inter-generational equity, indebtedness, ownership and control of resources, financing etc.

18. The UPA Governments' record on growth is unparalleled.

19. Ten years ago, we produced 213 million tonnes of food grains; today, we produce 263 million tonnes of food grains. Ten years ago, the installed power capacity was 112,700 MW; today, it is 234,600 MW. Ten years ago, coal production was 361 million tonnes per year; today, we produce 554 million tonnes per year. Ten years ago, there were 51,511 km of rural roads under PMGSY; today, we have 389,578 km. Ten years ago, the Central Government's expenditure on education was ₹10,145 crore; this year, we allocated ₹79,451 crore. Ten years ago, the Central Government spent ₹7,248 crore on health; this year, it will spend ₹36,322 crore. I could multiply the examples, but what I have given will suffice.

20. Madam Speaker, I reject the argument of policy paralysis. Just as there are business cycles, there is a cycle around the trend growth rate of an economy. Over a period of 33 years, the trend growth rate in India has been 6.2 percent. Average annual GDP growth during the period 1999-2004 was 5.9 percent, that is below the trend rate. In the next five year period 2004-2009, it was 8.4 percent and, in the period 2009-2014, going by the CSO's estimate, it will be 6.6 percent. UPA-I and UPA-II have delivered above the trend growth rate.

21. Let history be the judge of the last ten years.

REPORT CARD OF 2013-14

22. I owe a duty to my colleagues to report on some of the major achievements in the current financial year that concerns the economy of the country and the welfare of the people. We are not simply looking back, we are actually looking forward, and therefore I shall also report on the initiatives that are being taken by my colleagues.

Path-breaking Decisions

23. Government took several notable decisions including some that were described as courageous and long overdue. Sugar was fully decontrolled. A gradual correction of diesel

prices was started. Railway fares were rationalised for the first time in a decade. Applications were invited for issue of new bank licences. DISCOMS, mostly sick, are being restructured with generous Central assistance.

Historic Legislations

24. 12.8 lakh land titles covering 18.80 lakh hectare were distributed under the Scheduled Tribes and Other Traditional Forest Dwellers Act.

25. The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act was notified on 1.1.2014, finally putting to rest an oppressive colonial law of 1894.

26. The National Food Security Act was passed assuring foodgrain to 67 percent of the population.

27. The new Companies Act replaced a law of 1956 vintage.

28. The PFRDA Act was passed placing the New Pension System on a statutory basis and establishing a statutory regulator.

Economic Initiatives

29. Centrally Sponsored Schemes were restructured into 66 programmes for greater synergy. Funds under these programmes will be released as Central assistance to State plans, thus giving States greater authority and responsibility. As a result, Central assistance to plans of States and Union Territories will rise substantially from ₹136,254 crore in BE 2013-14 to ₹338,562 crore in 2014-15.

30. Public sector enterprises will achieve a new record in capital expenditure of ₹257,641 crore in 2013-14.

31. About 50,000 MW of thermal and hydel power capacity is under construction after receiving all clearances and approvals. 78,000 MW of power capacity has been assured coal supply.

32. The FDI policy was liberalized to attract larger investments in telecommunication, pharmaceuticals, civil aviation, power trading exchanges and multi-brand retail.

33. Approval was granted to establish two semi-conductor wafer fab units that will be the bedrock of the electronics hardware industry.

34. The IT modernisation project of the Department of Posts, with an outlay of ₹4,909 crore, will be operational by 2015 in all 155,000 locations.

35. The Kudankulam Nuclear Power Plant Unit I achieved criticality and is generating 180 million units of power. The 500 MW prototype fast breeder reactor at Kalpakkam is nearing completion. Seven nuclear power reactors are under construction with the aim of achieving an installed capacity of 10,080 MW by the end of the Twelfth Plan.

36. After exceeding the target and achieving 1,684 MW of grid connected solar power, the National Solar Mission entered the second phase on 1.4.2013. It is proposed to take up four ultra mega solar power projects each with a capacity of over 500 MW in 2014-15.

37. Ministry of MSME will create the 'India Inclusive Innovation Fund' to promote grassroot innovations with social returns to support enterprises in the MSME sector. I propose to make an initial contribution of ₹100 crore to the corpus of the Fund.

Social Sector Initiatives

38. In order to promote entrepreneurship among the scheduled castes and to provide concessional finance to them, IFCI will set up a Venture Capital Fund for Scheduled Castes. I propose to provide an initial capital of ₹200 crore, which can be supplemented every year.

39. The restructured ICDS has been implemented in 400 districts and will be rolled out in the remaining districts from 1.4.2014.

40. Government has approved the National Agro-Forestry Policy 2014 which has multiple objectives including employment, productivity, conservation and adaptation.

41. A mechanism for marketing minor forest produce has been introduced, and the Budget has allocated ₹444.59 crore to continue the scheme in 2014-15.

42. A new plan scheme with an allocation of ₹100 crore has been approved to promote community radio stations.

43. Ministry of Health and Family Welfare has delivered new technologies to the people: the JE vaccine, a diagnostic test for Thalassaemia, and a Magnivisualizer for detection of cervical cancer.

Additional Central Assistance to some States

44. The North Eastern States, Himachal Pradesh and Uttarakhand deserve special attention. In addition to funds allocated in the current year, I propose to release a sum of ₹1,200 crore as Additional Central Assistance to these States before the end of the year.

Space

45. India joined a handful of countries when it launched the Mars Orbiter Mission. We now have the capability in launch vehicle technology, cryogenics, and navigation, meteorological and communication satellites, and are largely self-reliant. Several flight tests, navigational satellites and space missions are planned for 2014-15.

Redeeming Our Promises

46. Last year, I had made three promises and I had asked Hon'ble Members to keep before them the faces of the girl child, the young student, and the poor. To ensure the dignity and safety of women, I promised the Nirbhaya Fund and put ₹1000 crore into the Fund. So far, we have approved two proposals that will receive support from the Fund. In order to make it clear that the Fund will be a permanent fund, I intend to declare the grant of ₹1000 crore as non-lapsable. And in order to support more proposals, I propose to contribute to the Fund another sum of ₹1000 crore next year.

47. Secondly, I had promised an ambitious programme to skill millions of young men and women and had tasked the National Skill Development Corporation to implement the programme. The National Skill Certification and Monetary Reward Scheme was launched in

August 2013 and has been widely hailed as a success. At last count, 24 Sector Skill Councils, 442 Training Partners and 17 Assessment Agencies had joined the programme. 204 job roles have been finalised. 168,043 youth had enrolled and 77,710 have completed their training. Hon'ble Members will recall that I had set apart ₹1,000 crore for the scheme. The whole of that amount will be transferred to the NSD Trust and I propose to transfer another sum of ₹1,000 crore next year to enable the Trust to scale up the programme of NSDC rapidly. I may add that NSDC actually complements the initiatives of several ministries which steer skill development programmes such as UDAAN in Jammu and Kashmir.

48. Thirdly, I had promised that the Direct Benefit Transfer scheme would be rolled out throughout the country. The scheme is barely a year old. Money is being transferred to beneficiaries under 27 identified schemes, including the National Social Assistance Programme (NSAP). A total of 54,20,114 transactions have been put through until 31.1.2014 and ₹628 crore has been transferred. Another sum of ₹3,370 crore has been transferred to 2.1 crore LPG beneficiaries. The latter scheme has been put on hold for the time being pending resolution of some difficulties that have been pointed out. However, let me reiterate that the Government remains fully committed to Aadhaar under which 57 crore unique numbers have been issued so far and to opening bank accounts for all Aadhaar holders in order to promote financial inclusion. Who needs Aadhaar? It is those who are at the bottom of the pyramid, the poor, the migrant workers, the homeless, and the oppressed who need Aadhaar, and we will ensure that they get Aadhaar. I have no doubt that in course of time even critics of Aadhaar will realise that Aadhaar is a tool of empowerment.

OVERVIEW OF THE INTERIM BUDGET

Plan and Non-Plan Expenditure

49. I shall now give an overview of the interim Budget. In some years, we over-provide in the Budget. In those years savings are inevitable. Besides, if there is lower-than-expected-growth there will be lower-than-estimated-revenues as well. 2013-14 has been one such year. I am afraid, we will not be able to spend the budgeted plan expenditure, but non-plan expenditure will exceed the budget by a small amount.

50. In order to sustain the pace of plan expenditure, I have decided to keep plan expenditure in 2014-15 at the same level at which it was budgeted in 2013-14. I have provided ₹555,322 crore for plan expenditure. I am glad to inform the House that all the ministries/departments that run key flagship programmes of the UPA Government have been provided adequate funds. In all the following cases, I have provided in 2014-15 an amount equal to or higher than in the BE of 2013-14 and irrespective of the revised estimates for the year:

Ministry of Minority Affairs	..	₹ 3,711 crore
Ministry of Tribal Affairs	..	₹ 4,379 crore
Ministry of Housing & Poverty Alleviation	..	₹ 6,000 crore
Ministry of Social Justice & Empowerment	..	₹ 6,730 crore
Ministry of Panchayati Raj	..	₹ 7,000 crore
Ministry of Drinking Water & Sanitation	..	₹ 15,260 crore
Ministry of Women & Child Development	..	₹ 21,000 crore
Ministry of Health & Family Welfare	..	₹ 33,725 crore

Ministry of Human Resource Development	..	₹ 67,398 crore
Ministry of Rural Development	..	₹ 82,202 crore

Railways

51. My colleague, the Minister of Railways, presented the Railway Budget a few days ago. Budgetary support to Railways has been increased from ₹26,000 crore in BE 2013-14 to ₹29,000 crore in 2014-15. Railways need to mobilise huge resources through market borrowing and private public partnership (PPP) schemes. It is proposed to identify new instruments and new mechanisms to raise funds for railway projects.

SC Sub-Plan and Tribal Sub-Plan, Gender Budget and Child Budget

52. Hon'ble Members will be happy to know that I propose to allocate ₹48,638 crore to the scheduled caste sub-plan and ₹30,726 crore to the tribal sub-plan. They will also be happy to find that the gender budget has ₹97,533 crore and the child budget has ₹81,024 crore.

53. I am confident that there will be no cause for complaint. If there are any shortcomings, they can be addressed when the regular budget is presented. There is enough flexibility in the expenditure budget to make necessary changes in the allocations within the overall resource envelope.

54. Non-plan expenditure in 2014-15 is estimated at ₹12,07,892 crore. Of this, the expenditure on subsidies for food, fertilizer and fuel will be ₹246,397 crore. This is slightly more than the revised estimate of ₹245,452 crore in 2013-14. For fuel subsidy, I have provided ₹65,000 crore. We have, this year, absorbed the rollover of ₹45,000 crore from the fourth quarter of 2012-13 and we will rollover only ₹35,000 crore from the fourth quarter of this year into the next year. ₹115,000 crore has been allocated for food subsidy keeping in mind our Government's firm and irrevocable commitment to implement the National Food Security Act throughout the country.

Defence

55. The allocation for defence has been enhanced by 10 percent from ₹203,672 crore in BE 2013-14 to ₹224,000 crore in 2014-15.

One Rank One Pension

56. Hon'ble Members are aware of the long standing demand of the Defence Services for One Rank One Pension (OROP). It is an emotive issue, it has legal implications, and it has to be handled with great sensitivity. During the tenure of the UPA Governments, changes in the pension rules applicable to the defence services were notified on three occasions in 2006, 2010 and 2013. As a result, the gap between pre-2006 retirees and post-2006 retirees has been closed in four ranks (subject to some anomalies that are being addressed): Havildar, Naib Subedar, Subedar and Subedar Major. There is still a small gap in the ranks of Sepoy and Naik and a gap in the ranks of Major and above. We need a young fighting force, we need young jawans, and we need young officers. We also need to take care of those who served in the defence forces only for a limited number of years. Government has therefore decided to walk the last mile and close the gap for all retirees in all ranks. I am happy to announce that Government has accepted the principle of One Rank One Pension for the

defence forces. This decision will be implemented prospectively from the financial year 2014-15. The requirement for 2014-15 is estimated at ₹500 crore and, as an earnest of the UPA Government's commitment, I propose to transfer a sum of ₹500 crore to the Defence Pension Account in the current financial year itself.

Central Armed Police Forces

57. A modernisation plan at a cost of ₹11,009 crore has been approved to strengthen the capacity of Central Armed Police Forces and to provide them state-of-the-art equipment and technology. Funds have been provided in the current financial year and for the next year.

FINANCIAL SECTOR

Banking

58. Hon'ble Members, the announcements that I made concerning the financial sector in the Budget speech of February 2013 have been, or are being, implemented. In 2014-15, I propose to provide ₹11,200 crore for capital infusion in public sector banks. They have opened 5,207 branches so far, against the target of 8,023 branches, and are near the goal of installing an ATM at every branch. The Bharatiya Mahila Bank was inaugurated on 19.11.2013. ₹6,000 crore was provided to the Rural Housing Fund and ₹2,000 crore to the Urban Housing Fund.

59. Banks are under strain owing to rising non-performing assets. Bankers have assured me that as the economy turns they will be able to contain the NPAs, recover more loans, and build healthier balance sheets.

60. Meanwhile, I cannot fail to acknowledge the yeomen service rendered by our banks in reaching Government's policies and programmes to the people. This year, banks will exceed the target of ₹700,000 crore of agricultural credit. I am therefore encouraged to set a target of ₹800,000 crore for 2014-15. Hon'ble Members will recall that an interest subvention scheme was introduced in 2006-07. There is a subvention of 2 percent and an incentive of 3 percent for prompt payment, thus reducing the effective rate of interest on farm loans to 4 percent. So far, ₹23,924 crore has been released under the scheme. I propose to continue the scheme in 2014-15.

Credit to Minority Communities

61. Ten years ago, the minorities had 14,15,000 bank accounts in 121 districts of India where there is a concentration of minorities. At the end of March, 2013, they had 43,52,000 accounts and the volume of lending had soared from ₹4,000 crore to ₹66,500 crore. Loans to minority communities in the whole country stood at ₹211,451 crore at the end of December 2013.

Self Help Groups

62. Ten years ago, only 9,71,182 women Self-Help Groups had been credit linked to banks. At the end of December 2013, 41,16,000 women SHGs had been provided credit and the outstanding amount of credit was ₹36,893 crore.

Education Loans

63. Ten years ago, only a few thousand students – mostly the well-connected – got education loans. At the end of December 2013, public sector banks had 25,70,254 student loan accounts and the amount outstanding was ₹57,700 crore.

64. Hon'ble Members will recall that my predecessor, Shri Pranab Mukherjee, had, in the Budget of 2009-10, introduced the Central Scheme for Interest Subsidy (CSIS) in respect of education loans disbursed after 1.4.2009 under which Government took over the burden of interest for the duration of the period of study and a little beyond. The scheme brought great cheer to student-borrowers and their families. However, I have noticed a sense of discrimination among students who had borrowed before 31.3.2009, struggled to pay interest during the period of study, and continued to service the loans afterwards. I think they deserve some relief. I therefore propose a moratorium period for all education loans taken up to 31.3.2009 and outstanding on 31.12.2013. Government will take over the liability for outstanding interest as on 31.12.2013, but the borrower would have to pay interest for the period after 1.1.2014. It is estimated that nearly 9 lakh student borrowers will benefit to the tune of approximately ₹2,600 crore. I intend to provide the funds in the current financial year itself. Accordingly, a sum of ₹2,600 crore will be transferred to the Canara Bank, the designated CSIS banker. Details of the scheme will be announced shortly.

Insurance

65. This year, Life Insurance Corporation has opened 1,252 offices and the four public sector general insurance companies have opened 1,849 offices in towns with a population of 10,000 or more to serve peri-urban and rural areas. They are moving steadily to achieve the goals set for them.

Financial Markets

66. A number of steps have been envisaged to deepen the Indian financial markets. Among them are

- To comprehensively revamp the ADR/GDR scheme and enlarge the scope of Depository Receipts;
- To liberalise the rupee-denominated corporate bond market;
- To deepen and strengthen the currency derivatives market to enable Indian companies to fully hedge against foreign currency risks;
- To create one record for all financial assets of every individual;
- To enable smoother clearing and settlement for international investors looking to invest in Indian bonds.

Commodity Derivatives Market

67. Hon'ble Members will recall the payment crisis in the National Spot Exchange Limited (NSEL). Following the transfer of the subject to the Ministry of Finance, swift action was taken to sequester NSEL and to ensure there was no spill over of the crisis to the other regulated segments of the financial market. I propose to amend the Forward Contracts (Regulation) Act to strengthen the regulatory framework of the commodity derivatives market.

Key Pending Bills

68. I regret to record my disappointment that the Insurance Laws (Amendment) Bill and the Securities Laws (Amendment) Bill have not been passed by Parliament for reasons that have nothing to do with the merits of the Bills.

Public Debt Management Agency

69. Pursuant to the announcement in the Budget speech of 2011-12, Government is ready with the Public Debt Management Agency Bill. Following precedent, it is proposed to establish a non-statutory PDMA that can begin work in 2014-15.

A VISION FOR THE FUTURE

70. Madam Speaker, I now wish to look forward and outline a vision for the future.

71. I wonder how many have noted the fact that India's economy, in terms of the size of its GDP, is the 11th largest in the world. There are great things in store. There is a well-argued view that in the next three decades India's nominal GDP will take the country to the third rank after the US and China. Just as the fortunes of the developed countries affect the emerging economies today, the fortunes of China and India will, in the future, have a significant impact on the rest of the world. We therefore owe a responsibility not only to ourselves but to the whole world to keep our economy in robust health.

72. The UPA Government has a clear line of sight to the goals that we have set for ourselves. I have broken down the steps toward those goals into tasks that must be undertaken by the Government of the day. I crave your leave to identify ten such tasks:

- i. Fiscal Consolidation:* We must achieve the target of fiscal deficit of 3 percent of GDP by 2016-17, and remain below that level always.
- ii. Current Account Deficit:* Since we will run a Current Account Deficit every year for some more years, it can be financed only by foreign investment, whether it is FDI or FII or ECB or any other kind of foreign inflow. Hence, there is no room for any aversion to foreign investment.
- iii. Price Stability and Growth:* In a developing economy we must accept that when our aim is high growth there will be a moderate level of inflation. RBI must strike a balance between price stability *and* growth while formulating monetary policy.
- iv. Financial Sector Reforms:* The recommendations of the Financial Sector Legislative Reforms Commission that require no change in legislation must be implemented immediately and, for the other recommendations, we must draw a timetable for passing legislation.
- v. Infrastructure:* We must rebuild our infrastructure and add a huge quantity of new infrastructure. Every proven model must be adopted and the PPP model must be more widely used. New financing structures must be created for long term funds and pooling of investments.
- vi. Manufacturing:* We must focus on manufacturing and especially on manufacturing for export. I propose that all taxes, Central and State, that go into an exported product should be waived or rebated. I also propose that there

- should be a minimum tariff protection so that there is an incentive to manufacture goods in India rather than import them into India.
- vii. *Subsidies:* Given the limited resources, and the many claims on the resources, we must choose the subsidies that are absolutely necessary and give them only to the absolutely deserving.
 - viii. *Urbanisation:* Our cities will become ungovernable, and perhaps unliveable, if we do not address the decay in our cities. Cities have wealth, cities also create wealth. That wealth should be tapped for resources to rebuild the cities with a new model of governance.
 - ix. *Skill Development:* Skill development must rank alongside secondary education, university education, total sanitation and universal health care in the priorities of the Government.
 - x. *Sharing responsibility between States and Centre:* States have the fiscal space to bear a reasonable proportion of the financial costs of implementing flagship programmes and must willingly do so, so that the Central Government can allocate more resources for subjects such as defence, railways, national highways and telecommunications that are its exclusive responsibility.

REVENUES

GST and DTC

73. Revenues are of paramount importance. The best source of revenue is taxes and for that we need modern tax laws. I am disappointed that we have not yet been able to introduce GST. I leave it to you to answer the question, who blocked the GST when an agreement on the game-changing tax reform was around the corner? We have also got ready a Direct Taxes Code that will serve us for at least the next twenty years. I intend to place it on the website for a public discussion without partisanship or acrimony. I appeal to all political parties to resolve to pass the GST laws and the DTC in 2014-15.

Funding Scientific Research

74. Our Government has passionately espoused the cause of science, promoted scientific research, and supported scientific applications and inventions. The Income-tax Act allows deductions for expenditure on scientific research, but it is limited to direct funding. We have reflected on a new approach to funding scientific research. I therefore propose to set up a Research Funding Organisation that will fund research projects selected through a competitive process. Contributions to that organisation will be eligible for tax benefits. This will require legislative changes which can be introduced at the time of the regular Budget.

Off-shore Accounts

75. There has been much debate on illegal off-shore accounts held by Indians. Investigations into such accounts were launched in 2011. Despite several hurdles in obtaining evidence from the countries concerned, the Government has succeeded, through alternative methods and special efforts, in obtaining information in 67 cases and action is underway to determine the tax liability as well as impose penalty. Prosecutions for wilful tax evasion have been launched in 17 other cases. More enquiries have been initiated into accounts reportedly held by Indian entities in no tax or low tax jurisdictions.

Changes in Tax Rates

76. In keeping with the conventions, I do not propose to make any announcements regarding changes to the tax laws. However, the current economic situation demands some interventions that cannot wait for the regular Budget. In particular, the manufacturing sector needs an immediate boost. Hence, I propose the following changes in some indirect tax rates:

- (i) To stimulate growth in the capital goods and consumer non-durables, I propose to reduce the excise duty from 12 percent to 10 percent on all goods falling under chapter 84 and chapter 85 of the Schedule to the Central Excise Tariff Act for the period up to 30.6.2014. The rates can be reviewed at the time of the regular Budget.
- (ii) To give relief to the automobile industry which is registering unprecedented negative growth, I propose to reduce the excise duty as follows for the period up to 30.6.2014:

Small cars, motor cycles, scooters and commercial vehicles	}	from 12% to 8%
SUVs	}	from 30% to 24%
Large and mid-segment cars	}	from 27/24% to 24/20%

Consequently, I propose to make appropriate reductions in the excise duty on chassis and trailers.

The rates can be reviewed at the time of the regular Budget.

- (iii) To encourage domestic production of mobile handsets (which has declined) and reduce the dependence on imports (which have increased), I propose to restructure the excise duties for all categories of mobile handsets. The rates will be 6 percent with CENVAT credit or 1 percent without CENVAT credit.
- (iv) To encourage domestic production of soaps and oleo chemicals, I propose to rationalise the customs duty structure on non-edible grade industrial oils and its fractions, fatty acids and fatty alcohols at 7.5 percent.
- (v) To encourage domestic production of specified road construction machinery, I propose to withdraw the exemption from CVD on similar imported machinery.
- (vi) To encourage indigenous production of security paper for printing currency notes, I propose to provide a concessional customs duty of 5 percent on capital goods imported by the Bank Note Paper Mill India Private Limited.

77. I also propose to give relief from service tax in two cases.

- (i) By virtue of the definition of 'agricultural produce' in Finance Act 2012, read with the Negative List, storage or warehousing of paddy was excluded from the levy of service tax. Rice was not. The distinction is somewhat artificial. Hence, I propose to exempt loading, unloading, packing, storage and warehousing of rice from service tax.
- (ii) Ministry of Health and Family Welfare has requested that services provided by cord blood banks are also healthcare services and should be exempt from service tax. I propose to accept the request.

Notifications in respect of the above changes will be issued today.

BUDGET ESTIMATES

78. I shall now present the Budget Estimates for 2014-15.
79. The current financial year will end on a satisfactory note with the fiscal deficit at 4.6 percent (below the red line of 4.8 percent) and the revenue deficit at 3.3 percent.
80. Emboldened by the progress made, I have budgeted for receipts and expenditure in 2014-15 that will leave a fiscal deficit of 4.1 percent, which will be below the target set by the new fiscal consolidation path. Revenue deficit is estimated at 3.0 percent.
81. The estimate of plan expenditure is ₹555,322 crore. Non-plan expenditure is estimated at ₹12,07,892 crore.

Conclusion

82. Madam Speaker, Jean Drèze and Amartya Sen have pointed out that “India was the first non-Western country – and also the first poor country in the world – to commit itself to a resolutely democratic way of governance.” Democracy acknowledges diversity, respects dissent, encourages debate, and decides through a government of elected representatives. Neither populism nor majoritarianism nor individualism is an alternative way of governance.
83. Our way of governance has not come in the way of lifting 140 million people out of poverty in the last ten years. That is the greatest achievement of the UPA Governments, and we are proud of the achievement.
84. In the ten years that I have been in the North Block, I have seen the best of times and difficult times. Never did I lose faith in Jawaharlal Nehru’s idea of India that, in the words of Sunil Khilnani, “sought to coordinate within the form of a modern state a variety of values: democracy, religious tolerance, economic development and cultural pluralism.” It is with that faith that I shall remain on the bridge until the day when, I am sure, the people of India will entrust the responsibility to a hand that will hold the “sceptre swayed with equity.” Let me sign off with the couplet from the sage, Thiruvalluvar:

*“Vel Anru Venri Tharuvathu Mannavan
Kol Athuvoom Kodaathu Enin.”*

(Not the spear but sceptre swayed with equity
Alone gives the ruler victory.)

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